2018
ANNUAL REPORT

NOVO BANCO

NOVO BANCO, S.A.
Av. da Liberdade, n.º 195, 1250-142 Lisbon, Portugal
Share Capital: 5 900 000 000.00 euro
Registered at Lisbon Commercial Registry under the single
registration and tax identification number no. 513 204 016
LEI: 5493009W2E2YDCXY6S81

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.

I. MANAGEMENT REPORT

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

Dear Stakeholders,

2018 marked the first full year anniversary of operations and ownership of NOVO BANCO S.A. (“NOVO BANCO” or “the Bank”) under the new shareholder structure and governance model, following the completion of the acquisition of 75% of the Bank by Nani Holdings SGPS S.A. (“Nani Holdings”) in Q4 2017.

The General and Supervisory Board (“GSB”) and the respective GSB committees met throughout year 2018 supervising and supporting the Executive Board of Directors (“EBD”) in the monitoring of the execution of the Bank’s strategic goals and targets as set out and agreed in the annual business plan.

In particular, the Bank focused on the execution of four key pillars of the business plan throughout 2018 namely: (1) Continued development, investment and support of the core commercial businesses; (2) de-risking the balance sheet through the cleaning up of the legacy issues from the past, including the disposal of non-core assets; (3) Further improvements and enhancements in internal governance, control, operations and risk management; and (4) Strengthening of the capital and liquidity position of the Bank.

At year-end 2018, NOVO BANCO published for the first time its annual financial results split between the “Recurrent Bank” and the “Legacy Bank”. The financial results of the Recurrent Bank demonstrate good initial progress being made in the development and support of its commercial businesses, with net customer loan growth of 2.4% and positive operating income before tax results, compared to the significant losses incurred in 2017. The financial results of the Legacy Bank include the sale of Banque Espirito Santo et de la Venetie (“BES Vénétie”), the sale of a large non-performing loan portfolio and the sale of a real estate loan portfolio. The balance sheet of the Legacy Bank reduced by net 4.1 billion euros reflecting the acceleration of de-risking activities during the year taking advantage of the current favorable market conditions.

NOVO BANCO further improved its internal governance, control, operations and risk management capabilities in 2018. Recognition of the progress being made was reflected in a 75bps Supervisory Review and Evaluation Process (SREP) Pillar 2 requirement reduction to 3.25% by the Single Supervisory Mechanism in December 2018. Risk management key performance indicators strengthened reflecting the improvement in asset quality in the balance sheet. However, the Non-Performing Loans (NPL) ratio of 22.4% is still at an elevated level and remains an outlier both in the Portuguese and other European markets and will therefore continue to be an area of focus for further reduction.

The Bank has also further strengthened its capital and liquidity position throughout the year. In June 2018, the Bank successfully accessed the capital markets for the first time and concluded a 400 million euros subordinated debt Tier 2 issuance via a tender and exchange offers of bonds as well as a new money offering. In addition, the Contingent Capital Agreement (“CCA”) continues to provide capital support in the cleanup of legacy issues from the past. A loan to deposit ratio of 89% and a liquidity coverage ratio of 125% reflects the healthy liquidity position of the Bank at year end 2018.

Overall the Bank has made good progress in this first full year of transformation.

For year 2019, ambitious but realistic strategic goals and targets for NOVO BANCO have been set and agreed in the annual business plan. The transformation in support of our customers, our employees and our other stakeholders will continue at a pace both in the continued investment, development and support of the commercial businesses in the Recurrent Bank as well the continued de-risking of the Legacy Bank.

In the name of the GSB, I would like to thank our customers and our other stakeholders for their continued trust and loyalty to NOVO BANCO and to the EBD members as well as all the employees for their dedication, hard work and sustained commitment in helping to transform the Bank during 2018.

Byron Haynes

Chairman of the General and Supervisory Board

Message from the Chief Executive Officer

Dear Stakeholders,

2018 was a particularly challenging year for all the staff of NOVO BANCO, for three main reasons.

First, because splitting the activity between NOVO BANCO Recurrent and NOVO BANCO Legacy - with the former representing 78% of total assets -, permitted to separate the wheat from the chaff and ensure greater focus of the regular commercial activity on the clients and on growth.

And even if assets showed tenuous growth (+0.8%), we should stress, for the first time, the healthy growth of loans to individuals and companies, which increased by 2.4%. Also worth noting is the expressive recovery of the net interest margin, up by 36.6%, and the reduction in operating costs by nearly 10%, which together drove a 145 million euro increase in core operating income, to 232 million euro. The combination of these effects allowed to reach pre-tax breakeven and a slightly positive result of 2 million euro.

Yet, this separation, and this is the second reason, permitted and will continue to permit a more effective scrutiny of the ongoing work of de-risking the legacy balance sheet, which contracted by a sharp 27.7%, to 10 658 million euro. This drastic reduction, which does not yet include the expected effects of the already agreed sale of GNB Vida, entailed significant losses and requires again the triggering of the contingent capital agreement agreed with the Resolution Fund in the scope of the sale of NOVO BANCO.

Finally, there is a third reason: This year we launched our Strategic Plan, which not only defined a set of optimisation operational programmes that permitted to recover the Bank's viability, but also set a commitment to digital transformation, to be reached through a roadmap and clearly defined priorities viewing both the simplification of processes and an intelligent service, and a clear bet on differentiation that will imply widening NOVO BANCO's offer to investment areas, looking to an improved performance in the future. In the Strategic Plan, I will like to stress the importance of the objective of pursuing a policy of restoring the image of a reliable and transparent bank, maintaining sustainability concerns (equal gender, social and environmental well-being) with the creation, in 2017, of an innovative Social Dividend model, with clear commitments and objectives set for 2020.

These central challenges could only be overcome through the effort of the employees, the strict and efficient governance model implemented, the challenging cooperation of our shareholders, and above all the trust of our clients, both companies and individuals. To all of them we owe our thanks.

António Ramalho

Chief Executive Officer

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2. Main Indicators

MAIN INDICATORS - Recurrent	31-Dec-17	31-Dec-18
ACTIVITY (mn€)		
Net Assets [2]	37 318	37 616
Customer Loans (gross)	22 572	23 077
Customer Deposits [2]	29 682	28 350
Equity [2]	3 247	2 856
ASSET QUALITY		
Non-Performing Loans (NPL)/ Customer Loans (gross) + Cash and Deposits with Banks and Loans and advances to banks (gross)	-	5.4%
Credit Provisions / Non-Performing Loans	-	46.8%
Credit Provisions / Customer Loans (gross)	2.8%	2.7%
Cost of Risk	0.86%	0.17%
PROFITABILITY		
Income before Taxes (mn€) [2]	-311.4	2.2
Income before Taxes and Non-Controlling Interests / Average Net Assets [1] [2]	-0.8%	0.0%
Banking Income / Average Net Assets [1] [2]	1.6%	1.9%
Income before Taxes and Non-Controlling Interests / Average Equity [1] [2]	-8.8%	0.1%
EFFICIENCY		
Operating Costs / Banking Income [1] [2]	85.2%	64.5%
EMPLOYEES (No.)		
Total	5 488	5 096
- Domestic	5 156	4 804
- International	332	292
BRANCH NETWORK (No.)		
Total	473	402
- Domestic	448	381
- International	25	21

mn€: million euros

(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force.

(2) Data as at 31 December 2017 restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

MAIN INDICATORS - Legacy	31-Dec-17	31-Dec-18
ACTIVITY (mn€)		
Net Assets	14 737	10 658
Customer Loans (gross)	8 850	5 635
Customer Deposits	-	-
Equity	1 474	1 066
ASSET QUALITY		
Non-Performing Loans (NPL)/ Customer Loans (gross) + Cash and Deposits with Banks and Loans and advances to banks (gross)	-	90.3%
Credit Provisions / Non-Performing Loans	-	63.0%
Credit Provisions / Customer Loans (gross)	56.5%	59.4%
Cost of Risk	11.71%	3.97%
PROFITABILITY		
Income before Taxes (mn€)	- 1 514.6	-715.2
Income before Taxes and Non-Controlling Interests / Average Net Assets (1)	-10.0%	-6.2%
Banking Income / Average Net Assets (1)	1.2%	-2.0%
Income before Taxes and Non-Controlling Interests / Average Equity (1)	-108.2%	-62.1%
EFFICIENCY		
Operating Costs / Banking Income (1)	19.3%	-9.7%
EMPLOYEES (No.)		
Total	-	-
- Domestic	-	-
- International	-	-
BRANCH NETWORK (No.)		
Total	-	-
- Domestic	-	-
- International	-	-

(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force

MAIN INDICATORS - CONSOLIDATED	31-Dec-16	31-Dec-17	31-Dec-18
ACTIVITY (mn€)			
Net Assets [3]	52 333	52 055	48 274
Customer Loans (gross)	33 750	31 422	28 712
Customer Deposits [3]	25 585	29 682	28 350
Equity [3]	5 148	4 721	3 922
SOLVENCY			
Common EquityTier I / Risk Weighted Assets	12.0%	12.8%	12.8%
Tier I / Risk Weighted Assets	12.0%	12.8%	12.8%
Total Capital / Risk Weighted Assets	12.0%	13.0%	14.5%
LIQUIDITY (mn€)			
European Central Bank funding (net) [2]	5 123	2 790	5 864
Eligible Assets for Repo Operations (ECB and others), net of haircut	11 587	12 706	14 624
(Total Credit - Credit Provision)/ Customer Deposits [1]	110%	88%	89%
Liquidity Coverage Ratio (LCR)	107%	124%	125%
Net Stable Funding Ratio (NSFR)	99%	108%	106%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	17.0%	16.3%	12.1%
Non-Performing Loans (NPL)/ Customer Loans (gross) + Cash and Deposits with Banks and Loans and advances to banks (gross)	33.6%	28.1%	22.4%
Credit Provisions / Overdue Loans > 90 days	97.2%	109.8%	114.3%
Credit Provisions / Customer Loans (gross)	16.5%	17.9%	13.8%
Cost of Risk	1.99%	3.91%	0.92%
PROFITABILITY			
Net Income (mn€) [3]	- 788.3	-2 298.0	-1 412.6
Income before Taxes and Non-Controlling Interests / Average Net Assets [1] [3]	-1.9%	-3.6%	-1.5%
Banking Income / Average Net Assets [1] [3]	1.8%	1.5%	1.0%
Income before Taxes and Non-Controlling Interests / Average Equity [1] [3]	-17.0%	-33.5%	-14.3%
EFFICIENCY			
Operating Costs / Banking Income [1] [3]	60.4%	70.4%	100.6%
Staff Costs / Banking Income [1] [3]	31.0%	35.3%	55.0%
EMPLOYEES (No.)			
Total	6 096	5 488	5 096
- Domestic	5 687	5 156	4 804
- International	409	332	292
BRANCH NETWORK (No.)			
Total	537	473	402
- Domestic	507	448	381
- International	30	25	21

mn€: million euros

(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

(3) Data as at 31 December 2017 restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

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3. NOVO BANCO Group

3.1. NOVO BANCO

NOVO BANCO, S.A. ("NOVO BANCO" or "Bank") is the main entity of the NOVO BANCO financial group, which mainly centres its activity on banking. NOVO BANCO was incorporated by deliberation of the Board of Directors of Bank of 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 (the version in force at the time), following the resolution measure applied by Banco de Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF. Pursuant to the resolution measure, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the said Deliberation were transferred to NOVO BANCO.

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

On 18 October 2017 the sale process of NOVO BANCO to Nani Holdings, S.G.P.S., S.A., a company indirectly held by investment funds managed by the Lone Star Group, was concluded. Once the sale was concluded and after carrying out two capital increases, the first in the amount of 750 million euro (on the date of the sale), and the second in the amount of 250 million euro (on 21 December 2017), the share capital of NOVO BANCO increased to 5,900,000,000.00 euro, represented by 9,799,999,997 dematerialised registered shares with no par value, of which 75% were fully subscribed, paid up and held by Nani Holdings S.G.P.S., S.A. and 25% by the Resolution Fund.

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

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

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

NOVO BANCO develops its banking activity directly and through its branch in Spain and its subsidiaries Banco Eletrónico de Serviço Total S.A. (Banco Best, fully owned) and NOVO BANCO dos Açores, S.A. (NBA, where it holds a 57.53% stake). Additionally, it also operates in asset management, through its subsidiary GNB - Gestão de Ativos, S.G.P.S., S.A. (GNB GA) of which it owns 100% (offering mutual fund management, real estate fund management, pension fund management and wealth management). Finally, NOVO BANCO has equity holdings in companies operating in venture capital, real estate, insurance, renting and corporate services.

3.2. Main events in 2018

Issuance of subordinated bonds

With the aim of reinforcing its equity capital, in 2018 NOVO BANCO issued 400 million euro of 10-year subordinated debt instruments with a coupon of 8.5%. The issue of subordinated debt was made in conjunction with tender and exchange offers addressed to senior bondholders of NOVO BANCO, prioritizing the allocation of the new Tier 2 issue to investors participating in the exchange offer (65%) over the allocation to new investors (35%).

Process of Divestment of Non-Strategic Assets

The strategy of focusing on the domestic banking business entailed the following operations over the assets considered non-strategic for NOVO BANCO's activity:

- Completion of the sale of the assets and liabilities of the Venezuela branch to BANCAMIGA, Banco Universal, CA. With the completion of this transaction NOVO BANCO ceased to have any banking activity in Venezuela;
- Sale of the 87.5% equity holding in BES Vénétie to the Cerberus Capital Management, L.P. fund;
- Completion of the sale of 90% of the share capital of Banco Internacional de Cabo Verde, S.A., held by NB África, SGPS S.A. and by NOVO BANCO, to IIBG Holdings B.S.C.;
- Signature of an agreement to sell the entire share capital of the subsidiary GNB - Companhia de Seguros de Vida, S.A. to Bankers Insurance Holdings, a company of the Global Bankers Insurance Group, whose execution is conditioned to authorizations from the regulatory authorities;
- Signature of a promissory agreement to sell a portfolio of real estate assets comprising approximately nine thousand properties (Project Viriato) to entities indirectly held by funds managed by Anchorage Capital Group L.L.C.;
- Signature of a purchase and sale agreement between NOVO BANCO, and Banco Electrónico de Serviço Total, S.A. (“Banco Best”) and a consortium of funds managed by KKR Credit Advisors (US) L.L.C. and LX Investment Partners II S.À.R L., through which NOVO BANCO and Banco Best sold a portfolio of non-performing loans (NPLs) and related assets (Project Nata).

Contingent Capital Agreement

In line with the conditions agreed in the sale process of NOVO BANCO, a Contingent Capital Agreement (CCA) was established with the Resolution Fund in charge of its management.

Under this agreement, NOVO BANCO can be compensated up to a limit of 3.89 billion euro for losses that may be recognised in some of its problematic assets, in case its capital ratios decrease below a predefined threshold.

The capital thus managed corresponds to a previously established set of assets with an initial net book value (in June 2016) of approximately 7.9 billion euro. On 31 December 2018 the net book value of those assets was 4.0 billion euro (31 December 2017: net book value of 5.4 billion euro).

In connection with the impact of losses related to the sale and write-downs of *legacy* assets, NOVO BANCO will request a compensation of 1,149 million euro under the existing CCA. Of this amount, 69% correspond to losses sustained on the assets included in the CCA and 31% are due to regulatory requirements of a capital increase for the adjustment of the transitional period of capital ratios and to the impact of IFRS 9. For 2017 and 2018, NOVO BANCO will have received a total of 1.9 billion euro out of the maximum of 3.89 billion euro defined under the CCA.

Cultural and Artistic Heritage

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

3.3. Corporate and Statutory Bodies

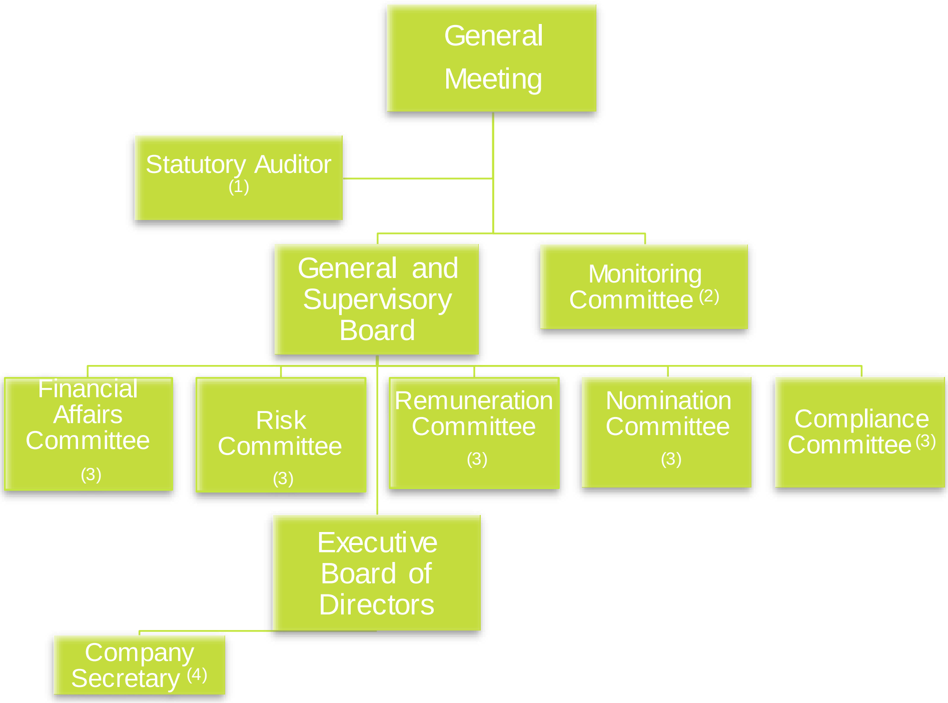
Under the terms of the Company's Articles of Association, the corporate and statutory bodies of NOVO BANCO are the Board of the General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company Secretary.

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

Also in accordance with the Articles of Association, the members of the Board of the General Meeting, General and Supervisory Board, and Monitoring Committee are elected by the General Meeting. The General Meeting also has the powers to appoint and replace the Bank's Statutory Auditor, upon a proposal of the General and Supervisory Board. The members of the Executive Board of Directors are appointed by the General and

Supervisory Board. The Company Secretary and Alternate Secretary are appointed by the Executive Board of Directors, after consulting with the General and Supervisory Board.

NOVO BANCO corporate governance organisation chart:



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

Composition of the corporate and statutory bodies of NOVO BANCO for the 2017-2010 term of office, at the signature date of this report:

Board of the General Meeting

- Chairman: Rui Manuel Pinto Duarte
- Vice-Chairman: Miguel João Valente da Costa Madeira
- Secretary: Pedro Moreira de Almeida Queiroz de Barros

General and Supervisory Board

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

Executive Board of Directors[2]

- Chairman: António Manuel Palma Ramalho - Chief Executive Officer (CEO)
- Member: Vítor Manuel Lopes Fernandes - Chief Commercial Officer
- Member: Jorge Telmo Maria Freire Cardoso – Chief Recovery and Investment Officer
- Member: Luísa Marta Santos Soares da Silva Amaro de Matos - Chief Legal and Compliance Officer
- Member: José Eduardo Fragoso Tavares de Bettencourt – Chief Operating Officer
- Member: Rui Miguel Dias Ribeiro Fontes - Chief Risk Officer
- Member: Luís Miguel Alves Ribeiro - Chief Commercial Officer - Retail
- Member: Mark George Bourke – Chief Financial Officer (CFO)[3]

Monitoring Committee[4]

- Chairman: José Rodrigues de Jesus
- Member: José Bracinha Vieira

Statutory Auditor

Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("CMVM") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("OROC") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896.

Company Secretary

- Pedro Moreira de Almeida Queiroz de Barros
- Mário Nuno de Almeida Martins Adegas (Alternate Secretary)

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[2] Isabel Maria Ferreira Possantes Rodrigues Cascão served as a member of the Executive Board of Directors in 2018, her term of office having expired on 31 March 2018.
[3] Mark George Bourke began his term of office on 4 March 2019.
[4] During 2018, Miguel Athayde Marques served as member of the Monitoring Committee having resigned with immediate effect on 28 February 2019.

3.4. Strategy

Following upon the Restructuring Plan drawn in the context of the commitments assumed with the Directorate-General for Competition (DG COMP), a set of Transformation Projects were created for NOVO BANCO Group ("GNB" or the "Group") at the end of 2016, which focused on (i) maximizing cost efficiency through adjustments to the installed capacity - rationalisation of the structure (central services and retail network) and processes, and cost optimisation - and (ii) optimisation of revenues.

The Bank's Strategic Plan for 2018/2020 - the first strategic plan drawn up after the sale of the Bank at the end of 2017 - was defined in 2018.

This plan, which draws on the Group's DNA, is founded on four structural and structuring pillars, comprising a set of Operational Programmes:

1. **The Distribution Model Pillar** – consisting of programmes aimed at achieving the intelligent evolution of the distribution model, entailing deep changes in the branch model and the adjustment to the digital clients' new requirements, to ensure omni-channel proximity to the clients;
2. **The Talent and Merit Pillar** – consisting of programmes that aim to produce a deep evolution in human capital management in terms of rejuvenation, motivation and retention, and ensure the alignment between incentives and transformational evolution;
3. **The IT and Processes Pillar** – includes a set of programmes aiming to ensure a far-reaching technological transformation, both preserving the current platforms and creating an *Agile* IT environment;
4. **The Risk Adjustment Pillar** – consisting of programmes intended to ensure a fine-tuned risk management, namely through segmented adjustments to risk appetite, with a decisive influence on pricing and leading to the continuous improvement of governance.

Upon these pillars, three circles were defined, also consisting of operational programmes:

1. **The optimisation circle;**
2. **The digitalisation circle;** and
3. **The differentiation circle;**

In 2018 the priority was given to the programmes contained in the **optimisation circle**, striving to attain improved levels of efficiency and customer service.

The programmes in this circle were designed to ensure compliance with the objectives set in the agreement signed between the Portuguese State and the European Commission, to guarantee the necessary restructuring of the Bank and a high level of operating profitability.

In 2018 the successful deployment of these programmes allowed for a considerable reduction in the high level of NPL, both through individual recoveries and through the largest ever sale in Portugal of a non-performing loan portfolio. At the end of the year the NPL portfolio net of impairments had already dropped below 3.0 billion euro.

At the same time, the sale of non-productive real estate was accelerated. In the fourth quarter a total of 9 thousand properties were sold, in the amount of over 700 million euro.

The normalisation of the cost of liabilities was also under focus, entailing several operations with high-interest rate liability products, while ensuring a client resource retention level of more than 80%.

But 2018 was also marked by decisive steps for the current activity that will reshape NOVO BANCO, going forward.

The Bank's capital was reinforced, through the effect of the compensation received under the contingent capital agreement agreed with the Resolution Fund in the scope of the sale of NOVO BANCO, and also through a 400 million euro Tier 2 subordinated bond issue, which earned the 'Europe Financial Bond' award from the International Financing Review (IFR).

In terms of the Commercial Activity, the Bank resumed the process of recovering market share, in both the corporate and the individual client segments, while maintaining the net interest margin at an adequate level.

At the operations level, the Bank was able to contain costs, reduce the network to the number of branches agreed with the DG COMP, and sell or close down non-core operations, such as Banco Internacional de Cabo Verde, BES Vénétie and the branch in Venezuela.

2019 will see the start of a phase of transformation, of a markedly digital nature, which will seek to maintain the Group's positioning as a reference universal bank in the domestic market, with a strong franchise in corporate and retail banking and standing out for the quality of the service provided.

In 2019 the priority will go to the programmes included in the **digitalisation circle**, which will permit to transform the NOVO BANCO Group into a customer-centric, straightforward and low risk multi-channel provider with a strong digital component. One of the initiatives within this circle was the recently created NOVO BANCO Digital.

2019 will also see major steps into the **third circle of priorities (differentiation)**, which lays out the differentiation of NOVO BANCO Group and will add to the proposals of the units in Spain, Banco Best and Asset Management those of the Real Estate Financing and Principal and Alternative Lending business units, currently under implementation. All these will add up to ensure the differentiation of the NOVO BANCO Group.

All that was done in 2018 will be further deepened in 2019, so as to materialise the strategic destiny of NOVO BANCO.

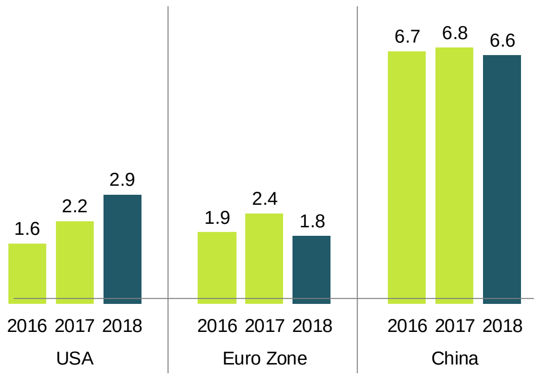
It should also be noted that the Bank has decided to report its main financial indicators in 2018 separated by recurrent and legacy activity. The legacy activity includes customer loans, namely those included in the Contingent Capital Agreement, approximately 92% of the total, and also non-strategic loans, securities, restructuring funds, and a Real Estate Owned portfolio (non-yielding).

Activity in 2019 will thus be shaped by the objectives of the Strategic Plan, translating into the adequate growth of the recurrent loan portfolio, a significant improvement in commercial banking income and in the cost of risk, and the continuous reduction of operating costs.

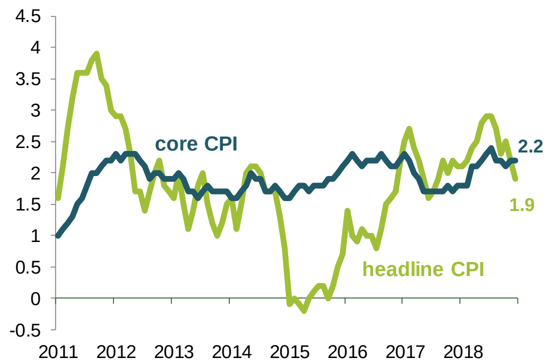
4. Economic Environment

2018 saw the extension of the cycle of expansion of global economic activity, albeit now featuring a diverging performance between the US and the other economies, and greater focus on the downside risks for the outlook, thus marking an inflection point in the performance of the global economy, after the simultaneous acceleration of the main economic areas in 2017. Overall, global GDP growth stabilised at around 3.7%, with the developed economies showing a marginal acceleration of 2.3%, to 2.4%, and the emerging markets sustaining a growth pace of around 4.7%.

GDP growth (%)

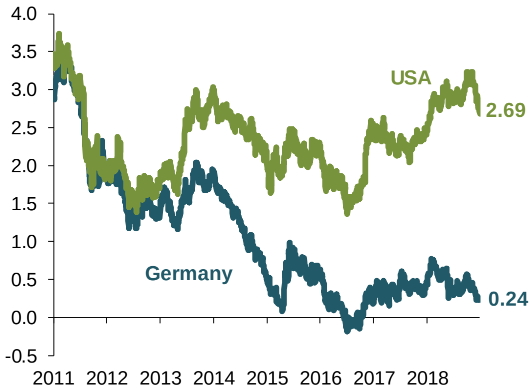


USA: CPI - YoY Inflation Rate (%)

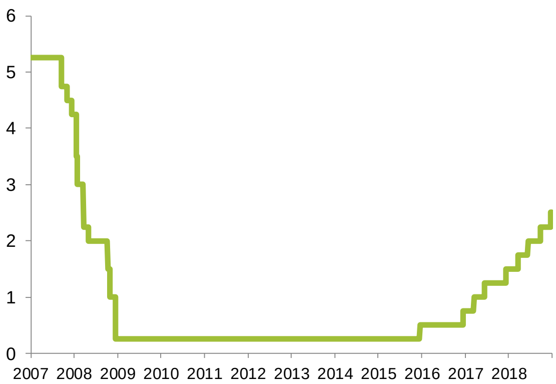


In the US, GDP grew by 2.9% in 2018, after increasing by 2.2% in the previous year, with domestic demand benefiting from significant fiscal stimuli and a still expansionary monetary policy. The growth momentum was particularly visible in the first half of the year. In this context, the unemployment rate retreated from 4.1% of the labour force to a low of 3.7% in November, closing the year at 3.9%, near its estimated long-term level. With the economy operating at around full employment, inflationary pressures, essentially wage-related, intensified. The year-on-year growth of average hourly earnings accelerated to 3.2%, the strongest increase since 2009, while other wage growth measures point to year-on-year rises of around 3%-4%. Inflation sped up from 2.1% in January to an annual peak of 2.9% in July, subsequently weakening to 2.2% at year-end due to the behaviour of energy prices. Core inflation rose from 1.8% to 2.4% in July, also standing at 2.2% at the end of the year. In this context, the Federal Reserve pursued in 2018 a gradual normalisation of monetary policy, raising the fed funds target rate in four 25 bps movements, to 2.25%-2.5%, which is still below the estimate of neutral. The still subdued levels of inflation allowed the monetary policy to remain expansionary. The 10-year Treasuries yield rose from 2.406% to 2.685% in the year, temporarily hiking above 3.2% at the start of the 4th quarter.

10-year *bunds* and treasuries yields, USA and Germany (%)

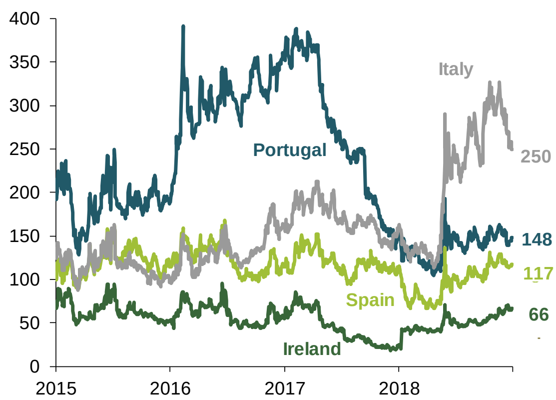


Fed Funds rate

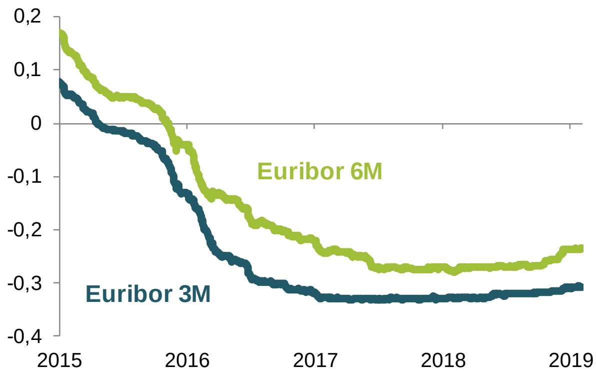


The performance of the US economy contrasted with the more sluggish behaviour of the Eurozone, which grew by 1.8% in 2018, slowing down from 2.4% in 2017. Despite some improvement in the European Central Bank (ECB)'s monetary stimuli transmission mechanisms, namely visible in a slight acceleration in loans to the private sector, economic activity in the Eurozone did not benefit from the same level of fiscal stimuli as the US economy. Moreover, the Eurozone was penalised by a lingering environment of political uncertainty which, by affecting confidence levels, constrained investment decisions. In this climate, budget tensions between the new Italian Government and the European Commission led to a widening of Italy's sovereign spreads, a downgrade of the country's rating and the depreciation of the euro, reflecting the waning interest of investors in Eurozone assets to the benefit of US assets.

10-year Treasury Bond spreads versus versus German *Bunds* (basis points)

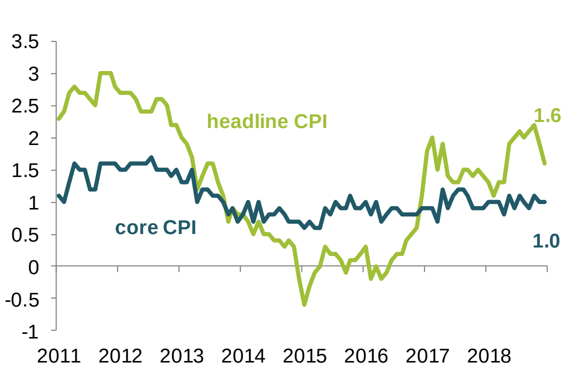


Euribor 3-month and Euribor 6-month (%)



The expansion of activity in the Eurozone allowed the unemployment rate to drop from 8.6% of the labour force in 2017 to 7.9% in 2028. Some acceleration in wages was also visible, although the year-on-year growth rate of salaries remained contained, rising from 1.8% to 2.4%. In this context, the Eurozone was not subject to significant inflationary pressures. Headline inflation rose from 1.3% to a peak of 2.2% in October, subsequently retreating to 1.6% in December. As to core inflation, it remained flat at around 1%. Inflation in the Eurozone thus remained way below the ECB's price stability target. The ECB left the policy interest rates unchanged (with the rate of the main refinancing operations at 0% and the deposit facility rate at -0.4%). A series of downward revisions to growth and inflation expectations in the Eurozone throughout the year weakened and delayed the expectations of policy interest rate hikes by the ECB. In this climate, the 3-month Euribor remained relatively stable throughout 2018, still at negative levels, closing the year at -0.3090%, which is only marginally higher than the -0.3290% recorded at the end of 2017. The 10-year *Bund* yield fell from an annual high of 0.76% in February to 0.242% in December. During the year the ECB pursued the tapering of its asset purchase programme, gradually reducing the monthly amount of securities purchases and altogether exiting the process of new debt acquisitions in December.

Eurozone: CPI - YoY Inflation Rate

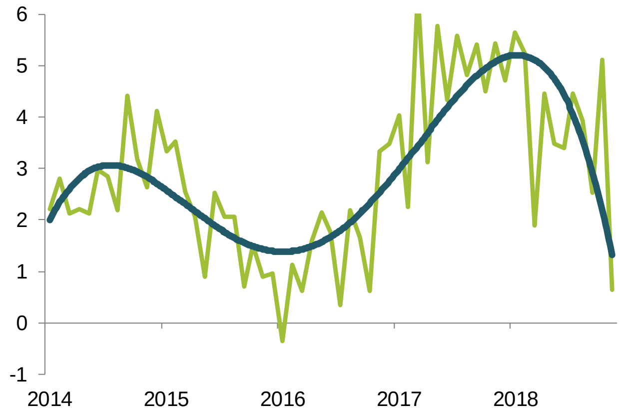


EUR/USD Exchange Rate

The diverging performance of the US and Eurozone in terms of economic growth, monetary policy and interest rates increased the attractiveness for investors of US assets, supporting the depreciation of the **euro** against the **dollar**. The European currency lost 4.7% against the US currency, closing the year at EUR/USD 1.1452. Political uncertainty in Europe was also fuelled by concerns around Brexit. In the **United Kingdom**, GDP growth slipped from 1.7% to 1.3%, while the pound sterling fell by nearly 12% against the dollar, from its annual high of GBP/USD 1.434 in April to GBP/USD 1.263 at the end of December. The British currency was penalised by mounting fears about a hard Brexit, notwithstanding the exit deal with the EU reached late in the year, which was much contested internally. The Bank of England raised the base rate in August (+25 bps, to 0.75%), making no other monetary policy changes throughout the rest of the year.

In **China**, GDP grew by 6.6% in 2018, after expanding by 6.8% in 2017. Chinese authorities supported demand through selective expansionary measures, namely reducing the reserve ratio imposed on banks (from 17% to 14.5%) and easing the restrictions on the financing of public entities. However, this did not halt the slowdown of activity, led, on the one hand, by the necessary process of structural adjustment of the economy (reduction of leveraging, of investment in real estate and of excess production capacity), and, on the other, by the trade tensions with the US, which bred uncertainty and conditioned economic agents' spending decisions. Despite China's lacklustre performance, the **emerging economies** in general showed their resilience in 2018, with stronger growth in Asia making up for a deceleration in Europe and a stabilisation in Latin America. However, the increase in US interest rates and the dollar appreciation supported a movement of capital outflows from the emerging markets, penalising their assets. In the first half of the year such pressures were particularly felt in economies with higher macroeconomic imbalances (e.g. Argentina), greater political uncertainty (e.g. Brazil), or both (e.g. Turkey).

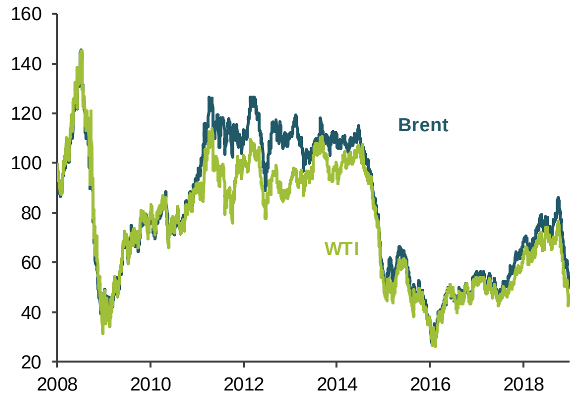
International Trade (YoY%) actual vs. trend



Developments in financial markets were strongly constrained by **growing trade tensions between the US and China**, with the Trump Administration announcing at several instances the imposition of tariffs on a total of 250 billion dollar imports from China, and the Chinese authorities responding by imposing tariffs on a total of 110 billion dollar imports from the US. Fears of an escalation of protectionist measures hampered growth expectations for the global economy, with negative impacts on the **equity market**. The imposition of tariffs forced many companies to adopt strategies of adjustment to trade restrictions, such as the delocalisation of production operations, the search for new suppliers or the absorption of tariff costs, with negative impacts on their efficiency and profitability Against a backdrop of rising production costs (e.g. acceleration of wages in the US) and fears about interest rate hikes by the Federal Reserve (with the flattening of the yield curve), this environment contributed to a sharp devaluation of the main indices in 2018, despite the good performance of corporate earnings. In the US, the Dow Jones, S&P 500 and Nasdaq indices retreated by 5.6%, 6.2% and 3.9%, respectively. In China, the Shanghai Composite slumped by 24.6%. In Japan, the Nikkei lost 12.1%. In Europe, the DAX, CAC 40 and IBEX registered negative changes of 18.3%, 10.95% and 14.97%, respectively. In particular, the technology stocks, after a strong rally in the first half of the year, experienced a sharp correction in the second half, reflecting the downward revision of growth expectations. Finally, the equity market was also penalised by the energy sector, following a fall of more than 20% in the **oil price** (the Brent fell by 20.4%, to USD 53.2/barrel and the WTI fell by 24.8%, to USD 45.4/barrel). This fall in oil prices, which occurred in spite of the production cuts undertaken by OPEC and Russia, was supported by a perception of excess supply in the market. In addition to a strong increase in volatility, 2018 was also marked by the (uncommon) absence of obvious safe haven assets in financial markets.

Selected stock market indices (January 2016=100)

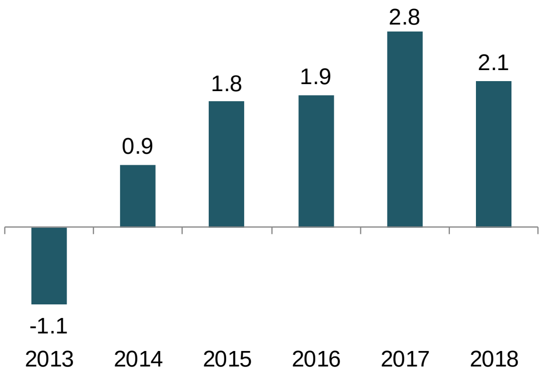
Price of Oil (Brent and WTI) (USD/Barrel)



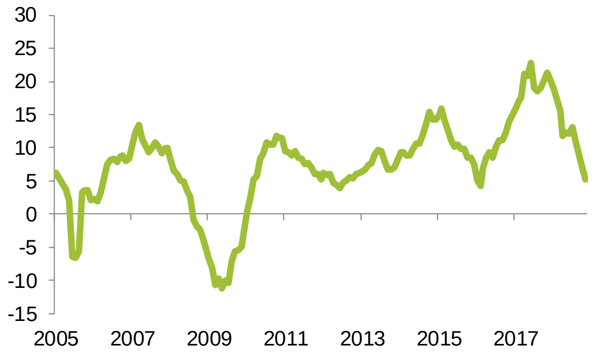
Spain's economy maintained its buoyancy in 2018, growing above the European average. GDP grew by 2.5%, slightly decelerating from the 3% observed in 2017. Growth continued to be driven by domestic demand, with private consumption increasing by 2.4% and investment by 5.2%. Exports registered a sharp slowdown, to 2.2%, from 5.2% in 2017, while imports increased by 3.6%. The unemployment rate maintained a downward trend, dropping from 17.1% to 14.5% of the labour force. Inflation remained strongly contained, retreating from 2% to 1.2%. The housing market was vigorous, with prices surging by 6.6% year-on-year in the 4th quarter, in acceleration compared to the first half of the year. The Spanish economy proved very resilient to the short but intense political crisis that flared up at the end of May and culminated in the stepping down of Mariano Rajoy, of the People's Party, and the replacement of his Government by a minority Government led by Pedro Sánchez, the leader of the Spanish Workers' Socialist Party (PSOE). The pro-European and mainstream stance revealed by the new Government – in contrast to the signals given by the new Italian Government - supported a benign response from the markets, after an initially adverse reaction.

In **Portugal**, GDP grew by 2.1% in 2018, slowing down from its strong 2.8% increase in the previous year. The expansion of economic activity was also fuelled by strong private consumption (with its growth increasing slightly from 2.3% to 2.5%) and investment (which slowed down compared to 2017 but was still robust, at 5.6%). The persistence of favourable monetary conditions (permitting the expansion of credit, mainly to families), the positive performance of exports (essentially, but not only, of tourism services), the reduction of unemployment (from 8.9% to 7% of the labour force) and the buoyancy of the housing market (10.3% annual house price growth) supported strong confidence levels amongst businesses and families (though not as high as in 2017), and the extension of the cycle of economic activity growth. The annual average rate of inflation retreated from 1.4% to 1%, below expectations. The favourable results achieved in the public accounts (with an expected deficit of 0.5% of GDP), an environment of political stability, and the relatively good performance of economic activity sustained a favourable perception of investors towards the Portuguese economy (also reflected in the improvement of the Portuguese rating by the main rating agencies - DBRS in April and Moody's in October, after similar actions by S&P and Fitch in 2017). After reaching a one-off spike of 193 bps in May (through a short-lived contagion effect from Italy), the spread of the Portuguese 10-year Government Bonds versus the German benchmark retreated to 148 bps by the end of the year. The respective yield declined from an annual peak of 2.19% at the end of May to 1.72% at the end of the year. The PSI-20 index followed the global trend, retreating by 12.19% in the year.

Portugal – Annual GDP growth (%)



Portugal - Exports of tourism services (MM 3m YoY, %)



5. Commercial Activity and Business Model

The NOVO BANCO Group (the "Group" or "NBG") develops its activity centred on the financial industry sector and focused on the corporate, institutional and private individual clients.

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

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

5.1. Commercial Banking

In Portugal, NBG operates through a network of 381 branches and 23 Corporate Centres. Given the adverse environment surrounding the creation of NBG, its commercial dynamism was key to the resilience of the Bank's competitive positioning.

Retail Banking

2018 represented another important step in the consolidation of NOVO BANCO as a reference bank at the various stages in the life of Portuguese families. In a market already very competitive and moreover, undergoing a process of change, NOVO BANCO has been able to strengthen its market shares in the main product lines thanks to its commitment to differentiation based on service quality and a customer-centric approach, supported by a platform of digital channels which is the favourite amongst Portuguese users. This robust evolution is the result of the continuous recognition earned from Individual, Entrepreneur and Small Business clients.

Always driven by the aim to raise the standard of the service provided and its capacity to respond to the needs of its Retail Clients, NOVO BANCO promoted several commercial initiatives with a recognised innovative nature:

- Renewal of the image of the NB 360º Segment[5], stressing its lines of differentiation vis-à-vis other segments of the Bank and the Portuguese banking market;
- Launch of the innovative 'Moving to Portugal' website, designed to present Portugal as a destination for foreign citizens wishing to move to the country, comprising integrated financial solutions for potential clients and information on topics such as taxation, finance, health, education, housing and leisure;

[5] NB 360º represents a reference proposal in the affluent segment, based on a high quality standard through the permanent supervision of a dedicated and specialized manager, an exclusive offer and proper solutions for the specific needs of NB 360º customers

- New Investment Solutions, featuring high quality products of NOVO BANCO Group and International Managers, to allow a diversified and optimised management of customers' savings;
- Reinforced role as expert in Residential Mortgage Loans, through the setting up of a Residential Loans Laboratory, where clients can adjust their loans to their specific situation (extending or shortening maturities, swapping variable to fixed rate, exchanging homes, investing for rental and many other functionalities with proper solutions for the objectives of the customers);
- Support campaign to the National Football Team, through the creation of the 'NB Seleção' account, an account for new clients featuring a broad package of financial products and services, namely debit and credit cards, free-of-charge transactions in the digital channels, among others, all free of maintenance fees for one year;
- Development of more than 20 new functionalities in the NB Smart App (from which it should be highlighted the Family Budget, Signature of Documents previously uploaded by the account manager and subscription of the Salary Solution), the leading app in Portuguese Banking, as ranked by both Google Play and the Apple Store.

Reflecting its effort to develop innovative products and services, combined with highly visible Marketing Campaigns, in 2018 NOVO BANCO was spontaneous recognition leader in Radio and Publivaga.

To help its Clients choose the best alternatives for their savings, NOVO BANCO reinforced its offer of Investment Solutions with investment funds from International Fund Managers, which, together with GNB Gestão de Ativos's offer of Funds, permit to design multiple investment strategies adjusted to the risk profile and of each client's goals. Moreover, the introduction of new financial insurance solutions and the launch of new structured products contributed to a high level of Customer recognition and satisfaction.

The innovative, wide-ranging, and flexible offer, of recognised superior quality, met with significant adherence by NOVO BANCO's clients, with Investment Solutions more than doubling its production in 2018.

NOVO BANCO once again asserted its position as the expert in Retail Loans in which the Portuguese can trust, leading to the reinforcement of its market share in the main products. The proximity of the Network and the high efficiency of the process of approval and disbursement of Residential Mortgage Loans is consensually recognised by credit intermediaries, supporting a 20% increase in production, with a spread comfortably above market spreads. In Personal Loans, a partnership entered with Samsung made available to Clients exclusive products of this South-Korean brand, at special credit conditions (interest-free). The vigour displayed by NOVO BANCO allowed for an expansion of the portfolio of around 27%, underpinned by a significant increase in new production levels (+17% YoY).

In the Small Businesses segment monitored by the Retail area, production of medium- and long-term loans and leasing registered a year-on-year increase of 26%. The active support given to the Clients in the preparation and submission of loan applications allowed NOVO BANCO to achieve a prominent position in the ranking of the ‘Capitalizar’ sub-line for small and micro companies, with the acquisition of new clients in this segment accordingly showing a strong increase (above 30% YoY). In addition, in order to widen the scope of the product offer to the Small Business Clients, NOVO BANCO launched a Workers Compensation and Multi-Risk Insurance package designed for the segment.

Finally, it is worth stressing the loyalty and trust which the Clients have placed in NOVO BANCO for the management of their day-to-day financial needs. In 2018, the number of Clients with Income Domiciliation surpassed the 535 thousand mark, the highest in the last five years, while those subscribing to the Salary Solution increased by more than 20%.

Specialised Offer

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

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

Saving Products

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

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

Planned Saving	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 savings to the family budget.	294 thousand clients using the service **934.2 million euro in savings**
Micro Saving	The Micro Saving solution allows any client to start saving money by small amounts through the rounding up of debits of day-to-day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a savings account.	Used by ca. 44 thousand clients **8.8 million euro in savings**
***Smart app* (Saving for Objectives)**	The 'Saving for Objectives' product, launched in 2017, is exclusive for Clients who have installed the NB smart app: once the Client has defined his/her saving objectives (how much and for how long he/she wants to save) the smart app traces the path to reach this objective.	4 thousand Contracts **2.9 million euro in savings**

Overall these Saving Solutions permitted to set up savings in the amount of 945.7 million euro.

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

Microcredit

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

Microcredit should be seen as a complementary tool to rescue people from under-investment cycles, whenever this is related to their poor capacity to access credit, but providing these people have an entrepreneurial spirit and a viable idea for a business.

Beneficiaries of Microcredit:

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

The microcredit solution includes two financing mechanisms - the NOVO BANCO 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 2018 the NOVO BANCO Group financed 73 projects, corresponding to a total amount of credit of *circa* 1.2 million euro, which allowed the creation of 104 jobs. During 2018, the Bank opened 122 new processes under the Microcredit and Entrepreneurship lines.

Currently, NOVO BANCO Group's Microcredit portfolio holds 1,586 projects approved, corresponding to total loans of 27.8 million euro that permitted the creation of more than 2,500 jobs. The average per loan is 8 thousand euro, for an investment of around 10 thousand euro.

In 2018 there was a sharp drop in applications for microcredit and consequently in microcredit loans when compared to 2017. This drop essentially resulted from a decrease in demand for this product from its target-public, largely due to the improvement in the country's economic situation, with a direct impact on the level of unemployment.

The breakdown of these loans by activity sector shows that the most sought-after businesses continue to be in the services sector (around 72%), followed by retail (24%), and hotels and restaurants (18%). Roughly 57% of the projects financed are individual initiatives, with 43% taking a corporate form.

The profile of clients with access to the Microcredit and Entrepreneurship lines shows that the majority are men (51%), below 40 years old (62%) and holding qualifications at secondary education level (42%).

Minimum Banking Services Account

The minimum banking services account is a current account with an associated debit card, charging an annual maintenance fee of 4.12 euro. This account is intended for individuals who hold no other current account in any other institution, or who hold only one current account which is converted into a minimum banking services account, or who hold other current accounts but want to open a minimum banking services account where one of the account holders is more than 65 years old or is dependant on others.

Universities

NOVO BANCO offers a range of products and services specifically designed to meet the needs of university students between the age of 18 and 30 (inclusive), whether resident in Portugal or not. This offer caters to the needs of university students during this period of their lives, including day-to-day solutions, digital channels and tuition loans.

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

In addition, various internships for university students were offered in 2018 – curricular, introduction to working life and summer internships -, which gave them a meaningful experience in a professional context during their higher education period.

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

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, shaping its offer in accordance with the expectations of its stakeholders.

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

More information on environmentally responsible services is provided in 9.3. Environmental Management.

Carbon neutral NB 18.31 Account

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

In partnership with the consulting firm *e)mission*, NOVO BANCO quantified the CO2 emissions associated with the NB 18.31 Account, namely resulting from the use of computers and paper and card production, amongst others.

The greenhouse gas (GHG) emissions associated with the account during its entire life cycle, from opening to closure, were measured in accordance to the PAS 2050:2008 method for assessing the life cycle of GHG emissions associated to products and services. This analysis concluded that each new NB 18.31 Account has an estimated impact of 1.09 kg CO_2eq/year, which is 20% less than a conventional account. Moreover, if the account is opened online, its estimated carbon impact is 944g.

At 31 December 2018, NOVO BANCO had 121,133 NB 18.31 Accounts with offset emissions, which corresponds to the neutralisation of 1,217 tonnes of CO_2.

In 2018, the carbon emissions were offset through the support provided to the Soil&More project, a project of composting of green waste (green waste from gardens, parks and other) collected in the municipality of Cape Town in South Africa, being approved by UNFCCC (United Nations Framework Convention on Climate Change). The production of this microbial compound allows the restauration of fertility in agriculture soils, avoiding that waste is laid in two landfills without conditions in Cape Town, its consequent burning and methane emission. It is estimated that this project will reduce 600 thousand tons of CO2 equivalent in 10 years. The adopted procedure will also allow for an increase in soil water retention capacity of up to 70%, which in the South African context is an extremely important impact, as the UNEP (United Nations Environment Program) listed the quality and availability of water in this region as one of the top three environmental issues to consider.

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

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

The emissions resulting from the NB 18.31 Account that are fully offset by NOVO BANCO correspond to 329 single return flights between Lisbon and São Paulo, Brazil.

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

NOVO BANCO dos Açores

In 2018 NOVO BANCO dos Açores pursued its effort to attract new Clients through various actions targeting individuals, companies, services, institutions and public entities, with the objective of increasing the market share and bolstering the activity in terms of both funding and lending, thus supporting the Azorean economy and families. NOVO BANCO dos Açores continues to be the only bank with its registered office in the Autonomous Region of the Azores.

Regarding the activity of NOVO BANCO dos Açores, the year-end value of both Customer loans and Customer deposits increased relative to the previous year, by 1.6% and 5.1%, respectively.

Banking income increased by 3.2% year-on-year, mainly underpinned by the growth of net interest income (+15.2%). In 2018 operating costs contracted by around 22.8% relative to 2017 as a result of a strong cost-cutting policy.

NOVO BANCO dos Açores closed the year with net assets of 548 million euro, reporting a net profit for the year of 3.6 million euro, an increase over the previous year of 1.7 million euro (+87.2%) that reflects a very positive performance.

Banco Best

Banco Best reported a net profit of 3.6 million euro in 2018, which represents a year-on-year increase of 18%. The Bank maintained very positive prudential and financial strength ratios, namely a loan to deposit ratio of 26%. At operational level Banco Best also showed a favourable evolution, with the cost to income ratio dropping to 69%, from 71% in 2017.

Assets under management totalled 2 billion euro, with customer deposits rising by 11% year-on-year, to 546 million euro. In a year marked by strong volatility in the financial markets, especially in the last quarter, Trading activity, through the Best Trading Pro (BTP) service, was very dynamic, driving an increase in the market share of online derivatives from 13% in 2017 to 17% in 2018%.

Banco Best continued to strive for leadership in digital banking and innovation in the offer of financial products and services in Portugal, across all their spectrum, having achieved the following results in 2018:

- Banco Best pioneered the facility permitting to open an account by video call and in June presented to the market a new website, more appealing, with new functionalities and using digital marketing tools;

- In Asset Management, Banco Best received in February the Euronext award in the Financial Innovation category, due to its introduction in Portugal of the first artificial intelligence managed fund (Acatis AI Global Equities Fund). The bank also pioneered the introduction in Portugal of the *Exchange-Traded Funds* (ETFs) issued by UBS, reinforcing its liabilities management offer, and brought Rubrics Asset Management, Carmignac, and Optimize, Nova Seguradora: Una, to the Portuguese investment funds market.

- Under a joint venture with Advicefront, a national startup, Banco Best launched a user-friendly investment advice tool.

- Financial literacy was promoted through the Best Trading Pro training cycles, which aim to foster investors' financial expertise under the motto "More Knowledge, Better Investment", and were developed in 9 sessions across the various Investment Centres in the country.

- Banco Best launched BEA - Best Electronic Assistant, an artificial intelligence-based chatbox that answers users' questions about products and services;

- With partners in the Fintech area and international and international fund managers, Banco Best coordinated the first subscription of a foreign fund in Portugal in Blockchain environment;

- Offer of the Open Banking solution for institutional clients, allowing connection to the Best domain via APIs and access to information, thus anticipating the changes that will occur through the PSD 2 regulations;

- Also in 2018, Banco Best restructured its entire offer of sight accounts and cards, keeping the 100% digital accounts fully exempt from management fees, in line with its business rationale.

Corporate Banking

NOVO BANCO has a strong franchise in the corporate market: 52% of the companies with turnover above 2.5 million euro are clients of NOVO BANCO (Simplified Business Information - 2017 database). This percentage increases to 57% when we look at the sub-group of exporting companies.

A study to the market of Non-financial companies showed that in December 2018, NOVO BANCO had a market share[6] of 15.0% in Deposits and 17.2% in Loans.

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 (at individual or group level) between 2.5 million euro and 200 million euro; at the end of 2018 there were more than 15.5 thousand such clients, accounting for circa 8.4 billion euro of financial flow;

- Corporate Segment that serves companies with turnover (at individual or group level) of more than 200 million euro; at the end of 2018 there were more than 1.7 thousand clients in this segment, accounting for circa 8.2 billion euro of financial flow.

Within this segment, production of medium and long-term loans reached 1.8 billion euro in 2018, upholding NOVO BANCO's reference role in supporting the development of companies and economic activity in Portugal. Moreover, it is also worth noting the level of production under the 'NB FEI Inovação IV' (under a partnership with the European Investment Fund), 'Capitalizar' and 'Capitalizar Mais' (under a partnership with the Mutual Guarantee System) and 'NB Corporate Invest' Lines, under which disbursements reached 420 million euro between January and December 2017. This set of instruments has proven an important pillar of support to Small and Medium-sized Enterprises (SMEs), namely in terms of investment and reinforcement of permanent capital, where we note the projects approved under the Portugal 2020 programme.

[6] Non-Financial Companies based in countries of the Monetary Union, for operations in Euro; NB Perimeter: domestic activity, excluding NB Açores and Best; Market: Banco de Portugal information.

As regards the day-to-day support provided to companies, through Treasury Solutions, NOVO BANCO has developed an offer tailored to the needs of each client, with the factoring and confirming portfolio reaching 706 million euro at year-end in the Medium-sized Companies and Corporate segment.

In Leasing, a specialised credit instrument designed to support our clients' investments, the portfolio grew by 12.6%, with production reaching 325.4 million euro.

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

Trade Finance is an important business area of NOVO BANCO. The Bank's commitment to this area finds an echo in Portugal's economic scenario, where exports have shown sustained growth over the last few years (+5.6% in the 11 months to November 2018), and the weight of exports in GDP reached 43% in 2017. NOVO BANCO provides a wide range of products and specialised advice designed to support international trade. The Bank's know-how in this segment is valued by companies, as shown by a market share of around 22% in December (measured by the number of swift messages), which represents a year-on-year increase of 0.8 pp.

In January 2019 NOVO BANCO was considered the 'best trade finance bank" in Portugal by the Global Finance international magazine, based on its activity in 2018. This award highlights the international recognition of the Bank's capabilities in this important business area.

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

According to DATAE's-Business Financial Services Barometer - Banks (BFinBanks), a study whose main objective is to characterise, from businesses' point of view, the Portuguese banking sector in terms of the products and services provided, NOVO BANCO is 2nd Main Bank of companies in the sub-group of companies with turnover above 2 million euro, having improved its position relative to 2017. The main reasons that lead clients to choose NOVO BANCO are tradition, quality and speed of service. This choice reveals the importance of the relationship with the client and of a customer-centric approach, as well as the Bank's commitment to innovation and service efficiency.

As to the assessment made by the corporate clients of NOVO BANCO and its team, the level of "Customer Service Satisfaction" reached 90.7% (percentage of responses of 8 to 10 in a scale of 1 to 10) in 2018, which represents an increase of 1.8pp relative to 2017. Moreover, the results of other surveys conducted, namely relating to "Global Satisfaction with the Bank" "Trust", "Repurchase intention" and "Recommendation", have also improved steadily since 2015.

During the year NOVO BANCO also developed several initiatives addressed to the corporate segment and promoted the visibility of economic sectors, regions and outstanding companies, namely through the following:

- Regional Events

Launch of the "NOVO BANCO Summit", a joint initiative with the SIC Notícias TV channel, which aims to promote Portugal's regions and address the most noteworthy regional companies, entrepreneurs and projects:

- "North Summit", Braga, 11 July;
- "Dão Summit", which included a conference on "The Wine, the Dão and Beira", and was held during the Wine Harvest Fair, in Viseu, from 20 to 24 September;
- "West Summit", Torres Vedras and Óbidos, 8 November;

- Industry-specific Events

These events aim to promote the more dynamic, representative and innovative sectors in the Portuguese economy:

- SISAB, the International Trade Fair for Portuguese Food and Beverages - as a partner of this event, NOVO BANCO participated with a team or corporate bankers, international business bankers and trade finance experts, to support the exporting activity of the Portuguese SMEs (Lisbon, 12 to 14 February);
- Publituris Trade Awards – NOVO BANCO is exclusive sponsoring bank of this event, which every year distinguishes excellence in tourism (Lisbon, 28 February to 4 March, within the scope of the Lisbon Travel Market - BTL);
- *Feira da Agricultura*: NOVO BANCO participated in the 55th edition of the National Agricultural Fair, held in Santarém, with a broad-based and flexible offer (the NB Agricultura solutions) designed for the companies in this sector and a team of corporate and business bankers available to meet the entrepreneurs attending the Fair (2 to 10 June).
- Agroglobal (6th Edition) - NOVO BANCO was a sponsor of this event (5 and 7 September);
- Publituris - Portugal Travel Awards - NOVO BANCO sponsored this initiative that distinguishes the best tourism companies in Portugal (21 September);

- Events to promote Exports:

- The Export & Internationalization Awards, an initiative of NOVO BANCO and *Jornal de Negócios* newspaper (in partnership with IBERINFORM) that aims to distinguish SMEs and Large Companies in different areas, namely successful internationalisation and best exporting performance, held in Porto on 23 November.

- '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 capabilities of Portuguese companies in international markets. This event, held in Lisbon on 27 November, boasted more than 1,200 participants and over 130 Portuguese and international speakers;

- Other Events

- *PME Excelência* (SME Excellence) - award event to distinguish companies that stood out within Leader SMEs on account of their economic and financial indicators (Gondomar, 20 February);
- PME Líder Magazine - 10th annual edition of a magazine dedicated to the Leader SMEs. This magazine not only draws attention to all Leader SMEs but also features opinion articles on strategic issues for these companies and presents case studies of Leader SMEs of note in their industry sectors.
- Award ceremony of the Portuguese-French Trophies (25th Edition), as exclusive sponsoring bank of the event, which aims to support trade between Portugal and France (Lisbon, 29 September).

International Commercial Banking

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

In line with its strategy of divesting from non-strategic assets, in 2018 NOVO BANCO carried out:

. the sale in March 2018 of the assets and liabilities of the Venezuela branch to BANCAMIGA, Banco Universal, CA. With the completion of this transaction NOVO BANCO ceased to have any banking activity in Venezuela;

. the sale in July 2018 of 90% of the share capital of Banco Internacional de Cabo Verde, S.A., held by NB África, SGPS S.A. and by NOVO BANCO, S.A., to IIBG Holdings B.S.C.;

. the sale in December 2018 of the 87.5% equity holding in BES Vénétie to the Cerberus Capital Management, L.P. fund;

. During the last quarter of 2018 the London Branch (United Kingdom) remained focused on its closing-down process, with all operations having been transferred to other Branches of the Bank. The closing-down process was concluded at the end of January 2019.

2018 was primarily marked by the drawing up, approval and start-up of implementation of a Strategic Plan for NOVO BANCO’s Branch in **Spain**, to be deployed over 2018-2022.

The Plan lays down a set of activity guidelines that, considering the scope and dynamics of the Spanish economy, and several specific characteristics of this country (such as, among others, the consolidation of the banking sector, or the fact that NOVO BANCO is the only Portuguese bank with activity in Spain), will permit to harness the existing opportunity by pursuing an ambitious goal of expanding the commercial activity.

To drive the Branch's growth and profitability goal, the Plan will be deployed on several fronts, both at commercial activity level and at the level of the necessary operational transformation.

The commercial organisation model was optimised to serve in the most adequate manner the Branch's strategic segments, with a particular focus on the corporate segment. To this end, four branches were closed while an aggressive programme of reinforcement of the sales teams in priority regions was launched, again with a stronger focus on the corporate area. In addition, to ensure the continuous optimisation of the cost-to-serve, specific groups of clients are being transferred to a digital structure, thus releasing manpower at the branches for a closer and more personalised service to the target client base.

The Iberian business centre was also reactivated. This entailed incorporating international business experts, creating a base of Iberian clients and preparing the entire commercial monitoring model.

A structural enabler for the development of the strategic plan is the effectiveness of the credit decision process. Accordingly, (i) a project viewing the development of rating models adjusted to the local circumstances and the Corporate segment, and ensuring greater and faster response capacity, was initiated, and (ii) a model to measure the profitability of credit operations, in line with the parent company's policies and practices, was implemented.

In addition to the initiatives described, it should also be stressed that a significant effort was made in 2018 to steadily improve the cost of funding, which as a consequence decreased by 40 bps during the year.

In terms of the operational efficiency pillar, an ambitious process of change towards the "Software as a Service" paradigm was launched, which involved starting the implementation of a new information system, with all the systems and communication infrastructures having been consolidated under the new approach during the year.

To evolve towards the continuous improvement of the operational structure, a business process outsourcing (BPO) process was launched in the Branch, yielding productivity, efficiency and service level gains in the management of clients.

Finally, and also viewing the enhancement of operating efficiency, the move of the branch's central services to new corporate offices was initiated at the end of 2018. The new building, which has earned awards for its unique environmental efficiency characteristics, boasts outstanding conditions in terms of ergonomics, flexibility, light and modernity, thus being perfectly in step with the new phase in the life of this Branch. Moreover, it will afford very significant savings in costs with general and administrative costs.

The **Luxembourg** Branch focused its activity on the management of its current portfolio, given the imposed limitations by the European competition authority on the taking on of new business, also carrying out the transfer of some operations from the London Branch. The Branch's total assets amounted to 1.8 billion euro, which represents a year-on-year decrease of 0.4%.

Digital Banking

A major achievement in 2018 was the creation of **NOVO BANCO Digital** (NB Digital), a new area created to promote and orchestrate the Bank's Digital Transformation, under the lead of the new Chief Digital Officer.

NB Digital brings together the Bank's main digital competencies and is already working with all business areas, and Corporate and Retail segments, to achieve the transition into a new acceleration phase. Focused on the excellence of the experience to be delivered to the final Client, NB Digital strives to assert sharp market differentiation, boost the digital contribution, optimise commercial productivity, minimise the cost-of-serve and produce constant innovation translating into actual value for the Client and for the Bank.

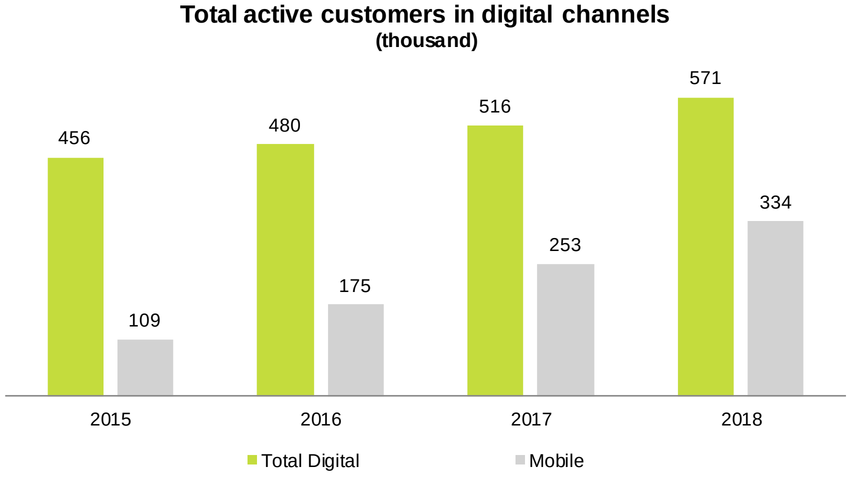
The ambition in this area is strong: NOVO BANCO aims to attain the highest level of service delivery and quality in commercial digital banking, providing its Clients with solutions aligned to the best global standards of usability, service level and satisfaction.

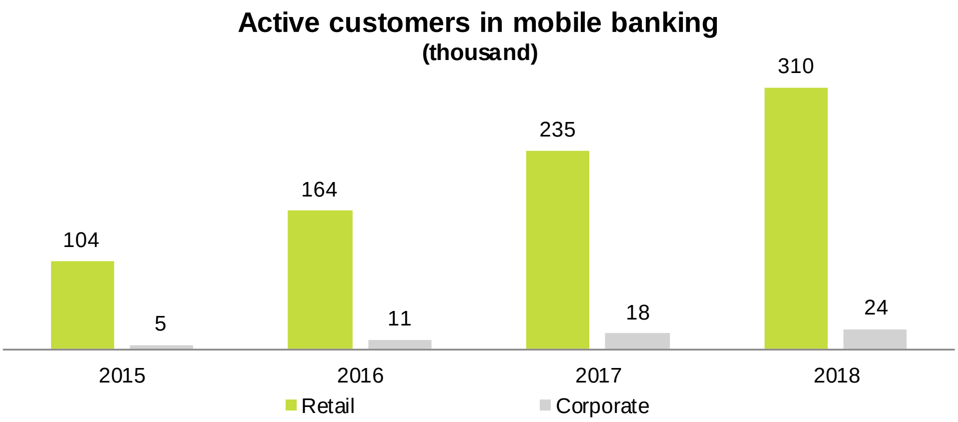
In a market environment in fast change, driven either by the entry into force of new regulatory frameworks, the emergence of disruptive technological solutions enabling new offers and solutions, or an enlarged competition arena where fintechs, large technology firms and other players vie with the traditional financial sector for dominance of the relationship with people and companies, NB Digital stands as NOVO BANCO's strategic arm to tackle these new challenges and contribute to the deep renovation which the Bank is undertaking in its processes, systems and offer.

The challenge is to offer richer, more intelligent and customised multichannel experiences, standing at the Customers' side daily and through their life, pre-empting needs and delivering individualised and effective solutions.

NB Digital also has the mission to challenge the existing methodologies and processes, prompting the adoption of more agile, collaborative and effective forms of work that enable the Bank to provide a more dynamic response to the market's new challenges. Another aspect of great relevance concerns the capture and development of talent in areas as diverse and fundamental as Data Science, Digital Marketing, Design Thinking, or Agile & Scrum, to name just a few.

From the standpoint of the evolution of the digital activity of the Bank and its Clients, 2018 was once again a year of strong growth, particularly in the use of the mobile apps. At the end of the year frequent users of the digital channels numbered more than 570 thousand, which represents a year-on-year increase of around 11%. The number of mobile banking active clients reached 334 thousand at the end of the year, representing an increase of more than 32% relative to December 2017, and this figure was even more expressive in the small businesses and corporate segments, where growth reached around 39% year-on-year.





The NB smart app leads the ranking of national banks' apps, as measured by Clients' assessments in the Google and Apple app stores. NB smart's average score at the end of 2018 (resulting from more than 6 thousand user assessments) was 4.6 at Google's Play Store and 4.4 at Apple's App Store.

This high level of customer satisfaction is further confirmed by the scores obtained in the surveys conducted at the end of 2018, which were the best ever since customer satisfaction surveys were started at the beginning of the millennium, not only for NB's smart app, but also for all the Bank's other channels. Hence the percentage of very satisfied clients reached 90% while the Net Promoter score was 67, both scores attesting to the Clients' very positive image of this solution.

2018 was also marked by the extremely high pace of introduction of new and innovative solutions for use by the Clients, which included the possibility of activating the Bank's Digital Channels through the NB website in a very simple process that gives the Client immediate access via PC or app, or the introduction of the Family Budget in the NB smart, featuring a wide range of tools to support the day-to-day management of personal and family expenses. On average, three new functionalities per month were introduced in NOVO BANCO's digital channels. This clearly shows the Bank's pledge to innovation and the enhancement of the tools made available to its Clients, which contribute to assert the distinctive and leading positioning which the Bank aims to achieve and maintain in its digital solutions.

5.2. Markets

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

5.3. Asset Management

GNB Gestão de Ativos, which operates in Portugal, Luxembourg and Spain, closed the year with a total of 10.5 billion euro in assets under management.

In Portugal, the volume of assets under management dropped by 0.5% (to 9,492 million euro, from 9,544 euro in 2017), despite an increase of 6.1% in Mutual Funds (to 358 million euro, from 337 million euro in 2017) and of 5.7% in Real Estate Funds (to 1.5 billion euro, from 1.4 billion euro in 2017). The growth in Mutual Funds reversed the trend observed in the last few years, with GNB Gestão de Ativos standing as the only one amongst the five largest mutual fund managers in Portugal to post growth in 2018 (the market contracted by 8.7%). This was due to net subscriptions totalling 36 million euro during the year. In Real Estate Funds, we note the Viriato Project, which consisted in the sale of a portfolio of real estate assets, including 1,200 properties owned by seven real estate funds managed by GNB Sociedade Gestora de Fundos de Investimento Imobiliários, with the first deeds being signed in the last quarter of 2018.

The Luxembourg unit reported a fall of 1.8% in assets under management (to 245 million euro, from 250 million euro in 2017), while the unit in Spain registered a slump of 16.7% (to 808 million euro, from 969 million euro in 2017).

The net profit for the year was 10.1 million euro, representing a year-on-year increase of 26.3%. To these results the domestic units contributed with 8.6 million euro (of which 4.4 million euro from GNB SGFII and 3.2 million euro from GNB SGFP) and the international units with 1.5 million euro (of which 1.8 million euro from the Luxembourg unit).

Equity increased by 17.3% relative to the previous year, totalling 63 million euro at the end of the year.

Responsible Investment Funds

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

NOVO BANCO Group, through subsidiary Banco Best, sells responsible investment funds from third-party asset managers with a diversified investment strategy and geographic allocation.

In 2018 client subscriptions of Banco Best's range of 160 responsible investment funds (42 more than in 2017) totalled approximately 12.96 million euro, which represents a year-on-year increase of 63%.

During the year Banco Best also offered 12 Exchange Traded Funds (ETFs) with environmental, social and governance concerns, with a total investment of 24,500 euro.

The list of funds offered is available in NOVO BANCO's corporate website: www.novobanco.pt/institucional, under Sustainability / Environment Products.

5.4. Life Insurance

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

As consequence of the commitments made between the Portuguese State and European Competition Commission communicated to the Group by the end of 2017, after the conclusion of Bank's sale process, the group launched in 2017 an organized sale process of 100% of the share capital of GNB Vida. Therefore, this entity was considered as a discontinued operation on 31 December 2017.

As at 12 September 2018, the group has entered into a sale and purchase agreement with Bankers Insurance Holdings, S.A in respect of the entire share capital of GNB – Companhia de Seguros de Vida, S.A. ("GNB Vida"), The execution of the sale of GNB Vida is conditioned to the verification of certain condition, including the obtaining of the required regulatory approvals.

6. Liquidity and Funding Management

NOVO BANCO manages liquidity risk in accordance with all the regulatory rules, guaranteeing that all its responsibilities are met, whether 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.

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

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

In terms of the structural liquidity, NOVO BANCO prepares a monthly liquidity report (for more details see 'Liquidity Risk' in chapter 7. Risk Management), taking into account not only the effective maturity but also behavioural maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on this information, the activity funding annual plan is prepared taking into account the established budget targets. This plan, which is regularly reviewed, favours, as far as possible, stable funding instruments.

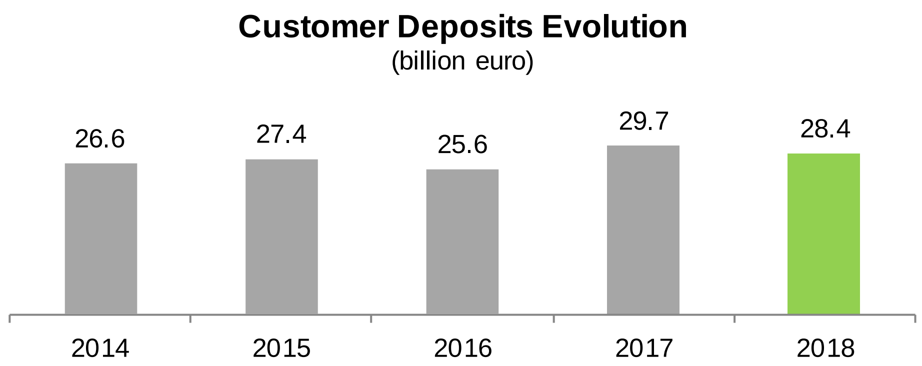
The Capital and Asset Liability Committee (CALCO), which meets monthly, also analyses the liquidity position of the Bank, namely the balance sheet evolution, broad analysis of the gaps and key indicators of the activity (liquidity ratios, liquidity and commercial gaps, deposit and credit rates). To sum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

For the liquidity contingency plan, the Bank has defined a set of measures that, when triggered, allow to manage and/or minimise the effects of a liquidity crisis. These measures aim to address additional liquidity needs and boost the resilience of NOVO BANCO in a potential situation of stress. The contingency measures and procedures were triggered in early August 2014 in response to the crisis that led to the application of the resolution measure and the creation of the Bank, and were withdrawn in February 2018. Besides measuring accurately the liquidity risks faced by the Bank, these procedures also take in consideration liquidity and funding shortages.

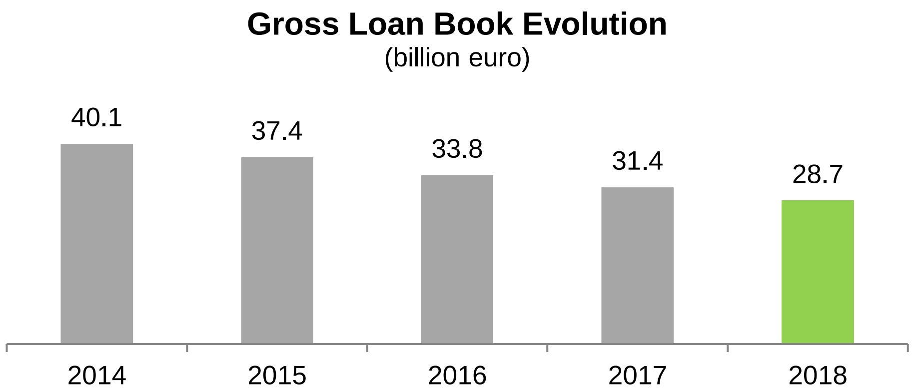
NOVO BANCO's funding policy is one of the major components of the Bank's liquidity risk management, which stresses the diversification of funding sources. NOVO BANCO's strategy has from its incorporation largely relied on boosting customer deposits as its major source of funding, insofar as since the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

At the end of 2017, following the conclusion of the sale process to Lone Star, NOVO BANCO showed a comfortable liquidity surplus, with approximately 3.8 billion euro deposited with the ECB, namely as a result of the favourable evolution of customer deposits. With the subsequent normalisation of the Bank's activity, liquidity management in 2018 involved the rationalisation of its funding sources, with a special focus on improving profitability. To this end, an effort was made to reprice the offer of deposits, and several initiatives were taken to achieve the early redemption of liabilities paying high rates of interest. This allowed for a significant reduction in the average cost of liabilities, however it also led to a contraction in the amount of customer deposits.

Hence at the end of 2018 customer deposits with NOVO BANCO totalled 28.4 billion euro, a year-on-year reduction of 1.3 billion euro that mainly resulted from the referred effort to adjust the price of liabilities.



Despite said reduction, at the end of 2018 customer deposits remained the Bank's main funding source, accounting for roughly 58.6% of its funding structure (57% at the end of 2017), and of this, 70% were deposits from the retail segment.



On the other hand, NOVO BANCO pursued its strategy of deleveraging non-core and non-productive assets, focusing in particular in the loans portfolio, which in gross terms was reduced by 2.7 billion euro in 2018, mainly in corporate loans.

This reduction did not have a significant impact on liquidity as it essentially resulted from the write-off of loans and the sale of a non-performing loan portfolio, whose financial settlement will only take place in 2019. With no significant impact on liquidity either, NOVO BANCO concluded other relevant transactions in 2018 within the scope of its deleveraging policy, namely the sale of a portfolio of real estate assets and the sale of the equity holding in BES Vénétie and of 90% of Banco Internacional de Cabo Verde.

In terms of capital, and with a positive impact on the liquidity position, we would stress, in May, the payment of 791.7 million euro made by the Resolution Fund under the Contingent Capital Agreement, and the issuance of subordinated debt (Tier 2) in the amount of 400 million euro with financial settlement in July. It should be noted that the Tier 2 bond issue marked the return of the Bank to the international financial markets, having earned the 'Europe Financial Bond Award' from the International Financing Review (IFR).

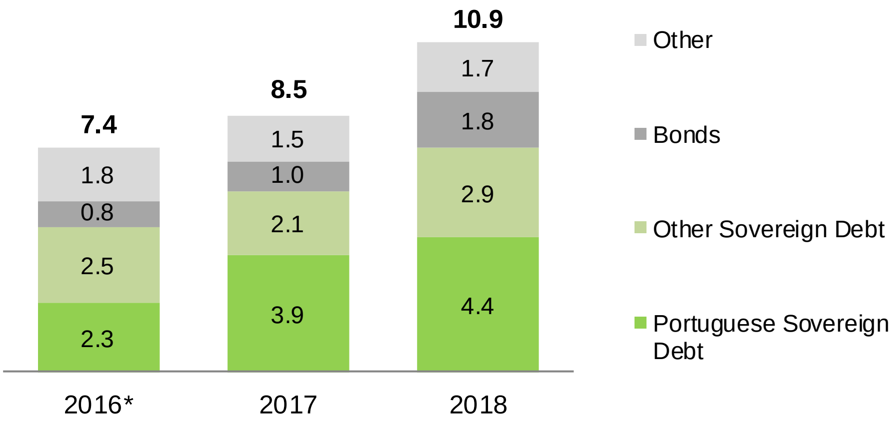
The issue of subordinated debt was made in conjunction with tender and exchange offers addressed to senior bondholders of NOVO BANCO, prioritizing the allocation of the new Tier 2 issue to investors participating in the exchange offer (65%) over the allocation to new investors (35%). The tender and exchange offers permitted to extinguish approximately one billion euro in senior bonds (nominal value). The impact of this operation on liquidity was therefore moderately positive. This restructuring of liabilities (extinction of expensive long-term senior debt) will permit to achieve relevant savings in the net interest margin, going forward.

In terms of medium and long-term funding, as a result of the cancellation of senior bonds repurchased within the scope of the tender and exchange offer, together with the repurchase and reimbursement of securitisation operations and other medium- and long-term debt operations, in 2018 NOVO BANCO reduced market financing by around 650 million euro, this amount being partially offset by the Tier 2 bond issue.

As a result of the tender and exchange offers carried out in 2017 and 2018, NOVO BANCO has a low debt reimbursement schedule in the next few years. Therefore, with reduced funding needs, no liquidity strains are to be expected in the near future.

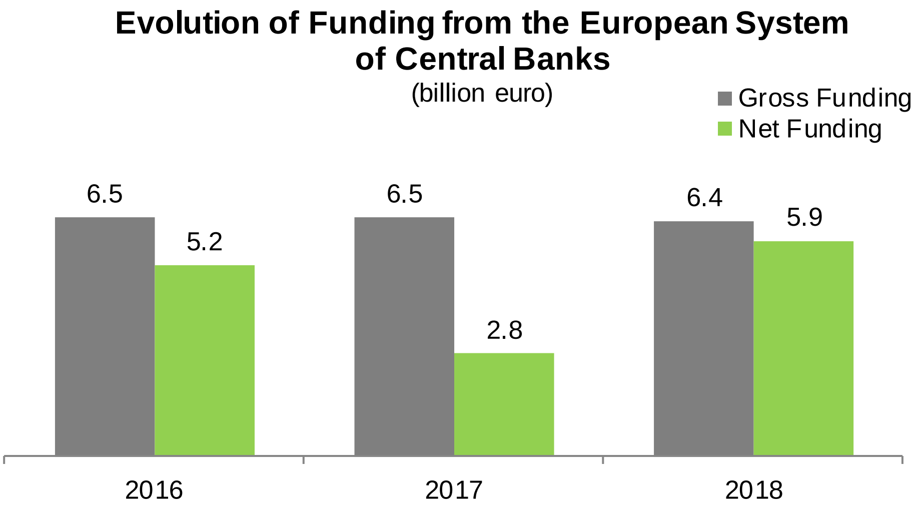
On the other hand, the securities portfolio increased by around 2.4 billion euro, largely through the strategy of investing in other high-quality liquid assets (HQLAs), which led to an increase of 1.4 billion euro in sovereign debt securities in portfolio and 1 billion euro in other bonds, namely from supranational and corporate issuers.

Securities Portfolio Evolution
(billion euro)

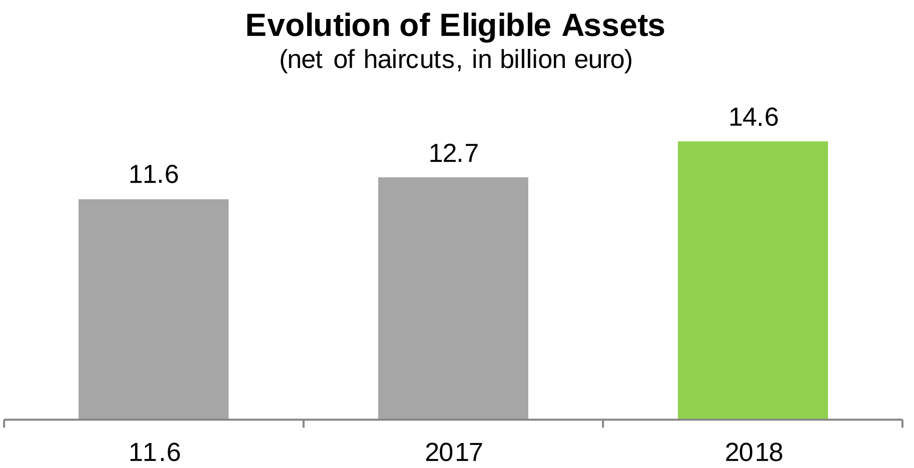


* For comparability reasons, it is presented without the portfolio of GNB Vida

In this context, and in view of the reduction in the amount of cash placed with the ECB, to 0.7 billion euro, net funding from the ECB increased to 5.9 billion euro at the end of 2018. Gross funding remained flat at 6.4 billion euro, consisting entirely of funds obtained through targeted longer-term refinancing operations (TLTRO II).



As a result of its strategy of investment in the securities portfolio, NOVO BANCO maintained a high liquidity buffer. At the end 2018, the portfolio of eligible securities for rediscount with the ECB totalled 14.6 billion euro (net of haircuts), which compares with 12.7 billion euro at the end of 2017.



NOVO BANCO thus maintained a comfortable liquidity position, with the regulatory Liquidity Coverage Ratio (LCR) improving to 125% at the end of 2018, from 124% at the end of 2017. In addition, the Net Stable Funding Ratio (NSFR) remained relatively stable, at 106% at the end of 2018 (108% at the end of 2017).

7. Risks and Capital Management

7.1. Main Risks and Uncertainties

2019 will see the closing of the phase of resolution of the main problems from the past, with the strategic lines of the new NOVO BANCO Group that is being built gaining increasing visibility.

The activity to be developed by NOVO BANCO Group will naturally be influenced by several risk factors, and in particular by the following:

i) Regulatory risks, namely stemming from capital requirements (SREP), various On-Site Inspections (OSIs) from the European Central Bank (ECB), Liquidity Risk Stress Tests, implementation of the new definition of default, the MREL requirements ("Minimum Requirement for Own Funds and Eligible Liabilities") and the various guidelines from the European Banking Authority (EBA), the ECB and the European Commission;

ii) Compliance with the commitments established at the end of 2017 between the Portuguese State and the European Commission, namely concerning profitability, the reduction of staff and branches and divestment from non-core areas;

iii) The still high stock of Non-Performing Assets (NPAs) and the execution of the NPA Plan, in particular as concerns REO (real estate owned);

iv) Reputational, legal and compliance risks, arising both from the Group's current activity and from legacy issues;

v) Risks related to the national and international macroeconomic situation, namely linked to the effects of Brexit, the trade tensions between the US and China and the deceleration of the Portuguese economy;

vi) All other factors linked to the various types of risk described in this chapter.

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 Executive Board of Directors (EBD). The evolution of risk levels is reported on a monthly basis in the Risk Committee meetings, and to the General and Supervisory Board by the Risk Committee.

NOVO BANCO develops its Risk Management function with the ultimate objective of internalising a risk culture and pre-empting the materialisation of risks across all levels of the Organisation.

7.2. Organisation

At operational level, the Risk Management Function is centralised in the Global Risk Department (GRD) and Rating Department (RTD), being independent from the business areas.
The functions of the Global Risk Department include:

- To identify, assess, monitor and report on the different types of risk assumed, thus ensuring the holistic management of 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 EBD;
- To implement and monitor the Risk Appetite Framework;
- 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.

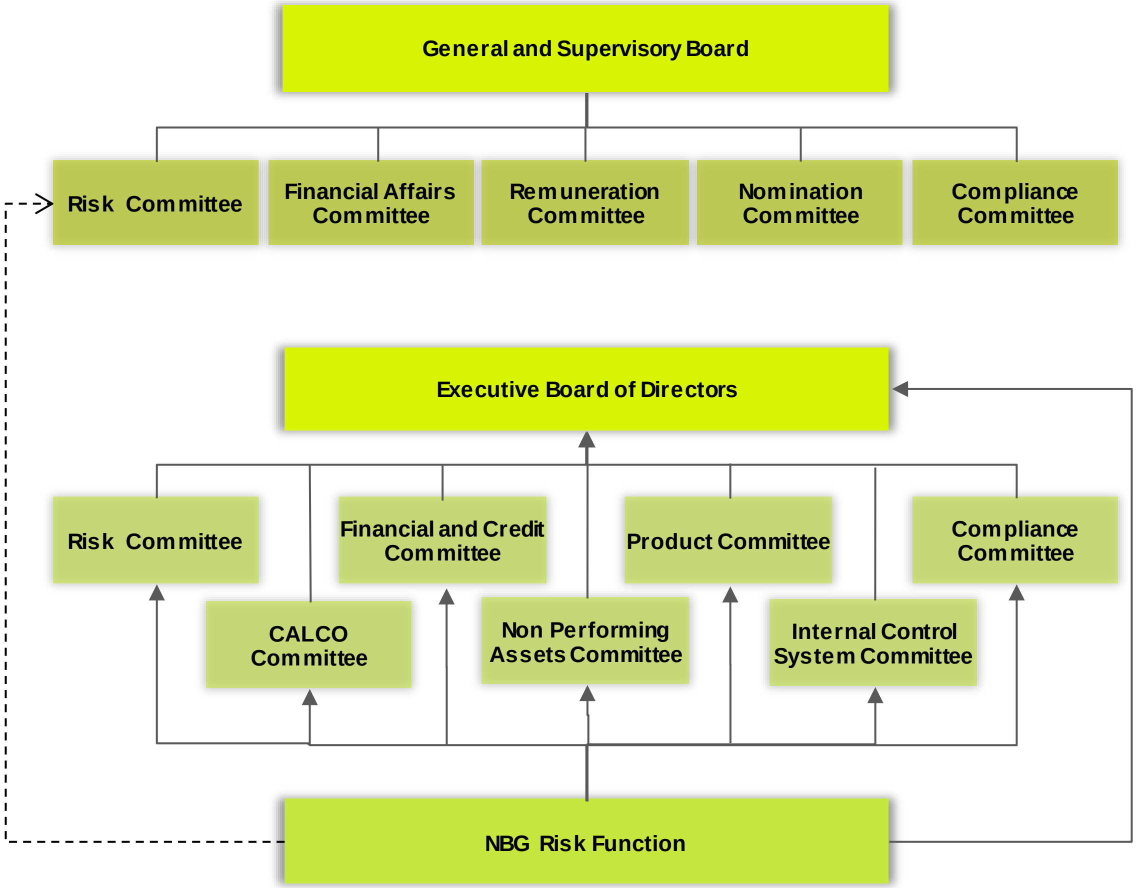
The Head of the Risk Management Function is the Head of the Global Risk Department. To ensure maximum efficiency in the articulation with the Global Risk Department, a local Risk Function Officer was appointed in each relevant entity of NBG. The GRD acts either directly or as coordinator, in articulation with the units in charge of the local Risk Management Function.

NBG's Risk Management Function is ruled by the following premises:

- Centralisation of the responsibilities assumed, providing services to the various institutions of NBG, and
- Independence vis-à-vis the business areas.

Independence and Autonomy are essential to ensure that the risk control function is at all times steered and supported.

The following chart presents the structure of NBG's relevant risk function committees in 2018:



At NBG risks are controlled and managed through Specialised Committees, which play a relevant role in the area of risk management and control, in line with the decisions of the EBD.

The structure of the relevant Committees for the risk management function at NBG is described below:

Senior Governing Bodies	
General and Supervisory Board	Responsible for overseeing all matters related to risk management, compliance and internal audit, for providing constant monitoring and assessment of NBG's performance, especially in regard to the institution's strategy and general policies, NBG's business structure and the decisions deemed strategic, owing to the sum or risk involved or their special nature, including compliance with capital requirements, and for electing or removing the members of the EBD. Also responsible, directly or through the delegation of powers in its committees, for issuing a prior opinion on certain matters, including the risk policy of NBG.
Executive 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 control and ensuring that NBG has the necessary skills and resources for that purpose.

The General and Supervisory Board (GSB) has set up a set of Committees to follow up on certain matters, namely the Risk Committee, to advise it and support it in the monitoring of NBG's current and future risk appetite, risk strategy and the effectiveness of the internal control system and risk management.

At the level of the EBD, several specialised Committees have been created, which aim to ensure a more efficient monitoring of its strategic decisions and their preparation, and assume an important role in risk management and control.

Specialised Committees	
Risk Committee	Responsible for issuing an opinion on, approving, under the powers delegated by the EBD, and monitoring NBG's policies and risk levels. In this context, the Risk Committee is responsible for monitoring the evolution of NBG's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, market, liquidity and operational.
Capital, Assets and Liabilities Committee – (CALCO)	Responsible for defining the balance sheet management policies (capital, prices, and interest rate, liquidity and foreign exchange risk) and for monitoring their impact at NBG level. Also responsible for setting and monitoring the guidelines on business policies and financial measures; banking book interest rate risk and foreign currency hedging policies.

Specialised Committees (cont.)	
Financial and Credit Committee	Responsible for approving the credit operations in which NBG intervenes, in accordance with the risk policies defined for the Group; it is the top body, with delegated powers, in these operations' decision chain. In this context, it is also responsible for monitoring those operations, for periodically reviewing the main investment and risk quality indicators (non-performing and overdue loans rates, number and amount of irregular situations, etc), and for monitoring clients with warning signals indicating a potential deterioration in their credit standing, close to entering into default or irregular situations involving larger amounts.
Non-Performing Assets (NPA) Committee	Responsible for ensuring the monitoring of the Strategic Plan relating to NPAs, the development and enhancement of its Operational Plan, and for defining and monitoring divestment strategies of this type of assets.
Product Committee	Responsible for approving, from a compliance standpoint, products and services to be developed and/or distributed by NOVO BANCO, issuing an opinion on all of them within the scope of the sign-off process of current products. In this context, and among others, it is up to the Committee to make sure that the products and services in question comply with the applicable legislation and regulations, and were duly analysed and validated by the competent structures of the Bank.
Internal Control System Committee	Responsible for the oversight and monitoring of NBG's Internal Control System in a group-wide and integrated way, notwithstanding the powers of the Corporate Bodies and of the other Committees of NBG.
Compliance Committee	Responsible for the analysis and approval of all relevant Compliance matters, with particular emphasis on the analysis of new legislation and regulations, assessing their impacts and promoting compliance therewith, the analysis of any situations or indications of breach or risk or non-compliance with legal obligations or rules of conduct, and matters related to conflicts of interest / conduct.

Risk Committee delegated Committees	
Operational Risk Committee	Responsible for providing advice and recommendations to support decision-taking by the EBD, keeping track of its responsibilities regarding the strategy, model, policies and risks related with Operational Risk in NBG.
Models Committee	Responsible for approving new models (regulatory models and models to support the decision process) or changes to the existing models, and for their periodic validation. Sign off of the implementation of the mitigation measures identified for the use of the models.

Other Support Committees to the Executive Board of Directors	
Credit Risk Analysis Committee (CRAC)	The main objective of the process developed by the Credit Risk Analysis Committee (CRAC) is the regular monitoring of current credit risk in the Retail segment. This process, which involves the analysis and assessment of clients that show symptoms of worsening creditworthiness, is conducted at least on an annual basis in each of the Regional Divisions. The analysis carried out throughout the CRAC process results in recommendations being issued per client, intended to mitigate the risk associated to each credit.
Credit Risk Monitoring Group (CRMG)	Monthly process of analysis and assessment of clients showing symptoms of worsening credit worthiness and definition and monitoring of their strategic options, with the participation and intervention of technical areas of the Bank The clients analysed by the CRMG are monthly classified into three risk categories - Pre-Watchlist, Watchlist and Recovery – according to certain pre-defined risk measurement criteria. The CRMG issues recommendations and actions to be taken concerning these clients, also defining the structures responsible for managing these clients. This analysis covers the corporate commercial segment, and on an annual basis all corporate groups with liabilities above 15 million euro (including good risk clients).
Impairment Committee	Analysis and setting of the most appropriate impairment rate for each credit client. This is carried out through an individual analysis of the selected clients, based on the information provided by the Commercial Structures regarding the client / NBG framework, historical and forecast cash flows (when available) and existing collaterals.

7.3. Credit Risk

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

The intervenients in the credit risk management process are the Credit Department (CD), as the credit decision maker, the Rating Department (DRT), which makes the financial analysis of clients, and the GRD, which defines the risk monitoring and control policies and activities.

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

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

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

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

NOVO BANCO has been reducing its risk appetite through the definition of more restrictive customer exposure concentration rules and more robust policies in sectors such as real estate development and construction.Clients' credit ratings are a key element supporting the decision-making process.

The function of the DRT is to assess the credit risk of NBG's clients through the assignment of ratings, the issuance of non-binding technical opinions and the determination of credit impairments at a client individual basis, to advise the EBD on the management of the credit risk of Large Clients, and to monitor single name exposures' credit risk. The separation of the credit risk areas from the credit risk monitoring areas allowed for greater focus and better monitoring of clients' risk, strengthened the credit decision process, and ensured full segregation between the risk assessment and the risk control areas.

Credit Risk Rating Systems

Given the specific characteristics of NBG's different clients, internal rating systems and risk parameters were developed for both corporate and individuals.

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

- **Internal rating models for Corporate and Institutional clients' credit portfolios**

Corporate credit portfolios are approached differently according to client size and industry sector, using different models specifically adapted to Project Finance, Acquisition Finance, Object Finance, Commodity Finance, and construction finance.

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

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

* *Start-Up's*: companies in business for less than two years and turnover below 25 million euro in the first year

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

To assign internal risk ratings to these risk segments, classified as low default portfolios, the Rating Desk uses expert-based rating systems (templates) that include quantitative and qualitative variables strongly linked to the industry sector in question. Except for Specialised Finance, the rating methodology used by the Rating Desk includes a risk analysis of the maximum consolidation scope, identifying the status of each subsidiary within the respective conglomerate. Ratings are validated daily by a Rating Committee formed by managers and members of the various specialised teams. For the medium-sized corporate segment (companies with turnover between 1.25 million euro and 50 million euro, except when in sectors classified as specific risk segments, such as real estate development), NBG uses statistical rating models, which combine economic and financial data with behavioural and qualitative data. The disclosure of risk ratings also requires previous validation by a team of risk analysts, who also take into account behavioural factors.

The teams also monitor the credit portfolios of NBG's clients by preparing risk analysis reports that take into account the client's current liabilities versus rating, as established in internal regulations, issuing specific recommendations concerning the credit relationship to be adopted with the client in question as well as technical opinions on loans to support investment, restructuring or other operations subject to credit risk.
In the Small Businesses segment (companies with turnover below 1.25 million euro), ratings are also determined through statistical rating models, which, in addition to financial and qualitative data, also use behavioural information concerning both the companies and the respective partner(s).

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

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

Internal models used for credit risk assessment

NOVO BANCO holds the IRB (Internal Ratings-Based) 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 the company Risk Solutions, customised to the Portuguese market, to assign internal ratings to the Large Corporates, Municipalities, Financial Institutions, exposures to the Real Estate Sector, Project Finance and Acquisition Finance, among other portfolios.

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

In 2018 the following activities were carried out within the GRD's modelling area:

- Implementation of the IFRS9 risk parameters in the process of Determination of Impairment Losses;
- Preparation and monitoring of the TRIM (*Targeted Review of Internal Models)* exercises, launched by the European Central Bank on the following models:
  - Behavioural Model of the Residential Mortgage Loans portfolio (scoring model and respective calibration);
  - Model applied to Large Companies;
- Definition of the plan of changes to the IRB model in the next two years, as well as the roll-out plan for the next three years;
- Amendment of the IRB method governance model to accommodate the regulatory requirements defined in the European Commission Delegated Regulation no. 529;
- Improvement of the management information supporting the developments in the PD (*Probability of Default*) and LGD parameters;
- Preparation of the application to the new default definition, in accordance with the applicable regulatory requirements.

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, having been integrated in the Internal Audit Department (DAI) since 2014, in May 2018 became an independent unit called Model Validation Unit (MVU). The MVU is responsible for assessing whether each of the internal risk models maintains a good predictive ability and a proper calibration, which are fundamental to support business decisions and calculate regulatory capital. The validation exercise is recurrent, and the validation of the model occurs at least once a year.

A specific approach to the implementation of the new process of determining impairment losses was justified in 2018, following the new accounting standard that came into force at the beginning of the year (IFRS9), the Targeted Review of Internal Models (TRIM) exercise undertaken by the European Central Bank, and the new definition of default, to which the Bank applied under the Two Step-Approach defined by the European Central Bank (ECB).

- IFRS9

Following the severe global financial crisis of 2007-2009 and in response to the challenge launched by the G20, the International Accounting Standards Board (IASB) introduced a new accounting standard. This new accounting standard should provide an adequate response to the realisation that, during the crisis, banks' recognition of credit losses was not as swift as desirable. This is the context that gave rise to the IFRS9, and it can be said that this standard is part of the set of initiatives that political leaders and regulators promoted with the aim of laying the foundations for a better capitalised and more resilient banking system.

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

Hence the various changes introduced by IFRS9 in the calculation of impairment may be summed up as a change of the paradigm used for this calculation: as from January 2018 impairment losses started to be determined based on an expected loss model, whereas under the model in force until 31 December 2017 (IAS39), impairment losses were determined using the incurred loss model.

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

- The GRD's models team developed risk parameters in compliance with the IFRS9 regulatory guidelines, namely ensuring the use of lifetime parameters and forward-looking information, i.e., macroeconomic and financial information available for a given projection timeframe, under three scenarios;
- The credit portfolio was classified in the three stages foreseen in IFRS9: Stage 1; Stage 2; and Stage 3;
- This classification required defining criteria, in particular those to be used in Stage 2, to identify credit exposures with a significant increase in credit risk, to be measured between the moment of initial recognition and the time of reporting;
- For credits in Stage 2, the determination of impairment losses must be based on the contract's residual maturity, therefore a lifetime PD is adopted. Hence the definition of the relevant events (criteria) causing the transfer of a credit exposure from Stage 1 to Stage 2 was one of the main components of the work carried out;
- Development of the technical support infrastructures.

- Targeted Review of Internal Models (TRIM)

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

- explain and reduce the differences found in the internal risk models used by the various institutions for regulatory purposes;
- reinforce the credibility of internal models and confirm they are adequate for the purposes they are used for;
- harmonise practices in relation to data and modelling principles; and
- harmonise supervision at European level.

The TRIM exercise entails a large number of on-site inspections to be undertaken by the ECB teams over several years. These inspections focus on IRB certifified Banks, as is the case of NOVO BANCO. The first on-site inspection to NOVO BANCO was announced in 2017 and started in January 2018, and the second started in November 2018.
The inspection examines the Residential Mortgage Loans portfolio (or 'Retail – Secured by Real Estate non-SME', to use the regulatory classification). Considering thatit was a TRIMIX, the internal models of PD (scorings) and the evaluation of the application previously made by NOVO BANCO to the LGD, LGD in Default and ELBE models are covered in this inspection, resulting in the approval of these models..

The second inspection, still under way, examined the Core Corporate rating model used for Large Corporate Clients, and the respective calibration (PD).

- New definition of default

The application aims to address the regulatory requirement which the European Banking Authority and the ECB clarified in the following documents:

- *Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council;*
- *Final report on Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA /GL/2016/07).*

These documents aim to clarify the definition of default given in article 178 of Regulation (EU) no. 575/2013, namely as concerns the following:

- Criteria for days past due in the identification of default;
- Criteria for unlikeliness to pay;
- Conditions for return to non-defaulted status;
- Other criteria and conditions.

The clarification of these issues and their subsequent implementation will lead to the harmonisation of concepts within the institutions, allowing for greater consistency in the marking of default among the different financial institutions and European banking system jurisdictions. Such harmonisation will enhance the comparability of risk and capital requirements estimates, reducing the variability of Risk-Weighted Assets (RWAs) within the various institutions.

The implementation of these guidelines is expected to require a significant level of resources and effort from the institutions, namely those that use the IRB approach, insofar as this change will entail adjustments to the IRB parameters.

These changes should be applied at the latest by 1 January 2021, but institutions are encouraged to implement them sooner. Anticipating the implementation of the new definition of default will allow institutions to increase the history of non-compliance data required to carry out IRB adjustment exercises to the new reality

Credit Risk Monitoring

The credit risk monitoring and control activities implemented at NBG aim to quantify and control the evolution of credit risk and to allow early definition and implementation of particular measures to deal with specific situations where there is a deterioration of risk – with a view to mitigating potential loses -, as well as to outline global strategies for credit portfolio management.

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

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

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

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

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

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

The monthly meetings, attended by the management staff of the various departments, analyse clients showing a deterioration in their risk classification and exposures above 500 thousand euro,, and groups with exposures above 15 million euro, including clients classified as of good risk.

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

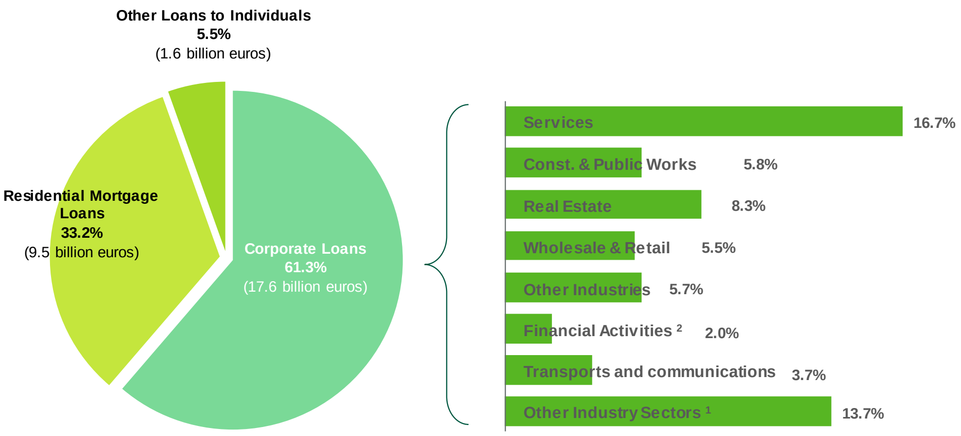
Global analysis of the credit portfolio risk profile

In NBG, 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 risk profile of credit portfolios, specifically in what concerns the evolution of credit exposure and the monitoring of credit losses, is reported on a monthly basis to the Risk Committee 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 NBG'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 2018 (gross exposure of 28.7 billion euro).



[1] Represents other sectors of the economy none representing more than 3.5% on an individual basis.

[2] Includes investment funds.

Credit Portfolio Geographic Breakdown

In December 2018 the domestic activity accounted for an 89% share of the gross loan portfolio, and mainly consisted in corporate loans.

million euro

DOMESTIC	31-Dec-17	31-Dec-18	Change 17/18	
			Abs.	Rel.(%)
Loan balances	**27 745**	**25 558**	**-2 187**	**(7.9)**
Corporate loans	16 904	14 904	-2 001	(11.8)
Residential Mortgage	9 511	9 335	- 175	(1.8)
Loans to Individuals (other)	1 330	1 319	- 11	(0.8)
INTERNATIONAL	**31-Dec-17**	**31-Dec-18**	**Change 17/18**	
			Abs.	**Rel.(%)**
Loan balances	**3 678**	**3 154**	**- 523**	**(14.2)**
Corporate loans	3 188	2 691	- 497	(15.6)
Residential Mortgage	241	215	- 26	(10.8)
Loans to Individuals (other)	249	249	0	(0.1)
TOTAL NBG	**31-Dec-17**	**31-Dec-18**	**Change 17/18**	
			Abs.	**Rel.(%)**
Loan balances	**31 422**	**28 712**	**-2 710**	**(8.6)**
Corporate loans	**20 092**	**17 595**	**- 2 497**	**(12.4)**
Residential Mortgage	**9 751**	**9 550**	**- 201**	**(2.1)**
Loans to Individuals (other)	**1 579**	**1 568**	**- 11**	**(0.7)**

The reduction in the loan book in 2018 (-9% or -2.7 billion euro year-on-year) occurred across both the domestic and the international activity.

Asset Quality

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

Asset Quality

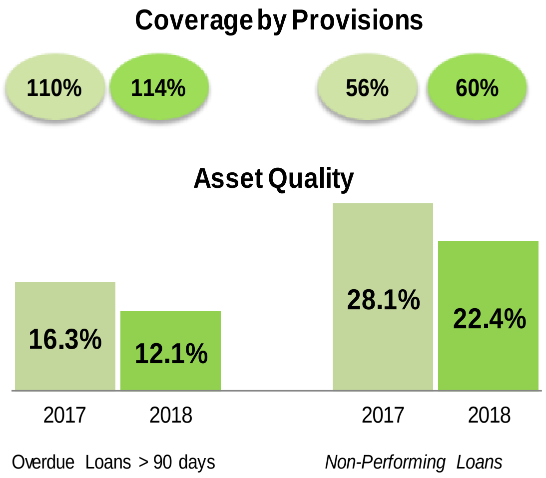
	31-Dec-17	31-Dec-18	Change 17/18	
Balances (million of euro)			**Abs.**	**Rel.(%)**
Gross Loans	31 422	28 712	(2 710)	(9)
Gross Loans, including securitized	33 142	30 236	(2 905)	(9)
Total Overdue Loans	5 215	3 539	(1 677)	(32)
Overdue loans > 90 days	5 127	3 464	(1 663)	(32)
Non-Performing Loans (NPL) *	10 130	6 739	(3 391)	(33)
Provisions for Customer Loans	5 631	3 958	(1 674)	(30)
Loan provision charge (cumulative)	1 229	264	(966)	(79)
Ratios (%)				
Overdue Loans > 90 days / Gross Loans	16.3	12.1	-4 p.p.	
Overdue Loans / Gross Loans	16.6	12.3	-4 p.p.	
NPL / Gross Loans and Cash and Deposits with Banks	28.1	22.4	-6 p.p.	
Credit Provisions / Overdue Loans > 90 days	109.8	114.3	4 p.p.	
Credit Provisions / Overdue Loans	108.0	111.8	4 p.p.	
Credit Provisions and Cash and Deposits with Banks / NPLs	56.3	59.9	4 p.p.	
Credit Provisions / Gross Loans	17.9	13.8	-4 p.p.	
Cost of Risk (%)	3.9	0.9	-3 p.p.	

* Non-Performing Loans (NPL) in accordance to EBA's definition, i.e., including Cash and Deposits with Banks

All the non-performing loan ratios registered a sharp reduction in 2018, underpinned by a systematic work of deleveraging non-productive assets. Hence the overdue loans >90 days / gross loans ratio decreased to 12.1%, from 16.3% on 31 December 2017. The corresponding coverage ratio remained high, having risen by 4.5 pp since December 2017, to 114%.

The 3.4 billion euro reduction in non-performing loans, from 10.1 billion euro in December 2017 to 6.7 billion euro in December 2018, was particularly noticeable, with the respective asset quality ratio improving by more than 6 p.p. to 22.4%. This improvement did not affect the coverage ratio, which remained comfortably above 50% (having increased by 4 pp in 2018, from 56% to 60%).

Asset Quality and Provisions Coverage



Non-Performing Loans (NPL)* by Type of Loan and Total Coverage by Credit Provision

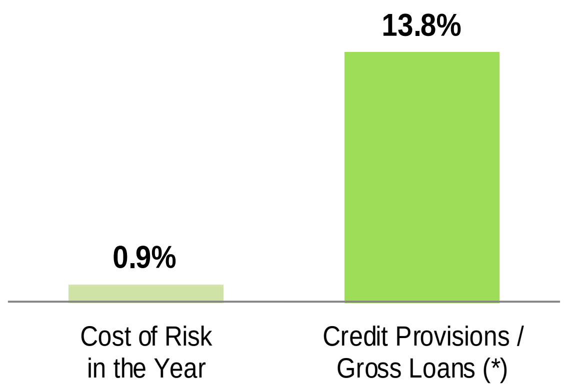
	Asset Quality (a)		**Coverage** (b)	
	Dec-17	Dec-18	Dec-17	Dec-18
Total Loans	**28.1%**	**22.4%**	**56%**	**60%**
Corporate*	36.2%	33.3%	58%	61%
Residential mortgage	6.7%	2.7%	25%	20%
Individuals (other)	24.0%	15.1%	70%	63%

*Includes cash and deposits with Banks

(a) Non-Performing Loans / Gross Loans and Cash and Deposits with Banks
(b) Total credit provision / Non-Performing Loans

Credit provisions were reinforced by 264 million euro, corresponding to a provision charge of 0.9% in 2018. This represented a significant reduction in the provision charge relative to 2017, both in absolute and in relative terms (-966 million euro, -300 bps).

Credit Provisions in 2018



* On Balance Sheet Credit Provisions / Gross Loans

7.4. Market and Liquidity Risks

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

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

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

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

7.4.1. Market Risk

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

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

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

Management Controls

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

To calibrate the VaR assessment, daily backtesting exercises are performed, allowing the comparison of losses foreseen by the VaR model with theoretical losses given by the model. For the more relevant portfolios, backtesting exercises are also carried out to compare the 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 (stressed VaR - sVaR), or through sensitivity analysis, applying extreme individual shocks to risk factors.

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

Market Risk Analysis

NOVO BANCO Group's value at risk (VaR) at 31 December 2018 was 38.9 million euro in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, commodities as well as FX positions and liquidity management portfolios. On 31 December 2017 this value was 34.4 million euro. The increase in risk observed in 2018 was mostly driven by the increase in interest rate risk and credit spread risk due to the growth of the liquidity management portfolio and the extension of its maturity.

million euro

Value at Risk 99% 10 days					
	31-12-2017	**31-12- 2018**	**Change**	**Maximum**	**Minimum**
FX	1.2	0.4	-0.8	2.2	0.4
Interest Rate	21.4	37.4	+16.0	102.1	32.5
Equities and Commodities	0.9	0.2	-0.7	0.4	0.2
Credit	34.0	42.7	+8.7	184.7	33.8
Volatility	0.1	0.1	0.0	0.3	0.1
Diversification effect	-23.2	-42.1	-18.9	-194.8	-31.3
Total	**34.4**	**38.7**	**+4.3**	**100.7**	**34.8**

- **Banking Book Risks**

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

Banking Book Interest Rate Risk

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

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

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

Additionally, every month NBG measures the banking book interest rate risk in stress situations, based on the one-year historical VaR, with a 99.9% confidence level, and applying a floor on the simulation of rates. On 31 December 2018 this value was 151 million euro, which compares with 129 million euro on 31 December 2017. This change mainly reflects the increase and extension of maturity of the liquidity management securities portfolio.

Other Banking Book Risks

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

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

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

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

- **Pension Fund Risk**

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

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

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

7.4.2. Liquidity Risk

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

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

Management Controls

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

- Management of Collaterals

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

  In line with its prudent liquidity management policy, NBG strives for an adequate diversification of its funding sources, stressing in particular the increase in customer deposits and funding - either secured or not by collaterals - with market counterparties.
- Definition of a transfer pricing policy

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

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

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

NBG continues to follow all changes in the legislation in order to comply with regulatory requirements, such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as well as to meet all regulatory reporting requirements in terms of liquidity, namely through the development and analysis of information in connection to the Additional Liquidity Monitoring Metrics (ALMM), Liquidity Risk Monitoring Tool (LRMT), Single Supervisory Mechanism Liquidity Exercise (Crisis Management Liquidity Template), and the Liquidity Stress Test (LiST), a liquidity risk sensitivity exercise that will be introduced by the European Central Bank in February 2019. These reports are intended, respectively, to complement the liquidity reporting previously carried out with additional liquidity monitoring measures, to allow the regulator to assess weekly the liquidity ratios, survival periods, and liquidity gaps of the institutions, and to endow banks with liquidity tools for temporary and opportune use in real crisis situations, as well as to assess banks' resilience to an idiosyncratic liquidity shock.

Liquidity Risk Analysis

NBG's liquidity risk was stable during 2018, on the one hand due to the deleveraging of non-liquid assets and the reduction in deposits with central banks, this being on the other hand partly offset by an increase in liquid securities, with prudential liabilities decreasing by 2.7 billion euro, underpinned by a reduction in deposits of 1.3 billion euro. Due to the balance sheet reduction, available liquid assets[7] decreased by 1.1 billion euro.

Gross funding from the European Central Bank remained flat in 2018, at 6.4 billion euro. At the end of 2018 the portfolio of assets eligible as collateral (after haircuts) for rediscounting operations with the ECB totalled 14.6 billion euro, which compares with 12.7 billion euro in 2017.

As a result, the Liquidity Coverage Ratio (LCR) rose by 1 p.p., from 124% on 31 December 2017 to 125% at the end of 2018 (average of 131% in the last 12 months). The Net Stable Funding Ratio (NSFR) changed from 108% on 31 December 2017 to 106% on 31 December 2018, mainly underpinned by the deleveraging of non-liquid assets.

The loan to deposit ratio was stable, 88% in 2017 and 89% at the end of 2018, driven by a reduction in both loans and deposits.

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

[7] In accordance with the LRMT definition of available liquid assets.

7.5. 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 or 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 NBG, with no exception, i.e., to all businesses, processes, and systems. Therefore, all the employees are responsible for the management and control of operational risk within their sphere of responsibility. The Operational Risk Appetite defined reflects the unfeasibility of eliminating this Risk 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, NBG, based on an analysis of the root causes, seeks to identify and implement measures to either eliminate, or transfer or mitigate the underlying risk, reducing it to an acceptable level. The Operational Risk Appetite established for NBG 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 management methodologies in place are supported by principles and approaches to operational risk management, namely those issued by the Basel Committee and the EBA, recognised as translating the best practices in this area.

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 operational risk management model implemented is in line with the 3 Lines of Defence principles and is supported by a specific structure within the GRD exclusively dedicated to designing, monitoring and maintaining the model. This structure guarantees the dissemination, implementation and standardisation of the Operational Risk Management Model within the various entities of NBG, in compliance with the methodologies approved by the EBD. For the model to be effective, permanent coordination between the GRD and the Representatives of Operational Risk Management appointed at each organisational unit of NOVO BANCO and at the branches and subsidiaries of NBG - who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of Operational Risk within their sphere of responsibility - is crucial.

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

- Definition of Specific Risk Policies and Methodologies to manage and control operational risk at NBG;
- Monitoring of NBG's Operational Risk Appetite through key risk indicators (KRIs);
- Identification and reporting of operational risk incidents and sources in NBG's corporate Operational Risk IT platform. This database is designed to consider all incidents and sources of risk, with no restrictions in terms of financial limits or type of impacts, i.e., it takes into account incidents with no accounting impacts or incidents with positive impacts. Knowledge of these situations is essential to allow the control and mitigation of risk;

- Execution of procedures to control the registration of events, in order to verify the effectiveness of the processes of risk identification implemented in each financial institution and at the same time ensure the recording and conformity of the information on incidents with financial impacts. The main control process consists in checking the financial movements booked under certain items against the incidents recorded in the database;
- Identification and systematisation of risk sources and potential incidents in order to define incident reporting responsibilities within the institutions and thus promote a risk awareness culture and further improve the established identification process;
- Regularly performing self-assessment exercises to identify the larger risks and corresponding mitigation actions;
- Definition and monitoring the implementation of measures to remove or mitigate risk sources identified, through the analysis of incidents, self-assessments, KRI or workshops with several unit managers;
- Reporting of NBG's consolidated information on Operational Risk in Risk Committee and Operational Risk Committee meetings, and issuing of regulatory reports on Operational Risk;
- Training and sharing of experiences in a “lessons learned” perspective and adoption of best practices by NBG’s several business units;
- Active participation in change management processes - products, services, processes and outsourcing -: monitoring of two types of exclusions to the sign off process of new products and services that enhance or potentially generate Operational Risk, and monitoring the action taken as a result of warnings included in the opinions issued;
- Development, dissemination and monitoring of the IT Risk Models adopted by the financial institutions of NBG, which support the monitoring of the appetite for certain IT risks.

In 2018 the operational risk appetite's coverage of the various risk categories - Operations, Information Systems, Compliance and Reputation - was consolidated, involving the definition of risk tolerance differentiated limits. To this end, active articulation with the various risk experts, which also assume Operational Risk 2nd line of defence roles in their spheres of responsibility, was crucial. The methodology for systematic analysis of root causes was finetuned, which also permitted, in terms of mitigation, to intensify the operational risk challenge and culture within the 1st line of defence. This action will be intensified next year.

Several improvements were also achieved, namely through the automation of processes, which permitted to increase efficiency and mitigate the risk inherent to the manual treatment of information, by increasing internal data quality processes. A Models Risk Policy was issued in 2018, applicable to all NBG’ decision-support models, which aims to define a robust governance model covering the entire life-cycle of a model, clearly defining the roles and responsibilities of each stakeholder. The GRD hence started to compile an Inventory of Models at NBG level, covering not only the regulatory models but all decision-support Models. The Information Systems Risk Models were also reviewed, in compliance with the requirements of the Model Risk Policy.

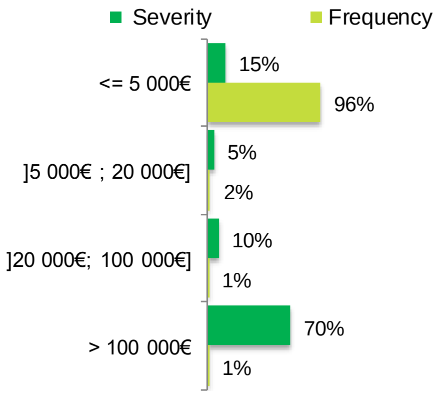
Compliance Risk and Reputation Risks are monitored with particular emphasis by the Compliance Department. Monitoring metrics have been established (and are subject to follow-up) for three specific areas of this Department, on account of their nature and potential impact: (a) complaints, (b) closure of account contracts, from a money laundering perspective, and (c) breaches of the Code of Conduct and broad-based prevention of conflicts of Interest (e.g., management of employee accounts, scrutiny of suppliers, outsourcers, credit intermediaries or promoters, market abuse and financial intermediation activities). At the same time, the capacity of these measurement indicators to capture the dimension of and control the risks in question is assessed on an ongoing basis. The consolidation of these instruments improved the monitoring of the actions required for the proper mitigation of these risks.

Moreover, the Compliance Department has a role in the monitoring of regulatory changes and ensuing adjustment to the Bank's activity, to ensure timely compliance with the regulatory framework in force. In this respect, we note the adjustments made for compliance with the changes introduced by Law no. 83/2017 on the Prevention of Money Laundering and Terrorism Financing, Law no. 35/2017, which adapts the national legislation to the European regulations on financial intermediation and saving products activities (MiFID II - Markets in Financial Instruments Directive II and PRIIPs Regulation - Packaged Retail & Insurance-Based Investment products), and Decree-Law no. 74/2017, on the complaints book, which reinforces complaints procedures and the response to complaints, and creates the electronic complaints book. The Compliance Department also intervenes in the reinforcement of the control environment, through the definition/review of Policies on Conflicts of Interest and the Policy on Related Party Transactions (and inherent control processes), addressed in chapter 10, the assessment of the Remuneration Policy and the assessment of Incentives and Objectives Policy, the reporting of compliance risks, both within the Compliance Committee of the General and Supervisory Board and the Compliance Committee of the EBD, and also in the consolidation of the prior scrutiny process and subsequent monitoring of the offer of Products and Services, via the Product Committee.

Operational Risk Analysis

NBG's operational risk profile shows a high frequency of incidents with low financial impact, and very few incidents with a material impact. In 2018, 96% of the incidents had a net financial impact of less than 5 thousand euro each, representing 15% of the total reported losses related to Operational Risk. Incidents with an impact above 100 thousand euro were few and represented 70% of the total impact. Measures were taken to solve the problems identified.

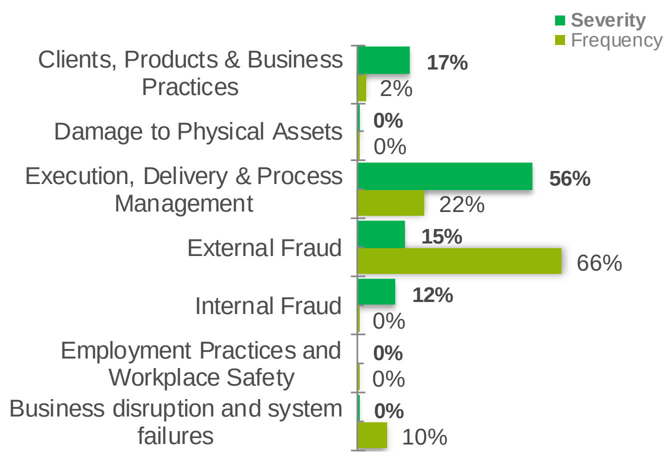
Operational Risk Profile by severity levels



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

The 'External Fraud' incidents (mostly involving credit cards) registered the highest score in terms of frequency, with 66% of the incidents representing 15% of the lost amount, which is broadly in line with the average in the financial system. The "Execution, delivery & process management" events registered the highest score in terms of severity (56%), corresponding to 22% of the reported incidents. Events related to 'Clients, Products and Business Practices' accounted for 17% of the financial losses incurred.

Types of Operational Risk by frequency and severity



7.6. Solvency

- ### Capital Management and Regulatory Solvency

The main objective of NOVO BANCO Group's capital management is to ensure compliance with the Group's strategic targets in terms of capital adequacy, respecting and enforcing the rules regarding the calculation of risk weighted assets and own funds, and ensuring compliance with the solvency and leverage levels set by the supervisors, namely the European Central Bank and the Banco de Portugal, and with the risk appetite internally established for capital metrics.

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

NOVO BANCO Group's capital ratios are calculated based on the rules stipulated in Directive 2013/36/EU (CRD IV) as transposed to the Portuguese system by Decree-Law no. 157/2014 of 24 October (which changed RGICSF) and Regulation (EU) no. 575/2013 (CRR), which define the criteria for access to the activity of credit institutions and investment firms and determine the prudential requirements for these institutions, namely regarding the calculation of the aforementioned ratios.

NOVO BANCO Group is authorised to use the internal ratings based approach (IRB) for the calculation of risk weighted assets for credit risk. For the calculation of risk weighted assets for market and operational risk it uses the standardised approach.

Under the terms of the above-mentioned rules, the capital ratios of NOVO BANCO Group, as of 31 December 2017 and 31 December 2018, were as follows:

Capital ratios

	31-Dec-17	31-Dec-18	
	Phased-in	Phased-in	Fully implemented
Common Equity Tier I Ratio	12.8%	12.8%	11.9%
Tier 1 Ratio	12.8%	12.8%	11.9%
Solvency Ratio	13.0%	14.5%	13.6%
Leverage Ratio	8.2%	8.2%	7.6%

The phased-in Common Equity Tier 1 (CET 1) ratio for 31 December 2018 was 12.8%. This ratio remained flat compared to the end of 2017, on the one hand as the minimum CET 1 ratio to be observed at the end of 2018 was maintained, and on the other because a significant part of the year's negative results is offset by the amount to be requested within the scope of the Contingent Capital Agreement. The fully implemented CET 1 ratio for 31 December 2018 was 11.9%.

The phased-in solvency ratio (or total capital ratio) for 31 December 2018 reached 14.5%. This significant increase in the ratio compared to the end of 2017 (13.0%) is explained by the issuance at the end of the first half of 2018 of subordinated bonds eligible for Tier 2 in the amount of 400 million euro.

The phased-in leverage ratio remained stable at 8.2% on 31 December 2018.

Regulatory Capital

The regulatory capital elements considered in the calculation of solvency ratios are Common Equity Tier I capital (CET 1), Additional Tier 1 capital, which, added to CET 1 makes up Tier 1 Capital, and Tier 2 capital, which, added to Tier 1 capital, makes up total own funds.

NOVO BANCO Group's total own funds essentially consist of CET 1 elements and Tier 2 elements.

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

million euros

	Consolidated	
	31-Dec-17	**31-Dec-18**
Realised ordinary share capital, issue premiums and own shares	5 900	5 900
Reserves and Retained earnings	1 169	(569)
Net income for the year attributable to shareholders of the Bank	(2 291)	(1 428)
Non-controlling interests (minorities)	52	16
A - Equity (prudential perspective)	**4 830**	**3 919**
Non-controlling interests (minorities)	(29)	(10)
Adjustments of additional valuation	(12)	(12)
Transitional period to IFRS9	-	251
Goodwill and other intangibles	(26)	(14)
Insufficiency of provisions given the expected losses	(45)	(34)
Deferred tax assets and shareholdings in financial companies	(651)	(226)
Other	(21)	(68)
B - Regulatory adjustments to equity	**(783)**	**(111)**
C - Common Equity Tier 1 - CET 1 (A+B)	**4 047**	**3 808**
Eligible instruments for additional Tier 1	-	-
Other eligible instruments for additional Tier 1	3	1
Regulatory adjustments to additional Tier 1	(3)	-
D - Additional Tier 1	**(0)**	**1**
E - Tier 1 (C+D)	**4 047**	**3 809**
Subordinated liabilities eligible for Tier 2	-	398
Other instruments eligible for Tier 2	139	131
Regulatory adjustments to Tier 2	(69)	(10)
F - Tier 2	**70**	**519**
G - Total Own Funds (E+F)	**4 117**	**4 328**

The decrease in equity in 2018 was to a large extent offset by the phasing in of the impacts resulting from the coming into force of IFRS9, and by the significant reduction in other prudential adjustments to equity, in particular in deductions for deferred tax assets.

Risk Weighted Assets

As of 31 December 2018, risk weighted assets totalled 29 874 million euro, of which 27 473 million euro (92% of the total) resulted from credit, counterparty and Credit Valuation Adjustment (CVA) risks, 895 million euro from market risk, and 1 506 million euro from operational risk.

Credit Risk and Counterparty Risk

As stated above, NOVO BANCO Group uses the Internal Rating Based (IRB) approach for calculating risk weighted assets for credit risk in accordance with the rules stipulated in the CRR.

As of 31 December 2018, 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 euros

	31-Dec-17	31-Dec-18	
	Risk Weighted Assets	Risk Weighted Assets	Risk Weighting Factor [(1)]
Central Administrations or Central Banks	12	27	0%
Institutions	3,525	2,864	79%
Corporate	16,424	16,465	65%
Retail	1,936	2,029	16%
Other	7,947	6,089	32%
Total	**29,844**	**27,473**	**52%**

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

Credit risk weighted assets decreased by 2 371 million euro in 2018 as a result of the effort to divest from non-strategic assets, notably involving the sale and derecognition of BES Vénétie in December 2018.

Market Risk

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

As of 31 December 2018, market risk weighted assets amounted to 895 million euro, with the main contributor being the general interest rate risk resulting from the exposure to debt instruments (92% of the total).

Change in the year in market risk weighted assets

million euros

		31-Dec-17	31-Dec-18	Change
Debt Instruments	Specific Risk	0	0	0
	General Risk	335	825	489
	Non-Delta Risk*	2	0	-2
	CIE**	0	0	0
Equity Instruments	Specific Risk	2	1	-1
	General Risk	4	3	-2
	Non-Delta Risk*	8	8	1
	CIE**	0	0	0
Commodity Risk	General Risk	0	0	0
	Non-Delta Risk*	0	0	0
Foreign Exchange Risk	General Risk	66	56	-9
	Non-Delta Risk*	1	2	1
Total		**418**	**895**	**476**

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

** Collective Investment Entities - Investment Funds

The change in market risk weighted assets mainly resulted from the increase in the general interest rate risk, by 489 million euro between the end of 2017 and the end of 2018.

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 foreseen in the CRR.

From December 2017 to December 2018, operational risk weighted assets increased by 29 million euro.

Change in the year in regulatory capital requirements and operational risk weighted assets

million euros

	31-Dec-17		31-Dec-18	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
NOVO BANCO Group	**118**	**1 477**	**120**	**1 506**
Corporate financing	-	-	-	-
Trading and sales	-33	-411	-14	-177
Retail brokerage	1	11	1	7
Commercial banking	107	1 336	95	1 192
Retail banking	38	478	34	427
Payment and settlement	-	-	-	-
Agency services	0	3	0	2
Asset management	5	61	4	54

8. Results and Activity

Besides the consolidated and individual information, NOVO BANCO discloses, for the first time, separately the financial results of NOVO BANCO Recurrent, which consists of sustainable, profitable core banking activity, and NOVO BANCO Legacy, which includes customer loans - not only those included in the Contingent Capital Agreement, approximately 92% of the total legacy loan book, but also other loans -, securities, a (non-yielding) real estate portfolio, and discontinued operations, considered in the majority as non-strategic in the commitments assumed to DG COMP after the resolution.

NOVO BANCO believes that this exercise of segmentation of activities between NOVO BANCO Recurrent and NOVO BANCO Legacy results will help customers and other stakeholders assess the progress of the Bank's ongoing restructuring.

8.1. NOVO BANCO RECURRENT

In 2018 NOVO BANCO Group focused on growing and improving the profitability of its assets, which focuses on the core domestic and Iberian banking business, as well as on new commercial initiatives. As a result, NOVO BANCO Recurrent reported a positive income before taxes of 2.2 million euro, which highlights the recovery achieved from the loss reported in 2017 (-311.4 million euro).

mn€

	Income Statement	Recurrent		
		2017	**2018**	**Chg. %**
	Net Interest Income	283.4	387.2	36.6
+	Fees and Commissions	319.2	309.2	- 3.1
=	**Commercial Banking Income**	**602.6**	**696.4**	**15.6**
+	Capital Markets Results	35.5	30.4	- 14.5
+	Other Operating Results	- 33.5	- 6.6	80.2
=	**Banking Income**	**604.6**	**720.1**	**19.1**
-	Operating Costs	515.3	464.3	- 9.9
=	**Net Operating Income**	**89.3**	**255.8**	**186.3**
-	**Net Impairments and Provisions**	**400.8**	**253.6**	**- 36.7**
	Credit	193.2	39.6	- 79.5
	Securities	- 1.1	12.4	...
	Other Assets and Contingencies	208.6	201.6	- 3.4
=	**Income befores Taxes**	**- 311.4**	**2.2**	**...**

Net interest income increased by 36.6%, driven by the optimisation measures implemented in 2018, namely those related to the reduction of cost of funding.

Fees and commissions on banking services contributed 309.2 million euro to the results, down by 3.1% from 319.2 million euro in December 2017.

Capital markets results in 2018 were positive at 30.4 million euro, reflecting the gains on the sale and revaluation of securities, in particular sovereign debt securities, that more than offset the losses recognised on the tender and exchange offer of existing bonds carried out in conjunction with the issue of new Tier 2 bonds.

Operating costs show a year-on-year (YoY) reduction of 9.9%, reflecting the restructuring measures associated with the downsizing of the distribution network and simplification and scaling down of the organisational structure and processes, with the consequent reduction of the headcount.

Staff costs decreased by 3.0% YoY, to 257.9 million euro, underpinned by a headcount reduction of 392 employees since 31 December 2017. At 31 December 2018 NOVO BANCO Group had 5,096 employees (Dec. 17: 5,488).

General and administrative costs dropped by 3.8% YoY, to 184.3 million euro. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way.

Depreciation charges decreased significantly by 61.9%.

The reduction in operating costs also reflects the downsizing of the distribution network in line with the new business environment. On 31 December 2018 NOVO BANCO had 402 branches, which is 71 fewer units than at the end of 2017.

The **core operating income** (commercial banking income – operating costs) increased by 144.8 million euro, to 232.1 million euro at the end of 2018.

Provision and impairments showed a reduction of 36.7% (to 147.2 million euro less than in 2017), with the credit provision charge decreasing by 79.5% to 39.6 million euro; other provisions, amounting to 201.6 million euro, include circa 155.2 million euro for the programme of early reimbursement of high-rate liabilities.

Net Assets increased by 298 million euro (+0.8%). Net customer loans grew by 2.4%, due to the continued support to domestic companies, across all economic sectors and all companies with a special focus on Small and Medium-sized Enterprises (SMEs).

The non-performing loans ratio (including cash and deposits with banks and loans and advances to banks) was 5.4%, with the respective coverage ratio by impairments standing at 46.8%. The cost of risk was 17 bps.

Assets	Recurrent		mn€
	2017	2018	Chg. %
Loans and advances to banks	4,285	1,102	- 74.3
Customer loans	21,940	22,465	2.4
Securities	7,043	9,380	33.2
Real Estate	211	374	77.1
Discontinued operations	-	-	...
Other assets	3,839	4,295	11.9
Total	**37,318**	**37,616**	**0.8**

8.2. NOVO BANCO LEGACY

Income before taxes of NOVO BANCO Legacy's activity was a loss of 715.2 million euro. This result was impacted by the deleveraging process of non-strategic assets, and in particular by (i) sales of non-performing loans (Project Nata) and real estate (Project Viriato), which together contributed with a loss of approximately 234 million euro (ii) additional impairments that had to be reinforced during the year for legacy customers (224 million euro), and provisions for the early repayment of high-rate liabilities of 27.6 million euro.

The income before taxes reflects a recovery of 52.8% compared to the loss registered in the previous year (-1,514.6 million euro). A major factor to this decrease in the losses was the reduction of impairments and provisions by 1,199.7 million euro compared to 2017.

	Income Statement	Legacy		mn€
		2017	2018	Chg. %
	Net Interest Income	120.3	67.2	- 44.2
+	Fees and Commissions	5.6	4.6	- 16.7
=	**Commercial Banking Income**	**125.9**	**71.8**	**- 42.9**
+	Capital Markets Results	58.8	- 70.7	...
+	Other Operating Results	- 9.2	- 237.0	...
=	**Banking Income**	**175.4**	**-235.9**	**...**
-	Operating Costs	33.9	22.9	- 32.4
=	**Net Operating Income**	**141.5**	**-258.8**	**...**
-	**Net Impairments and Provisions**	**1,656.1**	**456.4**	**- 72.4**
	Credit	1,036.0	223.9	- 78.4
	Securities	135.9	0.9	- 99.3
	Other Assets and Contingencies	484.3	231.5	- 52.2
=	**Income befores Taxes**	**-1,514.6**	**- 715.2**	**52.8**

The NOVO BANCO Legacy **net assets** decreased by 27.7% (-4,079 million euro in net terms), in line with the strategic plan, the deleveraging process of the Group and the commitments made to the DG COMP.

The Customer loans portfolio contracted by circa 1,562 million euro (-40.6%) compared with 2017, with the completion of the sale of BES Vénétie contributing 974 million euro to the reduction in total assets.

mn€

Assets	**Legacy**		
	2017	**2018**	**Chg. %**
Loans and advances to banks	466	299	- 35.8
Customer loans	3,851	2,289	- 40.6
Securities	1,581	1,613	2.0
Real Estate	2,279	1,661	- 27.1
Discontinued operations	5,131	4,090	- 20.3
Other assets	1,429	706	- 50.6
Total	**14,737**	**10,658**	**- 27.7**

The non-performing loans ratio (including cash and deposits with banks and loans and advances to banks) was 90.3%, with the respective coverage ratio by impairments standing at 63.0%. The cost of risk was 397 bps.

8.3. NOVO BANCO GROUP – Consolidated Activity and Results

Results

NOVO BANCO Group reported a net loss of 1,412.6 million euro in 2018, which compares with a net loss of 2,298.0 million euro in 2017. The income statement for the financial year ended on 31 December 2017 was restated to reflect the compensation received under the contingent capital agreement agreed with the Resolution Fund in the scope of the sale of NOVO BANCO in Other reserves and retained earnings and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017. This restatement aims to ensure the comparability and consistency of the data presented for financial years 2018 and 2017.

mn€

INCOME STATEMENT	2017 *	2018	% Change
Net Interest Income	403.7	454.3	12.6%
+ Fees and Commissions	324.8	313.9	-3.4%
= **Commercial Banking Income**	**728.5**	**768.2**	**5.5%**
+ Capital Markets Results	94.3	- 40.3	...
+ Other Operating Results	- 42.7	- 243.7	...
= **Banking Income**	**780.0**	**484.2**	**-37.9%**
- Operating Costs	549.2	487.3	-11.3%
= **Net Operating Income**	**230.8**	**- 3.0**	**...**
- **Net Impairments and Provisions**	**2,056.9**	**710.0**	**-65.5%**
Credit	1,229.2	263.5	-78.6%
Securities	134.8	13.3	-90.1%
Other Assets and Contingencies	692.9	433.1	-37.5%
= **Income before Taxes**	**-1,826.1**	**- 713.0**	**61.0%**
- Corporate Income Tax	445.1	667.7	50.0%
- Special Tax on Banks	30.8	27.3	-11.6%
= **Income after Taxes**	**-2,302.1**	**-1,408.0**	**38.8%**
- Non-Controlling Interests	- 4.0	4.7	...
= **Net Income**	**-2,298.0**	**-1,412.6**	**38.5%**

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The main highlights of the activity developed in 2018 are the following:

- Commercial banking income reached 768.2 million euro (+5.5% YoY), supported by the increase in net interest income (+12.6%);
- Capital markets results were negative by 40.3 million euro, and include the costs and losses amounting to 81.8 million euro resulting from the tender and exchange offers for the then existing bonds, carried out at the end of the first half of 2018, and from the issue of new Tier 2 bonds;
- Other operating results, a loss of 243.7 million euro, include part to the negative impact of the sale of the portfolio of non-performing loans (Project Nata), in the amount of 207.1 million euro; however, as a 97.0 million euro positive effect was recognised under impairments and in securities results, the net impact of this operation was -110.1 million euro;
- Operating costs decreased by 11.3% YoY, to 487.3 million euro, underpinned by the improvements made in terms of simplifying processes and streamlining the structure, with the consequent reduction in the number of branches and employees;
- Core operating income (commercial banking income – operating costs) increased by 56.7%, from 179.3 million euro to 280.9 million euro;

- The provision charge in the period, totalling 710.0 million euro, includes credit impairments amounting to 263.5 million euro, 13.3 million euro for securities and 433.1 million euro for other assets and contingencies, of which 169.8 million euro are provisions for the sale of a portfolio of real estate assets (Project Viriato) and 182.8 million euro are provisions for the programme of early reimbursement of liabilities;
- The year's income before taxes, a loss of 713.0 million euro, reflects an improvement of 61.0% relative to the previous year;
- The amount of taxes, 667.7 million euro, is explained, on the one hand, by the annulment of tax losses carried forward, which, under the terms of the current business plan, do not meet the conditions for inclusion in the Bank’s assets, and on the other, by the strategy of divesting from non-productive assets that inevitably leads to the annulment of deferred tax assets due to the Bank's reporting of tax losses.

Net Interest Income

Net interest income grew by 12.6% YoY, to 454.3 million euro. The net interest margin increased from 0.89% in December 2017 to 1.09% in December 2018, and it is worthnoting the reduction of the interest rate on liabilities (-39pb) contributed to drive up the net interest margin by 20 bps YoY despite the negative impact from the reduction of income on assets by 19 bps (from 1.94% in 2017 to 1.75% in 2018).

mn€

NET INTEREST INCOME AND NET INTEREST MARGIN	2017			2018		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	44 347	1.94%	859	42 285	1.75%	752
Customer Loans	32 474	2.32%	752	30 722	2.06%	643
Money Market Placements	2 650	1.16%	31	2 610	0.83%	22
Securities and Other Assets	9 223	0.83%	77	8 952	0.95%	87
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	**44 347**	**1.94%**	**859**	**42 285**	**1.75%**	**752**
INTEREST BEARING LIABILITIES	41 066	1.14%	465	38 404	0.73%	284
Customer Deposits	26 319	0.85%	223	28 836	0.66%	194
Money Market Funding	8 985	0.41%	37	8 470	0.30%	26
Other Liabilities	5 761	3.61%	205	1 098	5.73%	64
OTHER NON-INTEREST BEARING LIABILITIES	3 282	-	-	3 881	-	-
INTEREST BEARING LIABILITIES AND OTHER	**44 347**	**1.05%**	**465**	**42 285**	**0.66%**	**284**
NIM / NII (without the stage 3 impairment adjustment)		**0.89%**	**395**		**1.09%**	**468**
Stage 3 impairment						**- 14**
NIM / NII					**1.06%**	**454**

The average rate on customer loans, the main component of financial assets (72.7%), was 2.06%. As to liabilities, the average balance of deposits was 25.1 billion euro, with an average interest rate of 0.66%.

Fees and Commissions

Fees and commissions on banking services contributed 313.9 million euro to the results, down by 3.4% from 324.8 million euro in December 2017.

mn€

FEES AND COMMISSIONS	2017	2018	% Change	Weight	
				2017	2018
Payments and Account Management	112.4	118.8	5.7%	34.6%	37.8%
Commissions on Loans, Guarantees and Similar	123.0	111.6	-9.2%	37.9%	35.6%
Asset Management and Bancassurance	71.1	66.7	-6.3%	21.9%	21.2%
Advising, *Servicing* and Other	18.3	16.8	-8.3%	5.6%	5.4%
TOTAL	**324.8**	**313.9**	**-3.4%**	**100.0%**	**100.0%**

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

- support services to companies – including income from guarantees provided, documentary credits, and services related to loan management and other (35.6% of total fees and commissions);
- commissions on payment services (37.8% of the total) – cards and payment processing, including cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- asset management and *bancassurance* products, which accounted for 21.2% of total fees and commissions.

Capital Markets Results

The capital markets results in 2018 (-40.3 million euro) were mainly impacted by the losses recognised on the issue of new Tier 2 bonds and on the tender and exchange offer of existing bonds, having been in part offset by gains on the sale and revaluation of sovereign debt securities.

Operating Costs

Operating costs show a YoY reduction of 11.3%, reflecting the restructuring measures associated with the downsizing of the distribution network and simplification and scaling down of the organisational structure and processes, with the consequent reduction of the headcount.

OPERATING COSTS	2017	2018	% Change
			mn€
Staff Costs	275.7	266.1	-3.5%
General and Administrative Costs	215.4	199.0	-7.6%
Depreciation	58.1	22.1	-61.8%
TOTAL	**549.2**	**487.3**	**-11.3%**

Staff costs decreased by 3.5% YoY, to 266.1 million euro, underpinned by a headcount reduction of 392 employees since 31 December 2017. As at 31 December 2018, NOVO BANCO Group had 5,096 employees (Dec. 17: 5,488).

General and administrative costs dropped by 7.6% YoY, to 199.0 million euro. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way.

Depreciation charges decreased significantly by 61.9%.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business environment. On 31 December 2018, NOVO BANCO had 402 branches, which is 71 fewer units than at the end of 2017.

Impairments and Provisions

The NOVO BANCO Group reinforced provisions by 710.0 million euro (-1,346.9 million euro compared to December 2017), with credit provisions totalling 263.5 million euro. The year's provision charge also includes 13.3 million euro for securities and 433.1 million euro for other assets and contingencies, which include the impact of the sale of real estate (Project Viriato), in the amount of 169.8 million euro, and the provisions for the programme of early reimbursement of liabilities, in the amount of 182.8 million euro.

NET IMPAIRMENTS AND PROVISIONS	2017	2018	% Change
			mn€
Customer Loans	1 229.2	263.5	-78.6%
Securities	134.8	13.3	-90.1%
Other Assets and Contingencies	692.9	433.1	-37.5%
TOTAL	**2 056.9**	**710.0**	**-65.5%**

Activity

Funding

As at 31 December 2018, deposits totalled 28.4 billion euro, which is 1.3 billion euro less than at the end of December 2017. This reduction translates the effort made to reprice the offer of deposits, combined with the initiatives taken viewing the early reimbursement of the higher interest rate liabilities.

€mn

TOTAL FUNDS	31-Dec-17	31-Dec-18	YoY Change	
			absolute	relative
Deposits	29 682	28 350	-1 333	-4.5%
Other Customer Funds (1)	632	346	- 286	-45.3%
Debt Securities (2)	1 217	689	- 528	-43.4%
Subordinated Debt	-	415	415	...
Sub -Total	**31 531**	**29 799**	**-1 731**	**-5.5%**
Off-Balance Sheet Funds	4 829	4 769	- 61	-1.3%
Total Funds	**36 360**	**34 568**	**-1 792**	**-4.9%**

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

(2) Includes funds associated to consolidated securitisation operations

Customer Loans

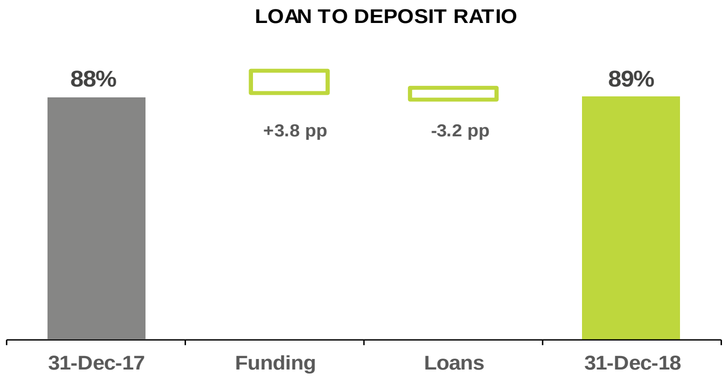
NOVO BANCO's strategy of support to the domestic business community was underlined by its strict and selective lending policy. This support has been provided across all industry sectors and all companies, placing a particular focus on the exporting small and medium-sized companies and those that incorporate innovation in their products, services or production systems. As at 31 December 2018, corporate loans accounted for a 61.3% share of the total loan book.

mn€

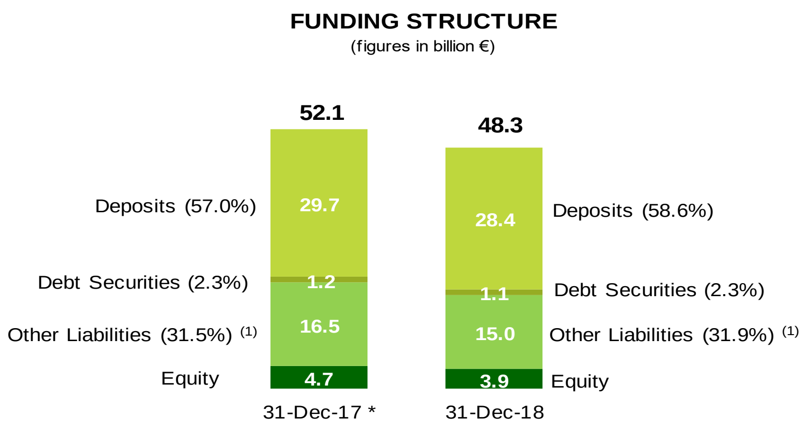
CUSTOMER LOANS	31-Dec-17	31-Dec-18	YoY Change	
			absolute	relative
Corporate Loans	**20 092**	**17 595**	**-2 497**	**-12.4%**
Loans to Individuals	**11 330**	**11 117**	**- 213**	**-1.9%**
Residential Mortgage	9 751	9 550	- 201	-2.1%
Other Loans	1 579	1 568	- 11	-0.7%
Customer Loans (gross)	**31 422**	**28 712**	**-2 710**	**-8.6%**
Provisions	5 631	3 958	-1 674	-29.7%
Customer Loans (net)	**25 791**	**24 754**	**-1 036**	**-4.0%**

Gross customer loans contracted by 2.7 billion euro YoY, with corporate loans decreasing by 2.5 billion euro. The reduction was mainly concentrated in non-performing loans, which decreased by 3.2 billion euro.

The loan to deposit ratio (89%) increased by 1 p.p. compared to 31 December 2017 due to a greater reduction in deposits than in loans.



Customer deposits remain the main source of balance sheet funding, accounting for 63.8% of total liabilities and 58.6% of total assets. Non-subordinated debt securities amounted to 689 million euro at the end of 2018.



(1) Includes ECB funding

* Data as at 31 December 2017 was restated

Securities Portfolio

On 31 December 2018, the securities portfolio, the main source of eligible assets for funding operations with the European Central Bank, totalled 10.9 billion euro.

net of impairments mn€

SECURITIES PORTFOLIO	31-Dec-17	31-Dec-18	YoY Change	
			absolute	relative
Portuguese Sovereign Debt	3 855	4 434	579	15.0%
Other Sovereign Debt	2 113	2 946	833	39.4%
Bonds	962	1 839	877	91.2%
Other	1 548	1 656	108	7.0%
Total	**8 478**	**10 875**	**2 397**	**28.3%**

The evolution of the composition of the securities portfolio reflects a management focus on lower risk and higher liquidity securities, namely sovereign debt securities of Eurozone countries. The overall portfolio registered a YoY increase of 2.4 billion euro.

Equity

On 31 December 2018 the Group's equity was 3.9 billion euro.

mn€

EQUITY	31-Dec-17 *	31-Dec-18	Absolute change
Share Capital	5 900	5 900	0
Revaluation Reserves	- 176	- 792	- 616
Other Reserves ans Retained Earnings	1 216	191	-1 024
Net Income for the Year	-2 298	-1 413	885
Non-controlling Interests	79	35	- 44
Total	4 721	3 922	- 798

* Data as at 31 December 2017 restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The changes in equity reflect: (i) the losses reported in 2017 and 2018); (ii) the impact of adoption of IFRS 9 on 1 January 2018 (-476 million euro on revaluation reserves and +129 million euro on other reserves), and (iii) the amount of compensation under the Contingent Capital Agreement.

8.4. NOVO BANCO (Separate)

Results

NOVO BANCO reported a net loss of 1,432.9 million euro in 2018, which compares with a net loss of 2,155.6 million euro in 2017. The income statement for the financial year ended on 31 December 2017 was restated to reflect the compensation received under the contingent capital agreement agreed with the Resolution Fund in the scope of the sale of NOVO BANCO in Other reserves and retained earnings and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017. This restatement aims to ensure the comparability and consistency of the data presented for financial years 2018 and 2017.

Commercial banking income reached 733.4 million euro (+25.7% YoY), supported by the increase in net interest income (+53.7%).

Operating costs decreased by 11.6% YoY, to 461.6 million euro, underpinned by the improvements made in terms of simplifying processes and streamlining the structure, with the consequent reduction in the number of branches and employees.

Core operating income (commercial banking income – operating costs) increased by 344.2%, from 61.2 million euro to 271.9 million euro.

The year's total provision charge of 822.8 million euro includes 295.1 million for credit, 10.6 million euro for securities, and 517.1 million euro for other assets and contingencies.

mn€

INCOME STATEMENT	2017 *	2018	% Change
Net Interest Income	290.3	446.2	53.7%
+ Fees and Commissions	293.2	287.2	-2.1%
= Commercial Banking Income	**583.5**	**733.4**	**25.7%**
+ Capital Markets Results	183.9	10.0	-94.6%
+ Other Operating Results	-37.5	-204.5	...
= Banking Income	**729.9**	**538.9**	**-26.2%**
- Operating Costs	522.3	461.6	-11.6%
= Net Operating Income	**207.6**	**77.4**	**-62.7%**
- Net Impairments and Provisions	1,894.3	822.8	-56.6%
Credit	1,141.6	295.1	-74.2%
Securities	193.6	10.6	-94.5%
Other Assets and Contingencies	559.1	517.1	-7.5%
= Income before Taxes	**-1,686.7**	**-745.5**	**55.8%**
- Corporate Income Tax	438.6	660.6	50.6%
- Special Tax on Banks	30.3	26.8	-11.6%
= Net Income	**-2,155.6**	**-1,432.9**	**33.5%**

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

Activity

NOVO BANCO's activity in 2018 was developed under the same guidelines already referred to for NOVO BANCO Group.

mn€

ACTIVITY	31-Dec-17 *	31-Dec-18	Change	
			absolute	relative
Assets	**46 477**	**43 831**	**-2 646**	**-5.7%**
Customer Loans (gross)	**29 187**	**26 893**	**-2 294**	**-7.9%**
Loans to Individuals	9 049	9 085	36	0.4%
Residential Mortgage	7 625	7 653	28	0.4%
Other Loans to Individuals	1 424	1 432	8	0.6%
Corporate Loans	20 138	17 808	-2 330	-11.6%
On-Balance Sheet Customer Funds	**30 686**	**28 917**	**-1 769**	**-5.8%**
Deposits	29 444	28 101	-1 343	-4.6%
Other Customer Funds (1)	624	338	- 286	-45.8%
Debt Securities	618	478	- 140	-22.7%

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

* Data as at 31 December 2017 was restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

On 31 December 2018, customer deposits totalled 28.1 billion euro, down by 1.3 billion euro from 29.4 billion euro in December 2017. This reduction translates the initiatives taken viewing the early reimbursement of the higher interest rate term liabilities.

Gross customer loans fell by 2.3 billion euro, driven by a 2.3 billion euro contraction in corporate loans. On the other hand, residential mortgage loans increased by 28 million euro.

The Overdue loans > 90 days / Gross loans ratio improved to 12.9% (Dec.17: 17.2%), with the corresponding coverage ratio increasing to 117.5% (Dec.17: 113.6%). The Provisions for Credit / Gross Loans ratio improved, reaching 15.1% at the end of 2018 (19.5% on 31 December 2017).

ASSET QUALITY	31-Dec-17	31-Dec-18	Change	
			absolute	relative
(mn€)				
Customer Loans (gross)	29,187	26,893	-2,294	-7.9%
Overdue Loans	5,068	3,529	-1,539	-30.4%
Overdue Loans > 90 days	5,012	3,466	-1,546	-30.8%
Restructured Credit	6,866	4,793	-2,073	-30.2%
Non-Performing Loans (NPL)	9,801	6,665	-3,136	-32.0%
Credit Provisions	5,694	4,072	-1,622	-28.5%
RATIOS (%)				
Overdue Loans / Customer Loans (gross)	17.4%	13.1%	-4.2 p.p.	
Overdue Loans > 90 days / Customer Loans (gross)	17.2%	12.9%	-4.3 p.p.	
Restructured Credit / Customer Loans (gross)	23.5%	17.8%	-5.7 p.p.	
Non-Performing Loans (NPL) / Customer Loans (gross) + Cash and Deposits with Banks and Loans and advances to Banks (gross)	29.0%	23.7%	-5.3 p.p.	
Credit Provisions / Customer Loans (gross)	19.5%	15.1%	-4.4 p.p.	
Coverage of Overdue Loans	112.3%	115.4%	3.1 p.p.	
Coverage of Overdue Loans / Overdue Loans > 90 days	113.6%	117.5%	3.9 p.p.	
Coverage of Non-Performing Loans	58.1%	61.1%	3.0 p.p.	

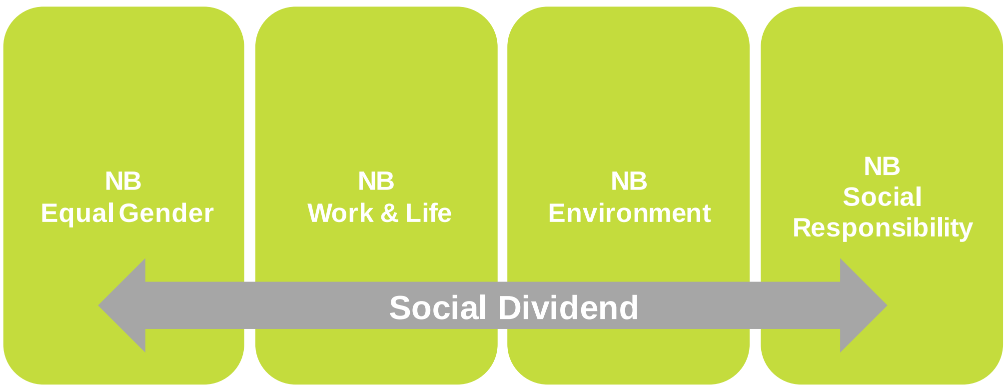
9. Non-financial Data Statement

9.1. Sustainability and Social Dividend Strategy

Business ethics and social and environmental responsibility criteria are incorporated in NOVO BANCO's management model. Through the adoption of these criteria, the Bank commits itself to managing the business with a view to creating value for clients, shareholder(s), people, the environment and the communities where it develops its activity. NOVO BANCO's management model aims to ensure sustainable development both within its line of activity and in terms of the dimension that links sustainability to the community, i.e., Corporate Social Responsibility (CSR).

At NOVO BANCO, sustainability management runs through all the structures and management bodies, always considering the area of activity and stakeholders involved and always ensuring operational articulation between all the intervenients in the sustainability model.

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



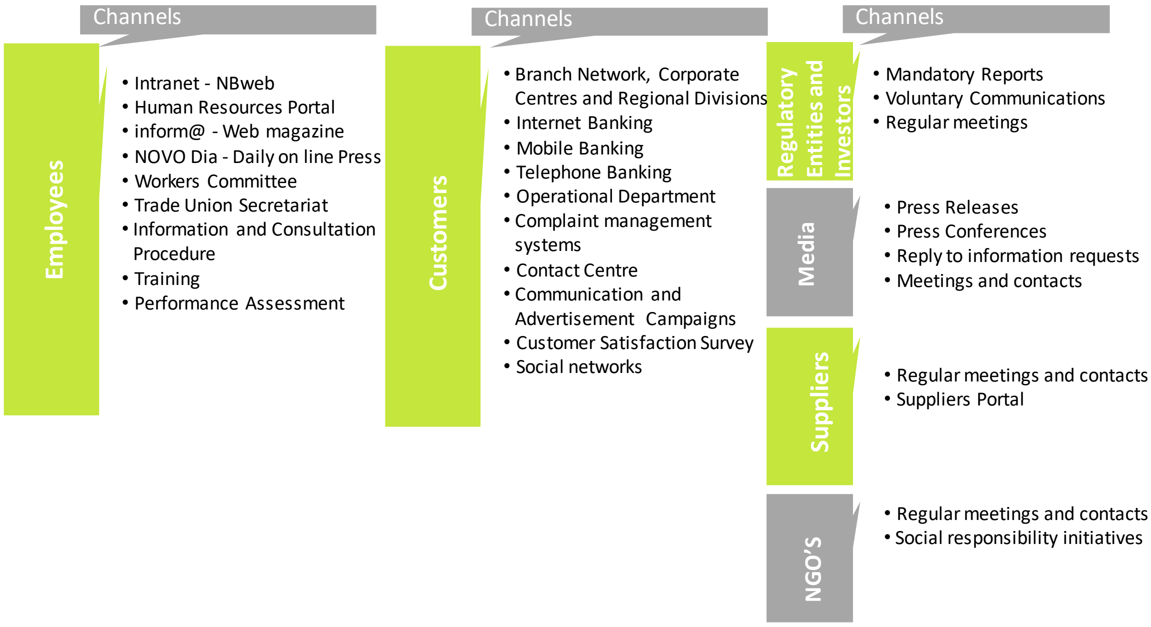
In the first two years in which the results of the Social Dividend model were monitored, several items, in the four programmes, made particularly good progress towards the targets set for 2020, namely:

- Employee leave on special days, takeaway meals and the Early Friday / Late Monday initiative - target already surpassed;
- Digital communication with the clients - target achieved;
- Women in Senior Management positions - 52.9% of the target reached;
- Electricity and paper consumption - 87% and 77%, respectively; and
- Cultural patronage - 106% of the target reached in 2018.

9.2. Involvement with the Stakeholders

An effective involvement with its stakeholders is one of the major challenges faced by NOVO BANCO, in so far as this will shape the manner in which many of its business issues are dealt with, thus contributing to the definition of policies, principles, strategies and transformation processes.

The Group's vision is oriented by the way it interacts with its stakeholders and the impact it has on the creation of value. Hence, NOVO BANCO has 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 communities where it is present.



Based on the dialogue established with its various stakeholders, the Bank assesses their interests and the influence they may exert on the management model and in this manner defines the areas for priority action: Customer satisfaction (Products and Services); Financial inclusion of people and companies (Products and Services); Human Capital development (Employment, Training, Diversity and Equal Opportunities); Relations with Stakeholders (ethics and Integrity, involvement with Stakeholders, non-discrimination and fight against corruption).

NOVO BANCO therefore develops its activity and monitors the outcomes based on this procedure and the continuous assessment of priorities, managing its business and in particular its Social Dividend model in a consistent and group-wide manner, with the ultimate goal of standing as an exemplary organisation across all dimensions of sustainability.

9.2.1. Employees

Being aware that good results stem from a well-structured, diversified, and inclusive human capital, bringing different life experiences, the NOVO BANCO Group's relationship with all its employees is based on a strategy of equal opportunities, focused on performance and continuous improvement. Only these criteria will allow to identify and retain the best talent and to deliver a diverse range of innovative financial products and services upon which strong and long-lasting relationships with the clients are built.

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

At 31 December 2018 the NOVO BANCO Group had 5 096 employees, of whom 4 803 in Portugal.

Workforce distribution by Region / Country	
Portugal	**4 803**
Other European countries	**286**
Spain	262
United Kingdom	3
Ireland	1
Luxembourg	11
Switzerland	7
France	2
Asia - Shanghai	**2**
South America	**5**
TOTAL	**5 096**

The strategic objectives for NOVO BANCO Group's Human Resources are grouped into six major management drivers:

1. **Ensure the advancement/development of the employees** - to give all employees access to training that contributes to the development of their skills and thus promote a more efficient and effective performance of their functions;
2. **Manage Performance** - to ensure that the performance of the employees is managed with fairness and impartiality (in line with previously defined objectives) and is regularly monitored, to ensure that both individual and team work are perfectly attuned to the desired professional development and aligned to the strategy of the Bank;
3. **Attract and Retain Talent** – to ensure good recruitment and selection practices, developing a model that permits to identify and retain talent;
4. **Guarantee equal opportunities and respect for diversity**: to make sure that all human resources management practices are neutral regarding all discrimination factors (gender, social background, race, etc.);

5. **Contribute to a balance between the professional and the personal life of all employees**– to make available to the employees a set of benefits aligned to best market practices in this matter that permit to increase the time each employee dedicates to his/her personal life.
6. **Internal Social Responsibility** – to provide support to employees, namely targeting the education of their children or stepchildren, or retired employees, as well as other benefits that enable an improvement in their quality of life;
7. **Safety, Health and Well-being in the Workplace** - to ensure not only compliance with the legislation in force, but also to challenge NOVO BANCO's Policy on Safety, Health and Well-being, promoting wellbeing and a healthy lifestyle.

Total Employees	2016	2017	2018
Total Employees NBG	6 096	5 488	5 096
Total Employees (Sustainability information scope)	**5 513**	**5 287**	**4 934**

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

Approximately 97.4% of NOVO BANCO Group's employees work on permanent employment contracts, which gives them greater professional stability, and only 1.4% work on fixed-term contracts.

Employment contract (GRI-405-1)	2016		2017		2018	
	Men	Women	Men	Women	Men	Women
Permanent	2 675	2 688	2 525	2 614	2 344	2 454
Fixed-term	43	72	41	49	26	42
Temporary	21	27	25	29	23	29
Internships	0	1	1	0	7	7
Other	3	3	3	0	0	0

In 2018 NOVO BANCO Group's staff turnover rate was 2.90% and the new admissions rate was 3.32%.

Staff Turnover (%) - (GRI-401-1)	2016	2017	2018
Gender			
Women	2.68	1.27	1.42
Men	2.07	1.12	1.48
Age bracket			
< 30 years old	0.83	0.53	0.63
30 to 50 years old	2.97	1.8	2.19
> 50 years old	0.94	0.06	0.08

New admissions rate (%) - (GRI-401-1)	2016	2017	2018
Gender			
Women	0.36%	2.57%	1.50%
Men	0.56%	3.22%	1.82%
Age bracket			
< 30 years old	0.74%	1.04%	1.72%
30 to 50 years old	0.15%	4.14%	1.52%
> 50 years old	0.04%	0.61%	0.08%

9.2.1.1. Training

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

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

In a context where the market is evolving at wild pace and challenges, both external and internal, are increasingly ambitious, investment in transformation has become crucial for NOVO BANCO. Accordingly, training has been reorganised into three pillars, namely Obligatory Training, Continuous Vocational Training, and Training for Executives.

Training for Executives reached 700 employees in 2018, namely through the Advanced Executive Programme, the Advanced Leadership Programme, executive training abroad, and lectures on innovative and motivational issues, namely given by experts of international renown.

The Group provided 63.2 hours of training per employee in 2018, with Obligatory Training focusing on the MiFID and the Mortgage Credit Directive, among other themes, and Continuous Vocational Training on foreign languages, microinformatics, specific techniques and the commercial offer.

On-the-job training provided in the 20 School Branches remained a prime training methodology, having increased by 34% compared to 2017. This training method continued to be much used in Retail, not only to train new employees but also to reinforce the commercial and technical skills of employees who changed their functions.

Training per professional category

Training hours / employee (GRI 404-1)	Total 2016	Average per employee 2016	Total 2017	Average per employee 2017	Total 2018	Average per employee 2018
Gender						
Women	73 889	26.7	166 265	61.7	155 535	65.6
Men	75 466	27.5	178 596	68.8	157 647	61.4
Professional Category						
Management	5 829	11.5	26 132	53.8	28 185	54.8
Heads of Department	27 326	38.6	49 827	76.5	44 355	80.9
Specific	69 188	30.5	149 829	66.0	144 585	67.5
Administrative	46 992	23.4	119 038	64.3	96 015	56.0
Auxiliary	21	1	36	1.2	42	2.2

9.2.1.2. Performance

In 2018 NOVO BANCO implemented a New Performance Management Model, which was included in the Employee Portal (called “My Portal”). This model focuses on the continuous management of employees’ performance and development. These are some of the main functionalities that support the new Performance Management Model:

- Individual Development Plan - a tool directed to the employee's professional development. It comprises measures for improvement viewing the development of specific skills and the attainment of the established objectives. Representing the first step in the New Performance Management Model, it is built by the employee himself/herself and subsequently validated by his/her line manager.
- Objectives Plan - supports the monitoring of the employee's performance over the year, having as intervenients the employee and his/her superior officers. It comprises the Individual Development Plan and a set of Objectives (Corporate, Team and Individual Objectives);
- Performance Appraisal - Underlined by the continuous management of the employee's performance and development, this model provides both the employee and his/her line manager back-up for the Objectives and Individual Development Plan, allowing semi-annual monitoring and follow-up. The performance management cycle ends with the annual assessment of objectives reached (at corporate, team and individual level) and skills obtained (of a general nature, specific and technical). Different weightings are assigned according to the functional group in which the employee is included.

In 2018 the Bank promoted 415 employees, on the following grounds:

- 258 on merit;
- 71 due to change of function;
- 86 based on length of service.

9.2.1.3. Talent Management

The Potential Diagnosis is also included in "My Portal", the employees' portal. The answers given by the appraisers will now make it easier to identify and monitor "High Potential (HiPo) employees. The Talent Management area focused in 2018 on the following measures and initiatives:

- Implementation and monitoring of new talent attraction policies, and policies viewing the retention of the existing talent;
- Promotion of Internship programmes (professional and curricular), namely through the Attract Talent Programme and others undertaken under protocols with Universities;
- Identification and assessment of employees with the potential to take on higher responsibility management functions, namely through the Talent Lab Programme.

9.2.1.4. Ensure Equal Opportunities and Respect for Diversity

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

Approximately 89.1% of NOVO BANCO Group's employees are covered by collective bargaining agreements and 84.1% are unionised.

Within the scope of the Social Dividend Model - an innovating tool whereby NOVO BANCO commits itself before society and its employees to give back what it originates from its activity, the #NB Equal Gender programme was launched in 2017, setting specific objectives in this area to be reached by 2020. This programme enhances NOVO BANCO's policy of Equal Opportunities and Non-discrimination, which is available at the Bank's institutional website: https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=699258&fext=.pdf). The programme sets specific targets to be reached in 2020 concerning the increase of the representation of the under-represented gender in higher responsibility functions. NOVO BANCO Group has already reached gender parity in terms of the overall workforce, with women actually surpassing men, the former representing 51.3% and the latter 48.7% of the total in 2018. In terms of gender equality in top management there is still some way to go.

Distribution of employees by gender and age per professional category (GRI – 405-1)	2016	2017	2018
Total	**5 513**	**5 287**	**4 934**
Men	**2 742**	**2 594**	**2 402**
Women	**2 771**	**2 693**	**2 532**
< 30 years old	212	177	167
30 to 50 years old	4 181	4 020	3 711
> 50 years old	1 120	1 090	1 056
Management (%)			
Men	**67.5**	**66.9**	**65.2**
Women	**32.4**	**33.1**	**34.8**
< 30 years old	0.0	0.0	0.0
30 to 50 years old	71.1	69.5	67.5
> 50 years old	28.9	30.5	32.5
Heads of Department (%)			
Men	**64.6**	**62.5**	**62.2**
Women	**35.4**	**37.5**	**37.8**
< 30 years old	0.3	0.0	0.0
30 to 50 years old	80.9	77.9	79.0
> 50 years old	18.8	22.1	21.0
Specific (%)			
Men	**45.4**	**46.2**	**46.8**
Women	**54.6**	**53.8**	**53.2**
< 30 years old	4.2	3.0	3.3
30 to 50 years old	82.7	83.3	81.8
> 50 years old	13.1	13.6	14.9
Administrative (%)			
Men	**44.9**	**42.9**	**41.4**
Women	**55.1**	**57.1**	**58.6**
< 30 years old	5.7	5.7	5.5
30 to 50 years old	68.0	68.7	68.4
> 50 years old	26.3	25.6	26.1
Auxiliary (%)			
Men	**45.5**	**64.5**	**78.9**
Women	**54.5**	**35.5**	**21.1**
< 30 years old	0	6.5	5.3
30 to 50 years old	27.3	41.9	47.4
> 50 years old	72.7	51.6	47.3

To reduce the still existing gender imbalance in senior management, 'NB Equal Gender Programme', which has set objectives to be reached by 2010, quarterly monitors three indicators. The chart below shows the results obtained in 2018.

Programme*	Indicators	Objectives 2020	Result achieved in 2018
#NB Equal Gender	% of women in management positions	40%	36.2%
	% of women in first-line positions	34.5%	24.2%
	% Global wage disparity	5%	9.3%

*NOVO BANCO

9.2.1.5. Contributing to a Balance between the Professional and the Personal Life of the Employees

Always concerned with the well-being of its employees, NOVO BANCO offers them a set of benefits and programmes that reflect a permanent diagnosis of the internal challenges as well as best market practices. Built through a relationship of true partnership between the Bank and its Employees, the **NB Work & Life** programme aims to foster a balance between the professional and the personal life of the employees. This programme is also part of NOVO BANCO's Social Dividend Model.

Under this programme the employees have access to a set of benefits that go beyond legal requirements and which afford them more time for their personal life. A set of targets to be reached by 2020 has therefore been set in terms of adhesion to each of these benefits. By enhancing staff motivation and satisfaction, these initiatives contribute to increase talent retention at NOVO BANCO. Since the new programme was implemented two years ago, several benefits have shown an excellent response, namely access to takeaway meals, leave on special days (birthdays of the employee or his/her children, 1st day in the first year of compulsory schooling), and the NB Early Friday or Late Monday plan (flexible working hours).

Programme*	Indicators	Objectives 2020	Result achieved in 2018
#NB Work & Life	Leave on special days	11 912	12 093
	Employees who purchased additional holiday days	580	141
	Employees who adhered to NB Early Friday / Late Monday	450	1176
	Takeaway meals	82 500	84 834

*NOVO BANCO

Takeaway meals in particular have registered growing interest on the part of the employees as well as increasing impact at internal level. The takeaway service implemented by NOVO BANCO in all its canteens delivered 47 533 in 2018. In addition, NOVO BANCO has five canteens and bars located in the areas of greater concentration of employees, which provide nutritionally balanced meals at a low cost - in fact the Bank was the first entity in Portugal to adopt the concept of 'nutrition traffic light'. In 2018 the Bank's canteens served 226 835 lunches to NOVO BANCO Group's employees.

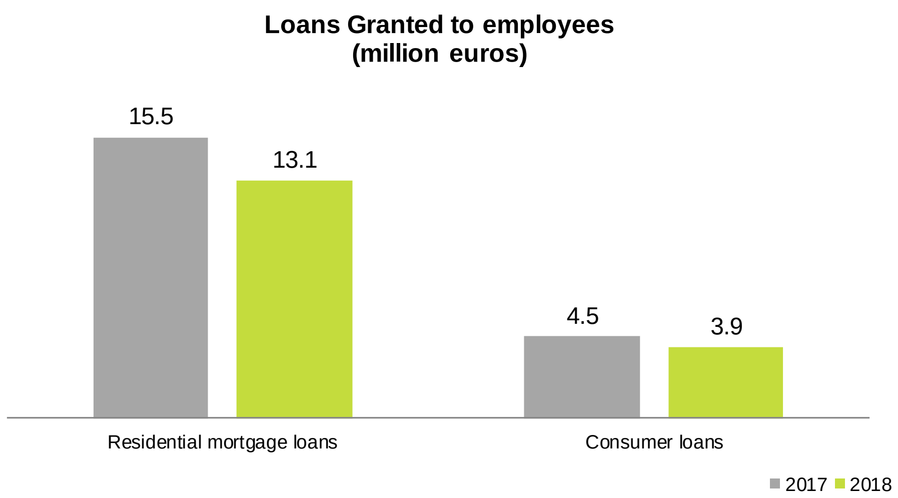
9.2.1.6 Internal Social Responsibility

Novo Banco makes available to its employees a set of non-cash benefits as part of the overall value package offered by the company, which have a positive impact in terms of savings and personal satisfaction. Novo Banco's policy on the attribution of allowances and assistance under its Internal Social Responsibility Programme covers the following areas:

Allowances	Performance in 2018
Current Employees - Education Support	
Attribution of child benefits, school grants, scholarships and support to children and youths with special needs.	• 392 child benefits worth 507 000 euros; • 222 school grants worth 37 500 euros; • 208 scholarships worth 164 800 euros; 78 special needs allowances for children and young people in the amount of 90 000 euros.
Retired employees - Support for basic needs	
Co-payment of expenses with senior residences, day-centres, home support, drugs and other staple goods.	• 66 allowances worth 126 900 euros.

In 2018 approximately 64% of the employees who applied to the social benefits afforded by the Bank received support, in addition to the benefits provided to all employees under the Collective Wage Agreement for the Banking Sector, namely child and study allowances.

The employees may also benefit from special conditions on the Bank's commercial offer, including loans at reduced rates. In 2018 NOVO BANCO Group granted mortgage and consumer loans to its employees for a total of 17.1 million euro. The accumulated outstanding value of these loans reached 309.2 million euro on 31 December 2018.



9.2.1.7. Health, Safety and Well-being in the Workplace

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

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

This strategic orientation goes beyond mere compliance with legal obligations since NOVO BANCO Group provides all its employees and Group companies with its own healthcare services through its clinical services in Lisbon, Porto and Oeiras. These clinical services provide consultations and examinations of occupational medicine, curative medicine and nursing. In 2018, a total of 2 966 occupational medical exams (initial, regular, and one-off), 18 966 medical procedures (appointments and prescriptions) and 7 373 nursing acts were carried out by these services.

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

	Cardiovascular screenings	Cancer screenings		Vision screenings	*Executive Check-ups*
		Mammography	PSA screenings		
NOVO BANCO	2 319	151	588	2 696	286
NOVO BANCO DOS AÇORES	35	5	13	45	1
BEST	45	3	0	58	10
GNB GA	88	0	1	12	2
GNB FP	1 217	20	0	16	6
GNB II	2	1	0	2	2
GNB IM	21	2	3	19	10

As regards curative medicine, several specialities are available, with the following appointments in 2018:

- General Practice - 9 434 appointments;
- Mental Health (psychiatry and psychology) - 1 043 psychiatry and psychology appointments;
- Nutrition - 820 appointments.

In terms of safety at work, NOVO BANCO Group's policy is to minimise workplace accidents, occupational diseases, and to protect the integrity and the work capacity of its employees. To this effect, NOVO BANCO Group performs regular risk assessments of the workplace. The following assessments were made in 2018 to the location and environment of workstations:

- 241 Safety audits of the facilities
- 2 Ergonomic assessments of workstations
- 236 Identification of hazards and assessments of the activity’s risks (IPAR - Identificação de Perigos e Avaliação de Riscos)
- 2 Assessment of thermal conditions
- 3 Assessments of indoor air quality
- 1 Assessment of light conditions

Reflecting the Bank's consistent approach to the health and safety of its workforce, the absenteeism rate in 2018 was 4.1%.

Health and Safety (GRI-403-2)	2016		2017		2018	
	Men	Women	Men	Women	Men	Women
Work related accidents	23	30	17	34	7	17
Occupational diseases	0	0	0	0	0	0
Deaths	0	0	0	0	0	0
Accident rate	0.97	1.31	0.76	1.53	0.34	0.81
Lost days rate	0.35	0.08	0.05	0.06	0.02	0.09
Absenteeism rate (% excluding parental leave)	1.4	2.2	1.73	2.74	2.2	5.8

Parental Leave (GRI-401-3)	2016		2017		2018	
	Men	Women	Men	Women	Men	Women
Employees entitled to parental leave	5 513		5 287		4 934	
Employees who took parental leave	115	190	100	163	104	156
Employees who returned to work after parental leave ended	115	120	97	128	95	147
Return to work rate*	100%	63%	97%	79%	91%	94%

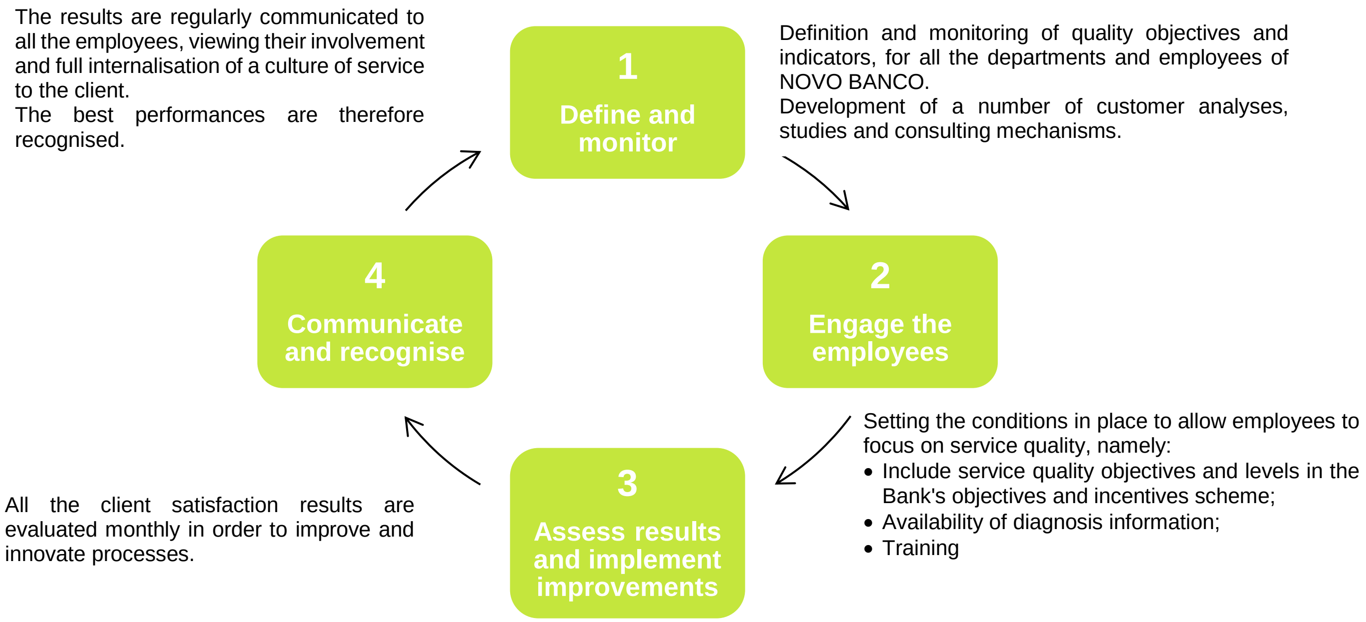
***** Employees who returned to work after parental leave ended and remained in service after 12 months, based on the number of returns in 2018

9.2.2. Clients

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

In order to live up to clients' expectations and considering that clients are at the core of all the activity developed, NOVO BANCO is committed to providing them a straightforward, simple and safe 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 services adjusted to the clients - one of its most important assets -, continuously improving processes and service levels by monitoring indicators that track the progress achieved.

Aware of the importance of obtaining feedback on the activity developed, in 2018 NOVO BANCO carried out the following service quality surveys:

Mystery Client	Assessment of customer service quality in the commercial network	*1 192* Visits
Customer satisfaction surveys	Assessment of customer service quality in the various segments of the Bank	*65 152* customer surveys
Internal customer survey	Assessment of the quality of the Bank's processes	*49 854* surveys

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

The customer satisfaction surveys carried out to the various segments of the Bank show a very positive evolution in the share of clients very satisfied with the service provided in the Medium-sized Companies segment, which increased from 88.9% in 2017 to 90.7% in 2018. In the Retail and Large Companies segments, this share was 87.4% and 77%, respectively.

The management of complaints is one of the components of NOVO BANCO's quality monitoring system, providing an opportunity to win back unhappy clients. For each complaint received, NOVO BANCO analyses the underlying causes, quantifies the ensuing losses and implements corrective and preventive measures to avoid the recurrence of failures.

In 2018, the rate of complaints per 1,000 active clients was 0.4, which compares with 1.4 in 2017. Clients may file complaints by phone, online or in person. NOVO BANCO seeks to solve problems immediately after the Clients first inform it about them so as to reduce the possibility of complaints escalating to an external level. As part of its strategy of open and continuous dialogue with the clients, NOVO BANCO also provides this group of stakeholders the following means of communication and contact:

- NB Net;
- NB Direto – + 351 707 247 365;
- NOVO BANCO Branches and Corporate Centres;
- E-mail: satisfacao@novobanco.pt
- Online form;
- Letter.

9.2.3. Suppliers

The NOVO BANCO Group, as a relevant buyer of products and services in the market in which it operates, has in place since 2007 a relationship model with its suppliers (around 4,800 thousand invoiced NOVO BANCO in 2018) which is based on a commitment to follow good international practices and principles. This model was developed based on the recognition of the importance of the economic, environmental and social impacts produced by this group of stakeholders. This relationship is oriented by two main elements:

1. The NOVO BANCO Group **Code of Conduct**, which determines, among others, that the supplier assessment and selection process must be conducted with rigour and according to the highest standards of transparency and ethics; and
2. A set of **Principles of Relationship with the Suppliers of NOVO BANCO Group** that describe the minimum requirements demanded not only from suppliers but also from NOVO BANCO 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

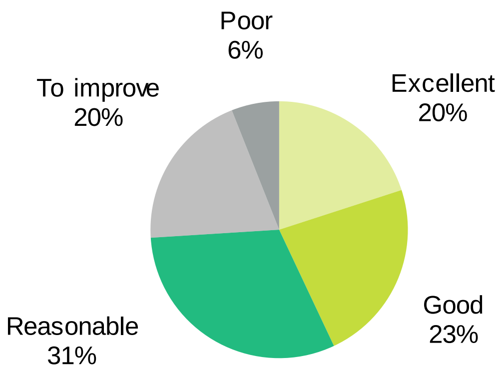
NOVO BANCO Group's responsible and consistent approach to the selection of suppliers starts with its openness to receive all presentations and proposals from the most varied entities that wish to provide services or goods to the Group. In this context, the NBG Supplier Platform (https://fornecedores.novobanco.pt/), is the place where any supplier, actual or potential, may introduce itself and register. In addition to working as the prime sourcing basis in market consultation processes, the platform's database on the registered entities allows for an easier and faster detection, assessment and comparison of the suppliers' characteristics, technical skills and commercial propositions. The quality of this information permits to select the best propositions, i.e., the suppliers best capable of meeting the Group's needs and service requirements.

As of 31 December 2018, there were 4,093 entities inscribed in the NBG Supplier Platform, of which 548 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 94.9% of total suppliers turnover with the Group.

Sustainability Scoring

For a more rigorous selection of suppliers, and based on information provided by each element of this value chain, NOVO BANCO calculates the "sustainability score", which takes into consideration labour and ethical aspects, aspects of hygiene and safety at the workplace and environmental aspects. About 20% of NOVO BANCO Group's suppliers registered in the Platform have a score of excellent and 74% have a positive score cumulatively.

Sustainability Scoring



Supplier Payment period

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

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

In 2018, the "average supplier payment period" was 19 days.

9.2.4. Community

The new concept of Corporate Social Responsibility - which NOVO BANCO named in 2017 the 'Social Dividend' and is based on an assessment model underlined by the commitment to return to society and to the employees what the Bank originates through its activity - encompasses the NB Social Responsibility programme. NOVO BANCO has continued to build on the programme's predefined architecture, with the aim of helping devise solutions for important issues in the community in which it operates. This programme is deployed in three areas, namely:

- Cultural Patronage
- Financial Inclusion
- Solidarity

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

In January 2018 NOVO BANCO assumed the commitment to preserve, promote and share with the Portuguese community its important cultural and artistic heritage, through partnerships established with public and private entities, such as museums and universities at national and regional level. NOVO BANCO Cultura brings together the four structured collections held by the Bank:

- NOVO BANCO Painting Collection - more than 90 relevant works of Portuguese and European painting from various periods. During the 12 months following the creation of NOVO BANCO Culture, 22 works of great cultural relevance were lent for permanent exhibition in 12 museums in various cities and regions of the country, namely Castelo Branco, Guarda, Guimarães, Caldas da Rainha, Figueiró dos Vinhos, Lisboa, Viseu, Torres Novas, Óbidos, Setúbal and Madeira.
- NOVO BANCO Contemporary Photo Collection - amongst the best corporate collection in the world, in November 2018 it won the international prize "For the Outstanding Photography Collection of 21st century living artists" at the "Corporate Art Awards – Art Patrons of the XXI Century".
- Library for Humanistic Studies - one of the most valuable private libraries specialising in humanistic studies, it has been placed with the Faculty of Letters of Lisbon University for safekeeping.
- Numismatic Collection - one of the largest and most complete Portuguese numismatic collections. Available to the public by appointment, and also to students and researchers, and for academic studies, under the recently established partnership with the Faculty of Social and Human Sciences (FCSH) of Universidade Nova.

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

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

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

Within the scope of its social solidarity Programme NOVO BANCO Solidary developed its own actions as well as actions in partnership with social welfare institutions. As part of this programme, we highlight NOVO BANCO Crowdfunding - an online fundraising platform, which in December 2018 counted with around 10 211 donors and had raised more than 502 thousand euro.

In 2018, the Bank gave back to society around 415 thousand euro in donations, through the various areas of its social responsibility programme, and assumed the commitment to pursue its Corporate Social Responsibility (CSR) programme, fostering responsible intervention towards the construction of a more equitable society.

9.3. Environmental Management

NOVO BANCO maintains its commitment to reduce the environmental footprint resulting from its activity and one of its main challenges is to meet the objectives set for 2020 through initiatives aimed at lowering its environmental impacts, undertaken within the scope of its Social Dividend model (for more information, see 9.1. Sustainability and Social Dividend Strategy).

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

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

The Bank's environmental concerns also extend to its commercial activity and the offer of financial products. For more information on this topic, see Specialised Offer and Responsible Investment Funds.

9.3.1. Paper Consumption

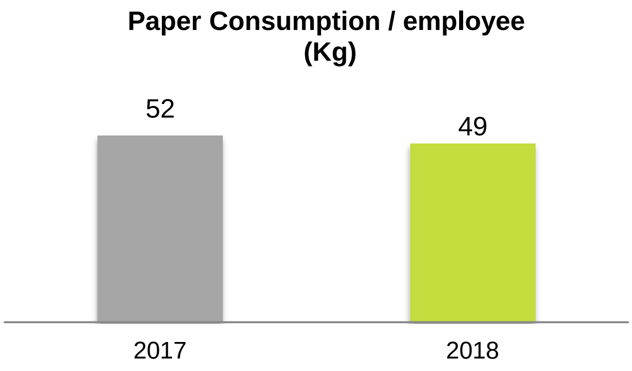
The rationalisation of paper consumption is a structural commitment assumed by NOVO BANCO Group at internal and external level. This commitment mainly implies minimising the use of paper, in both the central departments and the branch network, by raising awareness and changing habits among employees and clients, and through the progressive dematerialisation of processes and the increasing digitalisation of communications to the clients.

In 2018 NOVO BANCO continued to raise awareness among these two groups of stakeholders to the importance of making a more efficient use of printed paper.

Internal paper consumption values in 2018 were as follows:

- White paper for internal use - 215.3 tonnes;
- Finishing forms and account statements – 116.4 tonnes;

In 2018, each employee consumed around 49 kilograms of paper, which is 6% less than in 2017.



These were some of the measures reinforced or implemented in 2018:

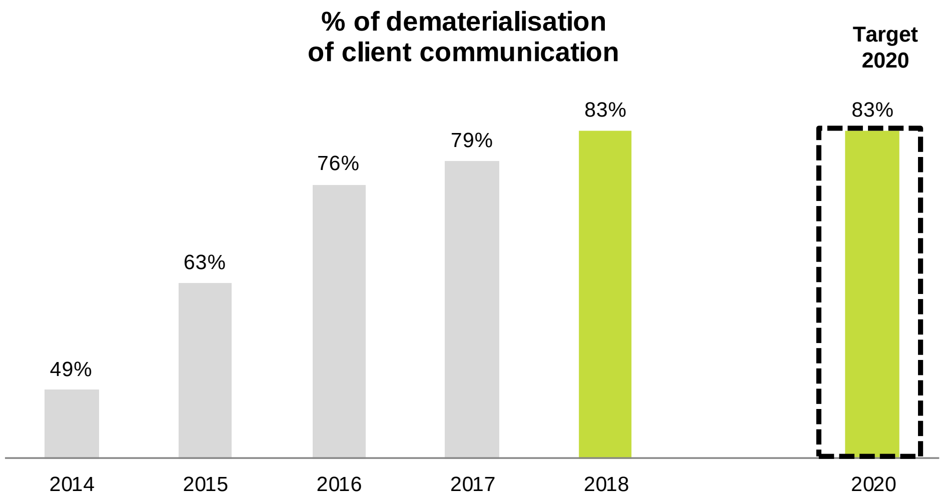
- Avoiding the printing of documents in internal meetings and using digital signatures whenever possible;
- Reduction in the number of printers;
- Standard back and front, black and white printing;
- Use of paper up to 75 grams, preferentially produced by certified manufacturers under ISO 14020 type 1, with UE Ecolabel.

As concerns the reduction and reuse of its waste, in 2018 NOVO BANCO sent approximately 434.2 tonnes of paper and 60.3 tonnes of cardboard for recycling.

Environmental Indicators - Materials used (GRI 301-1)	2016	2017	2018	Change 2017/2018
White paper for internal use (tonnes)	266	246.3	215.3	-12.6%
White paper for internal use (tonne/employee)	0.054	0.052	0.049	-6.0%
Recycled paper for internal use (tonnes)	0	0.05	0	-100.0%
Forms - printing and finishing area (tonnes)	127.0	123.7	116.4	-5.9%
Toner and inkjet cartridges (units)	131	146	286	95.9%

Dematerialisation of Communications to Clients

In 2018 NOVO BANCO pursued its strategy of optimising the communications to clients, namely through the dematerialisation of documents, with a consequent improvement in environmental quality. In fact, the Bank had already achieved, two years ahead of schedule, the target set for 2020, i.e., the ditigalisation of 83% of the communications sent to clients.



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

In addition to the account statements, NOVO BANCO also sends most other banking documents to its clients in digital format (credit card statements, deposit certificates, account entry notices, statements of securities and funds' portfolio movements and position, entry notices, integrated billing notices, and sundry notices). In 2018 the Bank had 1,291 thousand digital accounts, 357 thousand digital credit card accounts and issued 4,014 thousand digital deposit certificates, and statements of securities and funds' portfolio movements and position. This permitted to reach an overall level of client communication dematerialisation of 83% in four years, which compares with less than 50% in 2014.

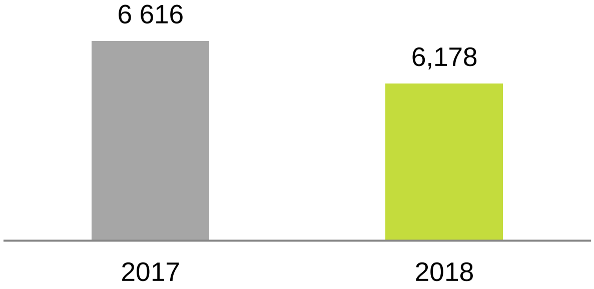
2018 was indeed a year of consolidation of the strategy of optimisation of client communication at NOVO BANCO, and consequent contribution to the improvement of environmental quality. This strategy will continue to deserve special attention in 2019.

9.3.2. Energy Consumption

NOVO BANCO remains strongly committed to the reduction of its energy consumption. Always taking further this commitment, the Bank has implemented several initiatives, including:

- Reduction of the number of consumption locations - branch network and buildings;
- Installation of higher energy-efficient lighting and equipment (ex: HVAC);
- Re-implementation of an alarm system for anomalous consumptions and for equipment connected but not in use.

In 2018 NOVO BANCO consumed 27 071 205 kWh of electricity (a year-on-year reduction of 13.3%), of which 7 637 400 kWh were consumed by the data centre. Electricity consumption per employee was 6 178 kWh in 2018.



To reach the 40% reduction target set in the Social Dividend NB *Environment* programme, NOVO BANCO will keep the procedures already in place, such as regularly raising employee awareness to the need to reduce consumption, looking for and installing more efficient lighting systems in the central buildings, and taking prevention and correction measures.

Environmental Indicators – Energy (GRI 301-1)	2016	2017	2018	Change 2017/2018
Total electricity consumption (GJ)*	131 215	112 437	97 456	-13.3%
Total electricity consumption (kwh)*	36 448 556	31 232 543	27 071 205	-13.3%
Data centre electricity consumption (kwh)	9 258 905	8 283 294	7 637 400	-7.8%
Data centre electricity consumption (GJ)	33 332	29 820	27 495	-7.8%
Electricity consumption (kwh/employee)	7 398	6 616	6 178	-7.1%
Natural gas consumption (GJ)	498	501	256	-48.9%
Natural gas consumption (N.m^3)	12 956	13 025	6 663	-48.8%
Propane gas consumption (Kg)	1 890	1 620	1 485	-8.3%
Propane gas consumption (GJ)	92	75	70	-6.3%
Generator diesel consumption (Litres)	2 850	5 000	400**	-92.0%
Generator diesel consumption (GJ)	101	177	14	-91.9%
Vehicle diesel consumption (Litres)	1 867 537	1 634 368	1 520 591	-7.0%
Vehicle diesel consumption (GJ)	66 231	57 963	54 668	-5.7%
Vehicle gasoline consumption (Litres)	5 672	2 590	840	-67.6%
Vehicle gasoline consumption (GJ)	187	85	28	-67.2%
Total energy consumption (GJ)	**198 324**	**171 238**	**152 493**	**-10.9%**

Number of vehicles	941	916	832	-9.2%
Number of flights	553	546	615	-12.6%

* includes Data Centre

** Please see methodological notes in GRI table

9.3.3. CO_2 Emissions

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

In what concerns the emissions of which NOVO BNACO is directly responsible, the CO_2 emissions reached 4 013 tonnes, while the indirect emissions associated to the activity of NOVO BANCO totalled 9 091 t CO_2 for electricity production and 6 135 t CO_2 for the remaining activities that the Bank does not control directly but in which is has some influence.

In 2018 emissions of CO_2 totalled 19,238.3 tonnes (scopes 1, 2 and 3), a reduction of 2.4% comparing with 2017, with the consumption of electricity and fossil fuels representing the largest sources of greenhouse gas emissions.

Environmental Indicators - Emissions (tCO_2e) (GRI 305-1, 305-2,305-3,305-3,305-5)	2016	2017	2018	Change 2017/2018
Emissions from trips in company cars	4 560	4 241	3 993	-5.8%
Emissions from natural gas and butane gas kitchen equipment	33.4	32.7	18.7	-42.8%
Emissions from emergency generators	7.5	13.0	1.1*	-91.5%
Direct emissions (Scope 1)	**4 600.9**	**4 286.7**	**4 012.8**	**-6.4%**
Emissions from the production of electricity purchased	15 998.0	8 882.1	9 089.0	2.3%
Indirect emissions (Scope 2)**	**15 998.0**	**8 882.1**	**9 089.0**	**2.3%**
Total (Scopes 1 and 2)	**20 598.9**	**13 168.8**	**13 101.8**	**-0.5%**
Emissions from Employees' business trips, including flights	459.0	327.0	323.8	-1.0%
Emissions from Employees' home/ work daily trips	6 274.0	6 039.0	5 696.0	-5.7%
Emissions from wastewater treatment	171.0	176.0	163.7	-7.0%
Indirect emissions (Scope 3)	**6 904.0**	**6 542.0**	**6 183.5**	**-5.5%**
Total emissions (Scopes 1, 2 and 3)	**27 502.9**	**19 710.8**	**19 285.0**	**-2.2%**

* Please see GRI Table.
**Scope 2 was calculated on the market-based methodology.

9.3.4. Water Consumption

Water consumption is not materially relevant in NOVO BANCO's environmental footprint. However, in view of the scarcity of this resource, the Bank proactively manages water consumption viewing its reduction, regularly taking steps in this direction, such as replacing traditional taps for taps with timers and installing dual-flush toilets, when this has not yet been done, in both the central buildings and the branch network, and raising the awareness of employees to the importance of reporting any anomalies detected.

In 2018 water consumption was 56 552 cubic metres, which represents a reduction of 9.4% relative to 2017. Water consumption per employee, however, decreased slightly to 12.9 cubic metres.

Environmental Indicators - Water Consumption (GRI 303-1)	2016	2017	2018	Change 2017/2018
Water consumption from public supply network (m^3)	73 721	62 441	56 552	-9.4%
Water consumption per employee (m^3/employee)	14.9	13.2	12.9	-2.4%

Please see methodological notes in GRI table.

9.3.5. Waste Separation

The Bank has set the objective to extend waste separation to all its activity in order to reach a separation level of 100% in 2020. In 2018 the Bank had reached 40% of this objective, always seeking to minimise the quantity of waste produced and also to reuse and recycle as much as possible, having:

- reduced the quantity of paper used internally and distributed to the clients;
- recycled the consumables used by the commercial areas, namely paper and toner cartridges;
- separated the waste produced by its clinical posts and canteens;
- used, whenever possible, recycling solutions for office furniture and IT equipment, or donated this furniture and equipment to Private Social Solidarity Institutions ("IPSS") and Non-Governmental Organisations (NGOs).

Environmental Indicators - Waste Management (GRI 306-2)	2016	2017	2018	Change 2017/2018
Paper sent for recycling (tonnes)	76.0	198.0	434.2	119.3%
Cardboard sent for recycling (tonnes)	74.0	68.0	60.3	-11.3%
Consumables collected (units)	8 672.0	14 332.0	11 859.0	-17.3%

10. Corporate Governance

Information on Corporate Governance

10.1. Qualified holdings in NOVO BANCO's share capital

Qualified holdings in NOVO BANCO's share capital as at 31 December 2018 were as follows:

NOVO BANCO has share capital of €5,900,000,000.000 (five billion nine hundred million euros), divided into 9,799,999,997 (nine billion, seven hundred ninety-nine million, nine hundred ninety-nine thousand and nine hundred ninety-seven) nominative and dematerialised shares with no nominal value, fully subscribed and paid up.

Qualified holdings in NOVO BANCO's share capital as at 31 December 2018:

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

10.2. Equity holders with special rights

Identification and description of shareholders with special rights

There are no shareholders with special rights.

10.3. Restrictions on voting rights

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

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

10.4. Composition and functioning of the management and supervisory corporate bodies and changes in the Company's Articles of Association

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

Amendments to the Articles of Association

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

In 2018, by resolution of the General Meeting, NOVO BANCO's articles of association were subject to the following amendments:

. 28 March 2018, amendment of Article 15 through redrafting of paragraph 6 thereof and addition of two new paragraphs, 7 and 8.

. 12 December 2018, addition of paragraph 3 to Article 16, to clarify the rules on the delegation of powers by the General and Supervisory Board to its Committees.

General and Supervisory Board

The General and Supervisory Board is the supervisory body of NOVO BANCO and its members are elected by the General Meeting.

In what concerns the composition of the General and Supervisory Board, at the date of this report its members are identified in point 3. NOVO BANCO. Regarding the changes in 2018, we note the following:

. on 28 March 2018, the General Meeting elected Carla Alexandra Antunes Severino da Silva to the position of member of the General and Supervisory Board, and the European Central Bank's resolution of non-opposition to this appointment was received on 6 June 2018.

At the date of this Annual Report five of the nine members of the General and Supervisory Board, including its Chairman, are independent.

The General and Supervisory Board (GSB) has the powers that are granted to it by law and by the Articles of Association, having has main functions the support and supervision in a regular way of the management of NOVO BANCO and of the companies of the Group, supervisioning also the Executive Board of Directors (EBD) in what regards the compliance with the relevant regulatory requirements of the banking activity. Additionally the GSB has specific powers to elect the members of the Executive Board of Directos and responsibilities in granting previous consents to the approval by the Executive Board of Directos of certain subjects established in the Articles of Association, namely in what concerns the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of registered address or of representation structure abroad, (iv) capital expenditure, debt or refinancing, sales or acquisition, creation of burdens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the Contingent Capital Mechanism; and (vi) hiring of employees with annual remunerations above certain limits.

The GSB holds meetings on a monthly basis. The Chairman of the GSB and the Chief Executive Officer have a regular dialogue and communication, at least once a week.

In its activity, the GSB is directly supported by 5 (five) Committees, namely the Financial Affairs Committee, the Risk Committee, the Compliance Committee, the Appointments Committee and the Remuneration Committee.

These Committees are composed of and chaired by members of the GSB. Their meetings may also be attended by members of the EBD responsible for the matters that are dealt with by said committees.

Financial Affairs Committee

The Financial Affairs Committee is responsible for monitoring and supervising the financial performance of the Bank and other financial entities included in the prudential consolidation perimeter, the accounting policies and procedures and the follow-up of the external auditor, with delegated powers under the Commercial Companies Code.

The Committee also has delegated powers of the GSB with regard to, among other things, material changes to accounting policies, approval of the annual budget, prior consent for the constitution of certain types of new debt.

In addition, the Committee supports the GSB in overseeing the effectiveness of the internal control system, risk management system and internal audit system of the Bank and the financial companies within its scope of prudential consolidation.

The rules of procedure of the Financial Affairs Committee of the GSB can be accessed in the site of the Bank at:

https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=875527&fext=.pdf

At the date of the signature of this Report the members of the Financial Affairs Committee are the following:

Chairman: Karl-Gerhard Eick
Byron Haynes
Kambiz Nourbakhsh

Risk Committee

The Risk Committee advises and supports the GSB in monitoring the present and future global risk appetite and the Bank's risk strategy as well as the effectiveness of the Bank's internal control system and risk management system and the companies that are part of its prudential consolidation perimeter.

This Committee also has the powers provided for by law and the delegated powers of the GSB with regard to certain credit operations and changes in risk policies.

The rules of procedure of the Risk Committee of the GSB can be accessed in the site of the Bank at: https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=875528&fext=.pdf

At the date of the signature of this Report the members of the Risk Committee are the following:

Chairman: Byron Haynes
Karl-Gerhard Eick
Kambiz Nourbakhsh
Benjamin Dickgiesser

Compliance Committee

The Compliance Committee advises and supports the General and Supervisory Board, among other topics, in monitoring the compliance issues of the Bank, members of corporate bodies and employees, internal policies and processes related to compliance, policies on business conduct and ethics, and compliance and reputational risk.

In addition, it also has delegated powers in matters related to related parties.

The above functions also extend to the following financial subsidiaries: BEST, NOVO BANCO Açores and companies of NOVO BANCO Asset Management.

The rules of procedure of the Compliance Committee of the GSB can be accessed in the site of the Bank at: https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=875531&fext=.pdf

At the date of the signature of this Report the members of the Compliance Committee are the following:

Chairman: Robert Chairman
John Herbert
Mark Coker

Nomination Committee

The Nominating Committee supports the GSB to oversee the EBD in its action to establish and ensure compliance with consistent and well integrated nomination policies in the Bank and the following financial subsidiaries: BEST, NOVO BANCO dos Açores and NOVO BANCO Group Asset Management companies.

The rules of procedure of the Nomination Committee of the GSB can be accessed in the site of the Bank at: https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=875529&fext=.pdf

At the date of the signature of this Report the members of the Nomination Committee are the following:

Chairman: John Herbert
Robert Sherman
Donald Quintin
Mark Coker

Remuneration Committee

The Committee supports the GSB in establishing adequate, consistent and well-integrated Bank remuneration structures and in monitoring its compliance both by the Bank and by the following financial subsidiaries: BEST, NOVO BANCO Açores and companies of the NOVO BANCO Group Asset Management.

This Committee also has delegated powers with regard to the hiring of employees with annual remuneration of more than € 200,000.

The rules of procedure of the Remuneration Committee of the GSB can be accessed in the site of the Bank at: https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=875530&fext=.pdf

At the date of the signature of this Report the members of the Remuneration Committee are the following:

Chairman: Byron Haynes
Karl-Gerhard Eick
Benjamin Dickgiesser

Executive Board of Directors

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

The members of the EBD in office at the date of this report are identified in point 3. NOVO BANCO. Regarding the composition of the EBD in 2018, we note the following:

. on 28 February 2018, Isabel Maria Ferreira Possantes Rodrigues Cascão submitted her resignation to the position of member of the EBD, the resignation took effect on 31 March 2018.

. Luís Miguel Alves Ribeiro took office as member of the EBD as Chief Commercial Officer – Retail, on 17 September 2018.

. Mark George Bourke took office as member of the EBD as Chief Financial Officer, on 4 March 2019.

In its activity the EBD is supported by several Committees, namely the Capital, Assets and Liabilities Committee (CALCO), the Risk Committee, the Product Committee, the Internal Control System Committee, the Non-Performing Assets (NPA) Committee, the Compliance Committee, the Management Information Committee, the Digital Transformation Committee, the Financial and Credit Committee, the Cost and Investment Committee, the Enlarged Impairment Committee, the Models Committee and the Operational Risk Committee.

The main responsibilities of the main Committees that support the EBD, with exception of the the Management Information Committee, the Digital Transformation Committee, the Cost and Investment Committee are described in point 7. Risks and Capital Management.

Monitoring Committee

The Monitoring Committee is a statutory body ruled by the Articles of Association and exists due to the Contingent Capital Agreement entered into between NOVO BANCO and Fundo de Resolução and is composed by three members elected by the General Meeting, one of whom to act as Chairman. The composition of the Monitoring Committee shall respect the following criteria: one of its members shall be independent from the parties to the Contingent Capital Agreement, and another shall be a registered charter accountant.

The Committee has as main tasks to discuss and issue (non-binding) opinions on any Relevant Issue concerning the Contingent Capital Agreement upon which it is requested to issue an opinion. The members of the Monitoring Committee are entitled to attend as observers and speak (but note vote) at all meetings of the General and Supervisory Board.

Supervision

Supervision is in part the responsibility of the GSB and Statutory Auditor.

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

10.5. Powers of the management body

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

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

However, Article 15 of the Articles of Association lists a broad set of matters for which the adoption of resolutions by the EBD depends on the prior consent of the General and Supervisory Board (GSB), namely those relating to transactions with related parties that are shareholders of the Bank or with related parties of those same shareholders.

The EBD has no powers to resolve on capital increased nor on other securities convertible into shares or securities granting subscription rights, such issuance being the exclusive responsibility of the General Meeting. In the case of traded securities GSB issues a previous opinion.

10.6. Internal control and risk management systems

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

10.6.1. Risk Management System

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

10.6.2. Internal Control System

Definition and Objectives

Internal Control is integral to the running of the organisation, combining guidelines, functions, structures and processes established and communicated by the Executive Board of Directors (EBD) to ensure efficient management in the pursuit of the objectives established, in line with the defined risk appetite.

An efficient and effective internal control system is key for the organisation to achieve:

- Strategic and Operational Performance Objectives - the Institution's viability and sustainability in the long term;
- 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, internal rules and the code of conduct.

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

Internal Control is a dynamic process driven by the organisation's employees in the performance of their functions in line with ethics, integrity and professionalism standards.

Internal Control engages all the employees that make up the Institution: General and Supervisory Board, Executive Board of Directors, Senior Management and all general Staff.

Each employee has a role to play and his/her own duties and responsibilities which contribute to ensure the efficiency and effectiveness of Internal Control.

NOVO BANCO Group's Internal Control System is consistently implemented across all the entities of the Group, without prejudice to additional requirements of host territories and of the specificities of the functions involved in the Internal Control System.

General Principles

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

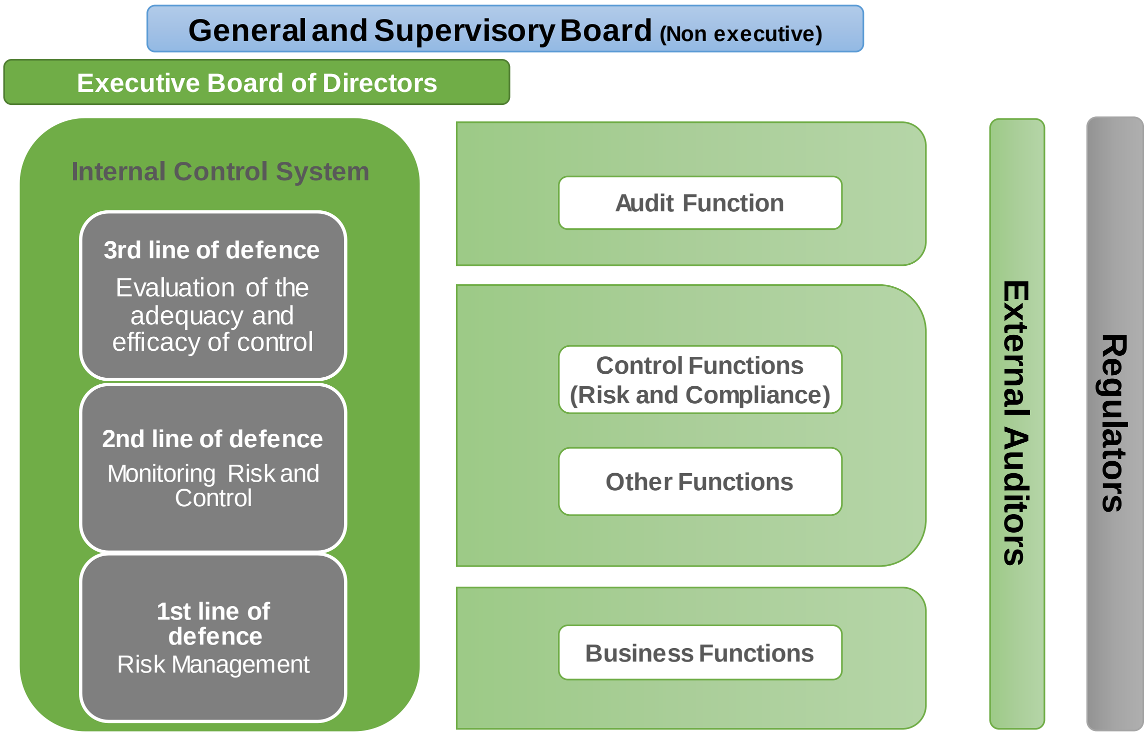
- **Adequate control environment** reflecting the importance of internal control and establishing the discipline and structure of the remaining elements of the internal control system;
- **Solid risk management system**, designed to identify, assess, monitor and control all risks that may influence the strategy and objectives of NOVO BANCO 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 Internal Control System and ensuring that corrective actions are triggered.

Under NOVO BANCO Group’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 Internal Control System, NOVO BANCO Group adopted COSO's Internal Control – Integrated Framework international methodologies and COBIT's Framework for IT Governance and Control.

Three Lines of Defence Model

The EBD is responsible for maintaining an adequate and effective Internal Control System, 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 Internal Control System.



1st Line of Defence:

The 1st line of defence is held by the organisational units that daily assume and manage the risk of their activities, of the IT processes and systems they sponsor, and of the outsourced activities under their responsibility, within pre-established limits set by the EBD.

These units are responsible for the continuous identification, assessment and control of risks. It is up to them to defend the institution from taking risks that are not duly mitigated. Maintaining effective internal controls and conducting established control procedures is also their responsibility.

2nd Line of Defence:

The 2nd line of defence defines risk management and control policies, methodologies and tools, exercising functional supervision to support and monitor the effectiveness of the 1st Line, controls legal and regulatory compliance, and reports to the Bank's management and supervisory bodies as well as to the competent external authorities, when applicable.

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

3rd Line of Defence

The 3rd lines of defence is held by the Internal Audit Department, whose mission is to ensure the adequacy and effectiveness of the Internal Control System through its independent, objective and risk-based assessment of governance systems, risk management, and control of compliance with legal obligations and other duties, regularly reporting to the management and supervisory bodies any situations liable of indicating a deterioration trend in the Internal Control System, and following up on the recommendations issued for their correction.

To ensure its necessary independence, the internal audit function:

- Depends directly on the General and Supervisory Board;
- Performs its activity in accordance with a pre-established plan and a risk-based approach. This plan is approved by the General and Supervisory Board;
- It cannot have any kind of responsibility or authority over the design, implementation and execution of the control procedures which it audits.

The EBD may request information and opinions from the internal audit function, namely in matters of risk, internal control and compliance.

Main Intervenients in the Internal Control System

Control functions

Compliance Function

The Compliance function is an independent, permanent, and advisory function whose mission is to promote compliance with the legal, regulatory, operational, ethical and conduct obligations and duties that are applicable at all times to financial institutions as well as to their corporate bodies, managers and employees within the framework of institutional control and supervision defined by the competent regulatory bodies and the legislation to which they are subject.

This function is exercised by the Compliance Department, an autonomous unit that currently reports directly to the EBD, through the Board member responsible for this area. In addition, it maintains a permanent communication line with the GSB, namely through articulation with the Compliance Committee of this body, viewing the adequate disclosure of information and the discussion of relevant issues in the activity of the Compliance Function.

As the body in charge for one of the control functions, the Compliance Department cooperates with the other control functions (Risk Management, Internal Audit) and with the Internal Control and Data Protection Department in the implementation of an effective risk management system.

Risk Function

Detailed information on the risk function is presented in point 7 of this report (Risks and Capital Management).

Internal Audit Function

It falls on the Internal Audit Function to assess the adequacy and effectiveness of the various components of the internal control system, and of the internal control system as a whole, in the companies of the NOVO BANCO Group included in its scope of action.

In particular the Internal Audit Function is responsible for the assessment of the adequacy and effectiveness of the governance systems, the risk management systems and the systems that monitor compliance with legal obligations and other duties, regularly reporting to the EBD and the GSB and respective committees any situations liable of indicating a deterioration trend in the internal control system, and following up on the recommendations issued for their correction.

The Internal Audit Function at the Bank is performed by the Internal Audit Department (DAI), which assists operational management in the exercise of control, and acts upon the following general principles:

- Internal audit acts as an auxiliary body to the EBD and GSB concerning the independent verification of the adequacy of and compliance with the internally defined policies and procedures;
- The activity of DAI encompasses all the organisational units, structures, processes, IT or functional routines, operations and procedures within the group of companies under its scope of responsibility;
- The external auditors, in the performance of their functions, have unlimited access to all documentation and information, in whatever support, used or produced by the audited structures or processes, and when they so request, should receive collaboration viewing the optimised execution of the audit works.

The annual planning of the DAI's activity principally aims to ensure adequate coverage of the activities developed by the various structures under its scope of action, in accordance with their relevance concerning the risks of a financial nature (credit risk, market risk, etc.) and the risks of a non-financial nature (operational risks: operations risk, information systems risk, compliance/legal risk and reputational risk), in accordance with the governance principles adopted by the Bank as the 3rd line of defence.

The final decision on the activities to be audited must strike a balance between, on the one hand the prioritisation of the risks assessed in accordance with criteria of an adequate and reasonable annual coverage of the audit universe, and on the other, the application of criteria of efficient use of the available resources.

The planning of the Internal Audit Function's activities is thus based on a risk assessment process that is performed/revised at least annually, thus permitting the continuous and timely assessment of the more relevant risks inherent to the organisation's activities.

This assessment of risk encompasses a variety of issues, namely regulatory recommendations and requirements, financial information, risk management information, operational risk losses, criticality for business continuity, date of the last audit and respective assessment, among others. Finally, the annual planning process requires the involvement of the members of the management and supervisory bodies (the main stakeholders) in the identification of the audit priorities.

A Strategic Audit Plan (Multi-annual Plan) has been defined that establishes target audit cycles for each component (object) of the audit universe, according to risk criteria. The Plan foresees the coverage of the audit universe within a 4-year cycle for the higher risk and priority objects, this being the target period for full coverage of the various components of the internal control system and of the internal control system as a whole, of the companies of NOVO BANCO Group included in the scope of action of DAI.

The Strategic Plan is revised on an annual basis to incorporate the evolution of the Group's activity and risks.

Internal Control and Data Protection Department

The mission of the Internal Control and Data Protection Department is to support the EBD in the maintenance of an adequate and effective Internal Control System, and to drive the implementation of the General Data Protection Regulation (GDPR) requirements in the operational model of the various Entities of NOVO BANCO Group and monitor compliance therewith at all times.

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

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

Other internal players in the Internal Control System

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

Accounting, Consolidation and Tax Department

The Accounting, Consolidation and Tax Department performs the accounting control of the operations carried out at the Institution, with a view to preparing the separate financial statements (NOVO BANCO) and consolidated financial statements (NOVO BANCO Group), which, as decided by the EBD, it discloses/reports externally. In addition, it ensures the adequate production and operation of the Management Information System, supporting the production of information for purposes of (i) compliance with legal/regulatory obligations and (ii) substantiating decisions of the EBD.

Information Security Office

The Information Security Office develops and implements NOVO BANCO Group's Information Security programme, in line with best market practices and legal and regulatory requirements, ensuring the confidentiality, integrity and availability of information.

External intervenients in the defence of the Internal Control System (4th line of defence)

- Statutory Auditor: acts as an additional line of defence, bearing in mind its functions, essentially of an accounts supervision nature, including within the scope of the internal control report; and
- Supervision authorities (European Central Bank and Banco de Portugal): act as the last line of defence, monitoring and promoting compliance with prudential rules at financial level and at the level of people, incentives schemes, governance structures, systems and processes. The intervention of the supervision authorities does not exempt the institution from its responsibility of ensuring sound and prudent management and compliance with the prudential rules.

This line of defence external to the Group promotes a strong risk culture as well as a more efficient risk management within the parameters institutionally defined for the purpose. In this context, these entities contribute in the following manner:

- They provide guidelines/recommendations and supervise the governance of the Group, namely through detailed assessments and regular interaction with the EBD and top management.
- They request improvements and remediation measures, when and if necessary.

10.7. NOVO BANCO Main Policies

For NOVO BANCO Group the framework of values, principles and rules that guide its actions, and the standards that govern the manner in which it conducts its business and runs its activity, are fundamental. This framework relies upon NOVO BANCO Group's Code of Conduct, Conflicts of Interest Policy, Related Party Transactions Policy, Whistleblowing Policy, Policy on the Prevention of Money Laundering and Terrorist Financing and Board of Directors and Supervisory Corporate Board Remuneration Policy and Employees Remuneration Policy.

The commitments thus assumed by NOVO BANCO Group focus on the prevention, detection, reporting and management of situations leading to risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness.

Code of Conduct

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

NOVO BANCO Group's Code of Conduct aims to:

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

The Code of Conduct is available at NOVO BANCO's institutional website, at:
https://www.novobanco.pt/site/cms.aspx?plg=3AE91E8E-AAFB-4BD0-8C6A-07823384AEE3

Monitoring the Code of Conduct and clarifying employees' doubts about its content and application is the responsibility of the Compliance Department.

Conflicts of Interest Policy

The Conflicts of Interest Policy establishes rules for the identification, management and monitoring of potential conflicts of interest in the various activities of NOVO BANCO and NOVO BANCO Group, in compliance with applicable legal and regulatory provisions, as well as the recommendations of Banco de Portugal and the European Central Bank. The Code applies to all Group Employees, including the members of the EBD and GSB.

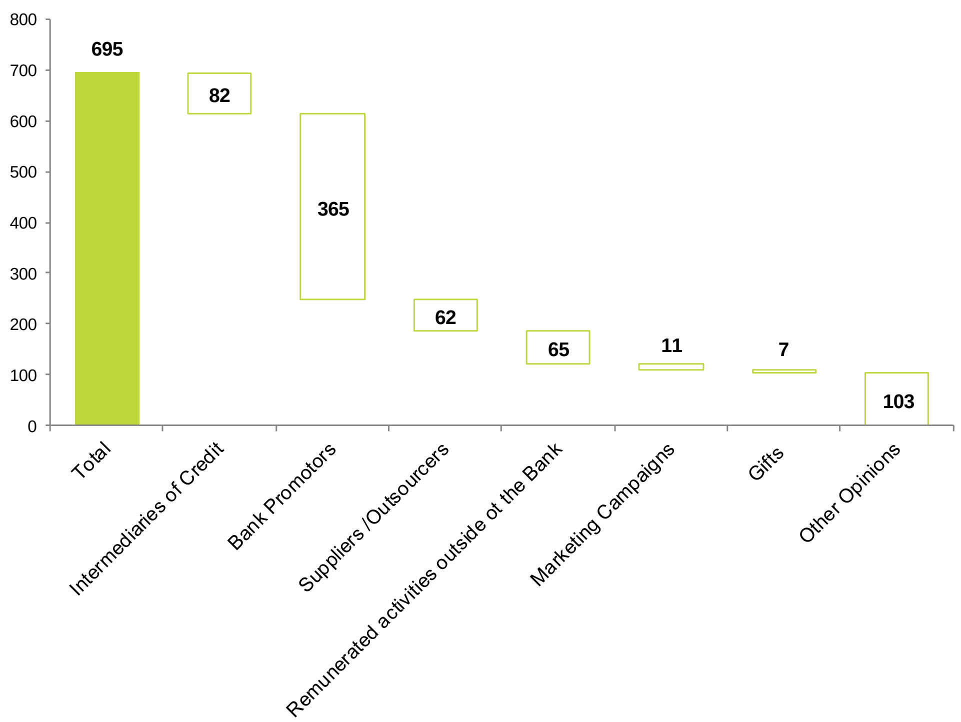
The policy aims to strengthen the governance model of the NOVO BANCO Group by pursuing the following objectives:

- Definition of rules and mechanisms to prevent, identify and manage potential or actual situations of conflicts of interest;
- Ensure compliance with the legal and regulatory rules on the prevention and management of conflicts of interest that apply to NOVO BANCO and its employees;
- Reinforce the Employees' knowledge of and awareness to conflicts of interest issues.

The Code of Conduct is also available in Portuguese and English at NOVO BANCO's institutional website, at: https://www.novobanco.pt/site/cms.aspx?plg=3AE91E8E-AAFB-4BD0-8C6A-07823384AEE3.

In 2018 NOVO BANCO implemented internal standards to prevent the existence of conflicts of interest in the processes of assessment, selection and contracting of suppliers, applying to both the employees involved and the applicants to the position. During the year the Compliance Department issued a total of 695 opinions on a variety of issues, as shown in the chart below:

Opinions in 2018



In 2018, and given the notifications and the questions related with the internal regulations, mainly related with the violation of internal regulations and negligence in the exercise of functions, 26 violations were detected related with the internal regulations of the Bank, which resulted in the following sanctions:

- 1 Dismissal without indemnity or compensation;
- 3 Voluntary terminations;
- 3 Losses of holidays;
- 5 Disciplinary warnings;
- 6 Processes filed;
- 8 Other sanctions.

Related Party Transactions Policy

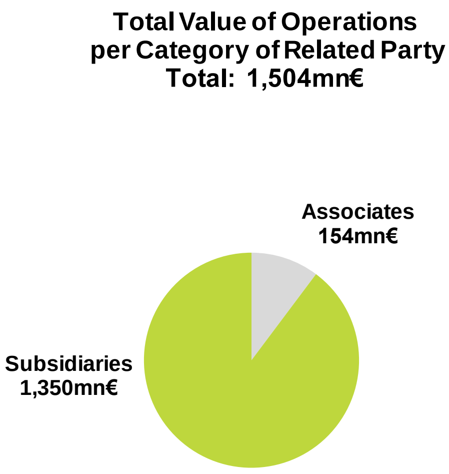
NOVO BANCO's Related Party Transactions Policy sets down rules aimed at identifying transactions concluded between NOVO BANCO and Related Parties and at compliance with the provisions of Articles 85 and 109 of the General Law on Credit Institutions and Financial Companies and of IAS 24, among other legal provisions.

In addition, the Bank has implemented internal standards that operationalise this Related Party Transactions Policy, including through information system alarms triggered when related parties are identified, and rules on the formalisation of transactions and respective approval circuits. All proposed transactions with related parties must be submitted to the Compliance Department, which checks their conformity with the applicable internal rules and legal and regulatory provisions, for subsequent approval by the GSB, and resolution by the EBD.

As is the case of the Code of Conduct and Conflicts of Interest Policy, the Related Party Transactions Policy is also available at NOVO BANCO's institutional website, at:

https://www.novobanco.pt/site/cms.aspx?plg=3AE91E8E-AAFB-4BD0-8C6A-07823384AEE3

During 2018, transactions with related parties (credit transactions, service provision, and other contracts) were entered into, in which credit transactions, including extensions and renewal of limits, amounted to 1,504 million euros and can be broken down as follows:



Despite the fact that Article 85 of the General Law on Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*) sets forth that "credit institutions shall not grant credit, in any form or type, including the provision of guarantees, either directly or indirectly, to members of their management or supervisory bodies, nor to companies or other collective bodies directly or indirectly controlled by them", the granting of credit to "companies and other collective bodies not included in paragraph 1" is allowed under number 8 of the same Article. In this Context, the Compliance Department issued eight opinions on transactions allowed under said number 8 of Article 85, which were subsequently approved by the Compliance Department of the GSB and finally ratified by the EBD.

In addition, under Article 109 of the General Law on Credit Institutions and Financial Companies, credit granting to qualifying shareholders, or entities directly or indirectly controlled or in a group relationship with them is allowed, subject to certain limits. During 2018, NOVO BANCO did not conclude any credit transactions with qualifying shareholders, under said legal rule.

In October and November 2018, the Compliance Department provided in-house training sessions for senior managers and risk managers of the retail and corporate commercial areas to increase their knowledge about the rules applying to related party transactions.

Whistleblowing Policy

NOVO BANCO is strongly committed to the growing internalisation of a culture of compliance, namely with regard to the reporting of undue or irregular behaviours or behaviours that go against the law, the regulations and the Bank's internal policies.

To this end, in February 2018 the GSB and the EBD of NOVO BANCO approved the Whistleblowing Policy, which was subsequently communicated to the employees and published in the Bank's institutional website, at: https://www.novobanco.pt/site/cms.aspx?plg=3AE91E8E-AAFB-4BD0-8C6A-07823384AEE3.

The Whistleblowing Policy regulates the reporting of irregularities by the Bank's employees, as well as by service providers or any third parties, and its objectives are to preserve the Bank’s reputation, effectively protect its assets and those of its clients, and prevent or detect in advance any irregularities that may be committed.

The following are considered as irregularities: violations within NOVO BANCO in the fields of accounting, internal accounting controls, auditing, the fight against corruption and banking and financial crime in accordance with Resolution No. 765/2009 of the National Data Protection Commission, and those relating to possible breaches of Law No. 83/2017, the regulations which implement it and the policies, procedures and internally defined controls on the prevention of money laundering and terrorist financing.

Irregularities are reported in writing and presented through the following channels, at the choice of the person who is reporting:

a) Addressed to the Compliance Committee of the GSB (Avenida da Liberdade, 195, 14º andar, 1250-142 Lisbon); or
b) Through the Form available at NBWeb;
c) Via e-mail to: irregularidades@novobanco.pt

All communications must be made in good faith, indicating the respective grounds. The deliberate and unfounded use of available channels of communication of irregularities may constitute a violation of a diverse nature, including disciplinary, civil or criminal. Under the terms of the Whistleblowing Policy, anonymous communications are admitted.

The GSB is responsible for managing the irregularities communication system, ensuring the confidentiality of communications.

NOVO BANCO guarantees the protection of the personal data of the person who makes the communication and of the suspect of violation, collected through the communication means made available.

Policy on the Prevention of Money Laundering and Terrorist Financing

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

The NOVO BANCO Group, through its Compliance Department, sets up the conditions that enable the Bank to detect and prevent, through adequate policies and procedures, the possibility of the Bank being used as a vehicle for money laundering or terrorist financing activities, which is a risk inherent to its presence and activity in the national and international financial markets.

The NOVO BANCO Group takes increasingly great care in the identification of weaknesses and areas of greater exposure, making sure it has the adequate methods to control and mitigate the risks of money laundering and terrorist financing inherent to its activity. The capacity to detect and, if possible, prevent activities capable of constituting such crimes is directly linked to the Bank's knowledge about its clients, their counterparties and the transactions they engage in, particularly at the following moments in time:

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

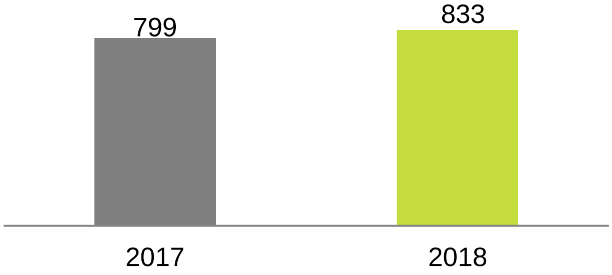
To that end, NOVO BANCO Group, using software tools with internationally recognised results to complement the experience of its human capital, has created and developed assessment models that will ensure that greater scrutiny is applied where this proves more necessary.

NOVO BANCO Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorist financing for all its employees (commercial and central structures, including senior management). Training can be remote or face-to-face, the latter mainly directed to new employees, and the objective is to equip them with skills that enable them to collaborate with the control functions in mitigating the risks inherent to the execution of their functions. In 2018, Novo Banco reinforced training on money laundering and terrorism financing prevention, having provided 8 891 hours of online training (including 1 259 hours for managers) and 807 hours of face-to-face training (of which 314 hours for managers), making a total of 9 698 hours.

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

In 2018 the NOVO BANCO Group examined 4 610 new contracts, of which 89 were rejected. In addition,1 724 other contracts were analysed, upon which their ownership was changed. It also analysed 12 647 transactions under existing contracts, of which 833 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.

Notification to the authorities



The Policies on the Management of Money Laundering and Terrorist Financing Risks are available for consultation in NOVO BANCO's institutional website, at:

https://www.novobanco.pt/site/cms.aspx?plg=3AE91E8E-AAFB-4BD0-8C6A-07823384AEE3.

Policies on Investor Protection and Market Transparency

The Directive on Markets in Financial Instruments, no. 2014/65/EU, of 15 May 2014 (“MiFID II), and related regulations, which entered into force in January 2018 as well as Law no. 35/2018 of 31 July which transposes MiFID II to Portuguese law, aim to reinforce investor protection and increase the transparency and quality of the financial market operation and services provided, and cover all persons and entities operating in the markets in financial instruments.

This regulation determines the reinforcement of the duties of financial intermediaries, as well as changes in the marketing regulations of financial instruments, namely:

- Additional requirements for the collection of information from customers and respective assessment for the purpose of adjusting financial instruments or investment services to the customer's investment profile;

- New rules for the creation, distribution and monitoring of financial instruments, including, amongst others, the duty to define a target market for financial instruments that the financial intermediary produces or distributes;
- New requirements regarding the recording and register of the communications between financial intermediaries and Customers;
- New requirements to provide investment advice and portfolio management services;
- Reinforcement of the rules applicable to prevent conflicts of interest and safeguard customer assets.

In accordance with the revised legal framework, NOVO BANCO has revised and approved its new standards and Policies, which it discloses in a dedicated area of its website ("Investor Protection" - https://www.novobanco.pt/site/cms.aspx?plg=DD8A6004-88E2-481F-8848-2F4BA06BE1FD). The most important aspects of these standards and policies are summarised below:

Recording and register of communications

NOVO BANCO is obliged to keep recordings and registers of all communications with Customers and potential Customers, with regard to all services, activities and operations carried out.

Customer Classification

NOVO BANCO classifies its customers for the purpose of transactions in financial instruments into one of three categories: non-professional, professional and eligible counterparty. These classifications have implications on the level of protection allocated to the investor. The lower the knowledge and experience of the customer regarding the markets and financial instruments the greater the level of protection.

Assessment of Adequacy

In order to ensure the adequacy of the financial instruments or investment services provided by NOVO BANCO to the Customer's investment profile, NOVO BANCO will request Customers and potential Customers to complete individual profile questionnaires, in order to get to know in a more complete and detailed manner, *inter alia*, their experience and knowledge of investment, their financial situation, their investment objectives (including ability to withstand losses) and their risk tolerance, and thus assess whether a particular investment product or service is appropriate.

Order Execution Policy

The Order Execution Policy of NOVO BANCO describes the rules and procedures, strategies and other practices to be applied to the execution of customer orders and/or their transmission to other entities authorised to execute orders, viewing compliance with the applicable laws and regulations, as arising from the Markets in Financial Instruments Directive II (MiFID II) and other legal or regulatory rules and legislation that complement it.

Internal Regulation and Conflict of Interest Prevention and Management Policy for Financial Intermediation Activities

When carrying out its financial intermediation activities, the Bank may be faced with situations of conflict of interest, either between the interests of the Bank and those of its Clients, or between the interests of its different Clients. In addition, the individual interests of employees, managers, agents or subcontracted entities may conflict with the interests of the clients. In order to identify, mitigate, manage and register any conflicts of interest that may occur in all Relevant Financial Intermediation Activity, NOVO BANCO has approved a Conflict of Interest Prevention and Management Policy for Financial Intermediation Activities.

At the same time, transactions by senior management and the distribution of privileged information is also subject to control in order to ensure compliance with the legislation on the prevention of Market Abuse and Crimes against the Market, via the Financial Intermediation Activities Internal Regulation.

Preventing the occurrence of this type of situations, which are liable of jeopardising the impartiality and independence of the Bank's activity, is a priority for NOVO BANCO, which for the purpose has defined a policy and procedures permitting their identification, prevention and mitigation and compliance with the applicable legal and regulatory rules on conflicts of interest.

Safeguard of Customer Assets

The Securities Code sets forth that in all acts performed, as well as in accounting and operations records, the financial intermediary should adopt procedures and implement measures permitting to maintain a clear distinction between its assets and the assets of each one of its clients to ensure that the opening of proceedings for the insolvency, recovery of the company or reorganization of the financial intermediary does not have effects on actions carried out by the financial intermediary on behalf of its clients. The financial intermediary may not utilise, for its own or a third party's benefit, the clients' financial instruments or exercise the rights inherent thereto, unless the holders have agreed thereto. Likewise, investment firms may not use the cash received from the clients for its own or a third party's benefit.

Board of Directors and Supervisory Corporate Board Remuneration Policy and Employees Remuneration Policy and Statement on Remuneration Policies

Under the terms and for the purposes of Law no. 28/2009 of 19 of June, and Notice of Banco de Portugal no. 10/2011, the Remuneration Committee submits for approval at the General Meeting of Shareholders of NOVO BANCO the following statement on the remuneration policy of the members of the board of directors and supervisory bodies, also complying with the information duties related to the remuneration policies provided for therein.

In March 2018 NOVO BANCO approved the Remuneration Policies for the Board of Directors and Supervisory Board and for its Employees.

These Policies have been prepared in accordance with the legislation in force on this date, in particular with the RGICSF and the EBA Guideline No 2015/22 on sound remuneration policies and related legislation and reflect the Bank's objectives, strategy, structure and culture, are steered by principles of meritocracy and transparency. Their implementation aims to foster adequate professional practices and conducts, namely in the sale of products and services, as well as in the prevention of conflicts of interest with clients.

The Remuneration Committee understands that the Remuneration Policies and the recent changes introduced, namely with regard to the allocation of the variable component and their conditions, are appropriate to the current situation of NOVO BANCO, are in line with the objectives associated with the Restructuring Plan and respect the limitations associated therewith. To this extent, the incentives defined for the members of the board of directors and for the different categories of employees are considered to be in line with the long-term objectives of the institution and the various stakeholders.

The Governance of the Remuneration Policy provides for the involvement of several internal entities, namely the Remuneration Committee, formed by three members of the General and Supervisory Board, as well as several Departments of the Bank, including the Risk, Compliance, Audit, Legal, and Human Capital Departments, ensuring full alignment of the established practices with the applicable regulatory requirements and the higher interests of the institution.

1- Limits to remuneration in NOVO BANCO

Following the sale process of Novo Banco, S.A., and as a result of “State Aid” having been granted, the Portuguese State assumed certain commitments before the European Commission (State Aid no. SA.49275 (2017 / N)) up to the end of the Restructuring Period – currently 31 December 2021 (hereinafter “Restructuring Period”).

This situation entails the following limitations to the Remuneration of the Management and Supervisory Bodies and the Employees of NOVO BANCO:

- Up to 30 June 2020 the Bank shall not pay any employee or Member of a Management or Supervisory Body a total annual salary (includes salary, pension contribution, premium/bonus) above 10 times the average annual salary of the employees of Novo Banco. In the period comprised between 30 June 2020 and the end of the Restructuring Period, this limit may be exceeded providing all the established viability commitments have been met. In any case, the Bank may attribute Deferred Bonuses for performances occurred during the Restructuring Period, making the respective payment only at the end of said period.

- Up to the end of the Restructuring Period, the total remuneration and respective conditions of payment/attribution may be affected by non-compliance with the commitments referred above. The aforementioned Remuneration Policies are thus subject to any changes that may result from said commitments.
- The attribution of a variable remuneration to the members of the Management and Supervisory Bodies and to the Employees shall in no case jeopardise the maintenance of a solid capital basis and the timely termination of the extraordinary State financial aid.

2- Description of the Remuneration Policy of the Management and Supervisory Bodies

a. Policy Approval Powers

The approval of the Remuneration Policy of the Management and Supervisory Bodies is the responsibility of the General Meeting, upon proposal of the Remuneration Committee of the General and Supervisory Board, and this Committee is also responsible for, among other responsibilities:

- Decide on the remuneration to be attributed to the member of the Executive Board of Directors, as well as its KPIS, and establish and approve the budget for the total variable remuneration of employees, jointly with the Executive Board of Directors, based on the operating income of the period;
- Verify if the existing remuneration policies are updated and if necessary propose the appropriate changes;
- Evaluate the mechanisms and systems used to ensure that remuneration systems are consistent with sound and effective risk management and assess the criteria used to define remuneration and ex ante risk adjustment based on actual risk outcomes (Clawback or Malus);

The Remuneration Committee for the 2017-2020 mandate has the following composition:

Chairman:	Byron Haynes
	Karl-Gerhard Eick
	Benjamin Dickgiesser

b. General and Supervisory Board

Only the independent members of the General and Supervisory Board shall receive remuneration from NOVO BANCO, such remuneration being fixed only and paid 12 times per year.

If applicable, the members of the General and Supervisory Board shall also be subject to the limitations referred to in 1 above.

c. Executive Board of Directors

The remuneration of the Executive Board of Directors comprises a fixed and a variable component.

The fixed remuneration is established according to the complexity, level of responsibility and skills required for the Function, and is paid 14 times per year.

The variable component of remuneration is set based on an individual and collective assessment of performance, using quantitative and qualitative criteria. These criteria are set by the Remuneration Committee and informed in due time to the members of the Executive Board of Directors.

The following criteria are also considered in the process of attribution of variable remuneration:

- It shall only be attributed if it does not jeopardise the Bank's capacity to maintain a solid capital basis;
- It is subject to a maximum cap of 100% of the annual fixed remuneration;
- It is attributed over a multi-year framework, being fully deferred proportionally over a minimum period of three years. However, during the restructuring period, which lasts until 2021, any possible amounts attributed relative to 2018 and 2019 shall be 100% deferred and shall only become a vested right upon the end of said period. For the remaining years of the restructuring period, deferral is made proportionally, and it shall be necessary to ensure that no portion thereof is paid or considered a vested right prior to the end of the period.
- 50% of the amounts attributed shall take the form of "Remuneration Units", the value of which is determined by financial indicators of the Bank;
- No guaranteed variable remuneration shall be established, save in the first year after hiring, under the form of a Sign-on bonus.

All amounts paid or subject to deferral, regardless of whether or not they have vested, shall be subject to risk adjustment, Clawback and/or Malus, including those that were deferred through application of the limits established in 1 above.

In what concerns other benefits, such as Health Insurance or Mobile Phone, the internal policies aligned with the remaining employees of the Bank are applied. It is worth mentioning that for the cases in which the member of the EBD is an employee of the Bank before taking the role, the Policy includes the possibility of maintaining some benefits contractually established, such as for instance SAMS, special loan conditions and pension plan. In what concerns service vehicles, the models are defined taking into account the market practices and in other similar financial institutions.

3- Employees with material impact on the Bank's risk profile

a. Policy Approval Powers

The approval of the Remuneration Policy of Employees is the responsibility of the Executive Board of Directors, after proposal of the Remuneration Committee.

b. Selection of employees

The Remuneration Policy of Employees includes specific chapters applicable to the employees who materially influence in the risk profile of NOVO BANCO, with these being classified as Identified Employees.

In the scope of the policy Identified Employees are:

- Top Managers: i.e., employees who report directly to Executive Board Members, such as General Managers, Advisors to the Board, Managing Directors or other top-level Managers who are heads of Department, including: i) Control Functions; ii) Risk-generating Functions and Other Relevant Functions; iii) Members of the Risk and Product Committees;
- Other employees:
  - earning total remuneration above 500 thousand euro / year;
  - earning total remuneration above the minimum remuneration of the group of employees selected according to the qualitative criteria referred above, or whose total remuneration falls within that of the group of the 0.3% of employees with the higher remunerations.

In any of the above cases, providing they have a material impact on the risk profile of Novo Banco.

c. Components of Remuneration

The attribution of a Fixed Remuneration shall reflect the competence, experience and responsibility inherent to the function performed, and shall not depend on performance.

The attribution of a Variable Remuneration to the Identified Employees is the result of individual and collective performance evaluation and shall take into account the following principles:

- Performance must be assessed through quantitative and qualitative criteria and financial and non-financial variables;
- The period of assessment of performance and attribution of variable remuneration must be multi-annual, which implies that a substantial part of the amount attributed be deferred so as to take into account economic cycles and the management of risk, and promote the retention of such employees;
- The existence of risk adjustment mechanisms (Malus and Clawback), as described in the remuneration policies;
- The amount attributed is limited to 100% of the annual Fixed Remuneration;
- 50% of the attribution shall be made in cash and 50% in remuneration units, the value of which is determined by financial Indicators of the Bank.

4- Disclosure of Remuneration

The remuneration to the Board of Directors and Supervisory Corporate Bodies is presented in chapter 10.9 Remuneration of the Members of the Board of Directors and Supervisory Board.

The remuneration of Employees with material impact in the Bank's risk profile is presented in chapter 10.10 Remuneration of Employees.

Policy for Selection and Evaluation of the Board of Directors and Supervisory Bodies and Key Function Holders

NOVO BANCO approved in March 2018 a Policy for Selection and Evaluation of the Board of Directors and Supervisory Bodies and Key Function Holders (the "Policy"), thus ensuring compliance with the regulations in force and the implementation of the required governance standards for Significant Financial Institutions. The Policy was approved by the Appointments Committee, EBD and General and Supervisory Board, and finally by the General Meeting.

The Policy intends to ensure that the members of the Board of Directors and Supervisory Bodies and Key Function Holders (essentially the holders of the Risk, Audit, and Compliance Functions and the General Managers of Foreign Branches) meet all the fit and proper criteria to perform their functions, both at the time of appointment and throughout their mandates. This suitability to the function basically refers to the capacity to permanently ensure a sound and prudent management of the institution, being assessed in accordance with the following requirements: i) Experience; ii) Repute; Independence; iv) Availability; and v) Collective Suitability.

In practical terms, the Policy establishes the procedures to select and assess the employees for the identified functions, setting out the responsibilities of the Appointments Committee and of the Fit&Proper Officer in the management of the processes.

10.8. Credit to Members of the Corporate Bodies – Art. 85-9 of the RGICSF*

The amount of credit granted to members of the corporate bodies as at 31 December 2018 was as follows:

NOVO BANCO, S.A.
Art. 85/9 of RGICSF - Credit to members of the Corporate Bodies - Amounts outstanding (excluding interest) as at 31.12.2018

Name/ Denomination	Role	Amount (in €)
Executive Board of Directors		
António Manuel Palma Ramalho	Chief Executive Officer	2,047
Vítor Manuel Lopes Fernandes	Member of the Executive Board of Directors	2,139
Jorge Telmo Maria Freire Cardoso	Member of the Executive Board of Directors	2,766
José Eduardo Fragoso Tavares de Bettencourt	Member of the Executive Board of Directors	17
Closely related people		64,991
Rui Miguel Dias Ribeiro Fontes	Member of the Executive Board of Directors	534
Luís Miguel Alves Ribeiro	Member of the Executive Board of Directors	278,621
Closely related people		153,136
General and Supervisory Board		
Byron James Macbean Haynes	Chaiman of the General and Supervisory Board	1,415
Carla Alexandra Severino Antunes da Silva	Member of the General and Supervisory Board	42
Closely related people		120,000
Statutory Auditor		
António Filipe Dias da Fonseca Brás	Statutory Auditor, representative of Ernst & Young Audit & Associados - SROC, S.A.	139,391

* RGICSF: Regime Geral das Instituições de Crédito e Sociedades Financeiras.

Note: The amounts in the above table concern the Members of the management and supervisory bodies and the natural persons and controlled entities related with such Members.

The amounts in the above table relate to Residential Mortgage Loans, Credit Cards, and in what concerns closely related people it includes Corporate loans.

For the purposes of Article 109 (7) of the RGICSF, as at 31 December 2018 there was no loans granted to qualified shareholders and related parties.

10.9. Remuneration of the Members of the Board of Directors and Supervisory Board

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.

As to the Management and Supervisory Bodies, no bonuses were paid or attributed in 2018.

The annual amount of remuneration received, on an individual and aggregate basis, by the Members of the Corporate Bodies of NOVO BANCO in 2018 was the following:

euro

	Role	Attributed	Paid	Other Post-employment Benefits	Deferred	Termination of Mandate
Executive Board of Directors (EBD)						
António Manuel Palma Ramalho	Chief Executive Officer	382,400	349,106		33,294	
Vitor Manuel Lopes Fernandes	Member	258,811	258,811			
Jorge Telmo Maria Freire Cardoso	Member	258,811	258,811			
Luisa Marta Santos Soares da Silva Amaro de Matos	Member	259,212	259,212			
José Eduardo Fragoso Tavares de Bettencourt	Member	252,511	251,562	950		
Rui Miguel Dias Ribeiro Fontes	Member	251,226	250,065	1,161		
Luis Miguel Alves Ribeiro (i)	Member	76,462	75,111	1,351		
		1,739,434	**1,702,678**	**3,462**	**33,294**	**0**
General and Supervisory Board (GSB)						
Byron James Macbean Haynes	Chairman	375,000	349,106		25,894	
Karl - Gerhard Eick	Vice-Chairman	250,000	250,000			
Benjamin Friedrich Dickgiesser	Member					
Kambiz Nourbakhsh	Member					
Donald John Quintin	Member					
John Ryan Herbert	Member	114,264	114,264			
Robert Alan Sherman	Member	114,264	114,264			
Mark Andrew Coker	Member	0	0			
Carla Alexandra Severino Antunes da Silva (ii)	Member	45,500	45,500			
		899,028	**873,134**	**0**	**25,894**	**0**
Members of Corporate Bodies not in functions						
Isabel Maria Ferreira Possantes Rodrigues Cascão (iii)	Member of the EBD	461,992	71,660	332		390,000
		461,992	**71,660**	**332**	**0**	**390,000**

(i) initiated functions in September 2018

(ii) initiated functions in March 2018

(iii) ceased functions in March 2018

Note: In 2018 the members of the corporate bodies of NOVO BANCO were not paid any amounts by other group companies.

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

Nothing to report.

Other benefits and compensation and non-cash benefits:

Nothing to report.

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

See information in the table above in this section 10.9 on Members of the Corporate Bodies not in functions.

Plans for the attribution of shares or stock options:

Nothing to report.

10.10. Remuneration of Employees

Under the terms of Notice no. 10/2011 of Banco de Portugal, credit institutions are obliged to disclose in the annual financial statements the annual amount on an aggregate basis, of the remunerations of employees who, not being members of the Corporate Bodies, fulfill any of the following criteria:

a) they perform functions with responsibility for risk taking on behalf of the institution or of its clients, with a material impact on the institution's risk profile;

(b) their total remuneration places them in the same pay step as the members of the administrative or supervisory bodies; or

c) Exercise the control functions set forth in Bank of Portugal Notice No. 5/2008.

As to the Employees with material impact on the risk profile of the Bank, it is presented below the total amounts that were paid in the form of Sign-on bonus as well as the sums that were attributed relative to performance in 2018, which were however deferred for payment in 2020 (2/3) and 2021 (1/3).

The annual amount of remuneration in 2018, on an aggregate basis, of these employees was the following:

euro

Employees with material impact on the Risk Profile	# Employees	Fixed Remun.	Variable Remuneration			Total
			Atributted	Paid	Deferred	
Total	**37**	**4,413,886**	**1,443,584**	**325,000**	**1,118,584**	**5,857,470**
Commercial	7	715,121	180,772	0	180,772	895,892
Control	3	469,857	123,830	0	123,830	593,687
Support	27	3,228,908	1,138,983	325,000	813,983	4,367,891

10.11. Securities held by Members of the Corporate Bodies

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

10.12. Minor indirect Investment in Novo Banco

All members of the executive board of directors and certain members of the general and supervisory board have acquired with their own resources holdings in an indirect investment structure in Novo Banco, which has been set up (and is controlled) by LSF Nani GP, LLP, which owns indirectly a 75% interest in Novo Banco. This indirect investment represents an indirect shareholding of substantially less than 1% in Novo Banco and has no financial impact on the Bank nor in the exercise of the functions, suitability and independence of the members and it has been disclosed to the relevant supervisory authorities and internal control bodies.

11. Financial Statements

11.1. Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2017

thousand €

	31.12.2018	31.12.2017 *
Interest and similar income	758 691	888 313
Interst expense and similar charges	304 349	484 649
Net Interest Income	**454 342**	**403 664**
Dividend Income	8 974	6 156
Fee and Commission income	366 068	387 245
Fee and Commission expense	59 734	71 792
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(68 675)	(56 571)
Net gains / (losses) from assets at fair value through profit or loss mandatory	(32 877)	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	34 472	57 245
Net gains / (losses) from foreign exchange revaluation	42 503	26 387
Net gains / (losses) from the sale of other assets	(176 004)	(39 284)
Other operating income and expenses	(78 951)	(50 942)
Operating Revenues	**490 118**	**662 108**
Staff Costs	266 138	275 740
General and Administrative Costs	198 989	215 409
Depreciation and amortisation	22 149	58 057
Provisions, net of reversals	238 870	190 931
Impairment losses on loans, net of reversals	263 500	1 229 205
Impairment losses on other financial assets, net of reversals	6 479	134 787
Impairment losses on other assets, net of reversals	201 106	501 984
Operating Costs	**1 197 231**	**2 606 113**
Sale of subsidiaries and associates	1 026	3 931
Results from associated companies consolidated by the equity method	5 626	8 377
Income before taxes and non-controlling interests	**(700 461)**	**(1 931 697)**
Corporate income tax		
Current taxes	8 790	14 373
Deferred taxes	658 917	430 773
	667 707	445 146
Income from continuing activities	**(1 368 168)**	**(2 376 843)**
Income from discontinued operations	(39 819)	74 779
Net Income for the period	**(1 407 987)**	**(2 302 064)**
Attributable to shareholders of the Bank	**(1 412 642)**	**(2 298 049)**
Attributable to Non-controlling interests	4 655	(4 015)
	(1 407 987)	(2 302 064)

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The Certified Accountant

The Executive Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018 AND AS AT 31 DECEMBER 2018

thousand€

	31.12.2018	31.12.2017 *
ASSETS		
Cash and deposits with central banks	701 883	3 788 027
Deposits with other banks	275 789	380 601
Securities held for trading	257 270	367
Derivatives held for trading	516 336	577 153
Loans and advances to banks	423 058	581 901
Loans and advances to customers	24 754 445	25 790 943
Securities portfolio	10 617 312	8 478 428
Derivatives held for risk management purposes	71 404	170 588
Non-current assets held for sale	1 888	5 448
Non-current assets held for sale - discontinued operations	4 090 358	5 130 956
Investment properties	1 098 071	1 144 432
Other tangible assets	142 494	157 497
Intangible assets	5 425	8 682
Investments in associated companies	118 698	146 251
Current tax assets	6 689	6 014
Deferred tax assets	1 196 525	1 964 017
Other assets	3 996 257	3 723 544
TOTAL ASSETS	**48 273 902**	**52 054 849**
LIABILITIES		
Deposits from central banks	6 410 461	6 410 123
Financial liabilities held for trading	492 953	559 765
Deposits from other banks	1 945 099	2 015 044
Due to customers	28 695 268	30 314 005
Debt securities issued	689 252	1 216 780
Financial liabilities related to transferred assets	44 450	-
Derivatives held for risk management purposes	36 150	76 212
Non-current liabilities held for sale	-	3 277
Non-current liabilities held for sale - discontinued operations	4 438 001	5 525 962
Provisions	425 935	416 670
Current tax liabilities	12 050	13 887
Deferred tax liabilities	6 403	6 193
Subordinated debt	414 903	-
Other liabilities	740 616	775 663
TOTAL LIABILITIES	**44 351 541**	**47 333 581**
CAPITAL		
Share Capital	5 900 000	5 900 000
Other reserves and retained earnings	(600 343)	1 040 105
Net Income for the period attributable to the shareholders of the Bank	(1 412 642)	(2 298 049)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	3 887 015	4 642 056
Non-controlling interests	35 346	79 212
TOTAL EQUITY	**3 922 361**	**4 721 268**
TOTAL LIABILITIES AND EQUITY	**48 273 902**	**52 054 849**

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The Certified Accountant

The Executive Board of Directors

11.2. Separate Financial Statements

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT AS AT 31 DECEMBER 2017 AND AS AT 31 DECEMBER 2018

thousand€

	31.12.2018	31.12.2017 *
Interest and similar income	762 633	792 947
Interst expense and similar charges	316 392	502 694
Net Interest Income	**446 241**	**290 253**
Dividend Income	17 864	23 550
Fee and Commission income	329 201	349 293
Fee and Commission expense	49 395	63 352
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(69 535)	(61 550)
Net gains / (losses) from assets at fair value through profit or loss mandatory	(10 094)	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	33 674	56 225
Net gains / (losses) from foreign exchange revaluation	42 759	30 449
Net gains / (losses) from the sale of other assets	(187 135)	53 274
Other operating income and expenses	(41 457)	21 413
Operating Revenues	**512 123**	**699 555**
Staff Costs	244 104	249 112
General and Administrative Costs	196 154	216 903
Depreciation and amortisation	21 314	56 286
Provisions, net of reversals	239 973	188 852
Impairment losses on loans, net of reversals	295 072	1 141 563
Impairment losses on other financial assets, net of reversals	3 720	193 623
Impairment losses on other assets, net of reversals	284 065	370 288
Operating Costs	**1 284 402**	**2 416 627**
Income before taxes	**(772 279)**	**(1 717 072)**
Corporate income tax		
Current taxes	2 714	9 154
Deferred taxes	657 882	429 422
	660 596	438 576
Net Income for the period	**(1 432 875)**	**(2 155 648)**

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The Certified Accountant

The Executive Board of Directors

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2017 AND AS AT 31 DECEMBER 2018

thousand€

	31.12.2018	31.12.2017 *
ASSETS		
Cash and deposits with central banks	695 289	3 782 902
Deposits with other banks	107 041	189 725
Securities held for trading	257 270	81
Derivatives held for trading	520 135	582 873
Loans and advances to banks	558 652	752 892
Loans and advances to customers	22 821 556	23 492 905
Securities portfolio	12 819 652	10 906 260
Derivatives held for risk management purposes	149 860	171 085
Non-current assets held for sale	186 508	245 817
Other tangible assets	135 731	151 698
Intangible assets	4 781	7 860
Investments in associated companies	645 871	693 477
Current tax assets	3 209	4 445
Deferred tax assets	1 179 272	1 947 425
Other assets	3 745 772	3 547 696
TOTAL ASSETS	**43 830 599**	**46 477 141**
LIABILITIES		
Deposits from central banks	6 410 461	6 410 123
Financial liabilities held for trading	493 403	560 646
Deposits from other banks	2 708 678	2 887 106
Due to customers	28 439 075	30 067 747
Debt securities issued	477 787	617 861
Financial liabilities related to transferred assets	242 438	447 548
Derivatives held for risk management purposes	36 150	76 210
Non-current liabilities held for sale	-	3 673
Provisions	423 883	413 996
Current tax liabilities	9 112	10 776
Deferred tax liabilities	-	-
Subordinated debt	414 903	-
Other liabilities	575 430	632 550
TOTAL LIABILITIES	**40 231 320**	**42 128 236**
CAPITAL		
Share Capital	5 900 000	5 900 000
Other reserves and retained earnings	(867 846)	604 553
Net Income for the period	(1 432 875)	(2 155 648)
TOTAL EQUITY	**3 599 279**	**4 348 905**
TOTAL LIABILITIES AND EQUITY	**43 830 599**	**46 477 141**

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The Certified Accountant

The Executive Board of Directors

12. Final Notes

12.1. Declaration of Conformity with the Financial Information Reported

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

(i) the separate and consolidated financial statements of NOVO BANCO, S.A., for the year ended on 31 December 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

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

(iii) the management report describes accurately the evolution of the businesses, the performance and the financial position of NOVO BANCO and of NOVO BANCO Group in the year ended 31 December 2018, and includes a description of the main risks and uncertainties faced.

The management report and the separate and consolidated financial statements were approved at the meeting of the Executive Board of Directors held on 27 March 2019.

12.2. 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 29 of the Bank's Articles of Association, the Executive Board of Directors of NOVO BANCO proposes, for approval by the General Meeting, that the net loss reported in the separate accounts for financial year 2018, in the amount of 1 432 875 253.85 euro be allocated to the "Other Reserves and Retained Earnings" caption on the balance sheet.

12.3. Note of Recognition

A year on since the sale to Lone Star of 75% of the share capital of NOVO BANCO Group - during which the Group was actively focused on solving its main problems, namely reducing Non Performing Assets and improving the net interest margin, while banking on its solid equity position to outline its way forward as a renewed, modern, and multi-channel bank, delivering to its clients a service of excellence and innovative products -, the General and Supervisory Board and the Executive Board of Directors wish to express their recognition for the loyalty, trust and involvement with the Bank shown by Clients and Employees, and for the cooperation extended by the Governmental and Supervision Authorities and the European Commission.

Lisbon, 27 March 2019

Executive Board of Directors

António Manuel Palma Ramalho

Vitor Manuel Lopes Fernandes

Jorge Telmo Maria Freire Cardoso

Luísa M. S. Soares da Silva Amaro de Matos

José Eduardo Fragoso Tavares de Bettencourt

Rui Miguel Dias Ribeiro Fontes

Luis Miguel Alves Ribeiro

Mark George Bourke

Annex I - Alternative Performance Measures

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

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

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

I – Reconciliation of the Consolidated Income Statement

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

thousand€

Official Consolidated Income Statement 2018		Management Consolidated Income Statement 2018											
		Net Interest Income	Fees and Commissions	Capital Markets Results	Other Operating Results	Staff Costs	General and Administrative Costs	Depreciation	Provisions for Credit	Provisions for Securities	Provisions for Other Assets and Contingencies	Corporate Income Tax	Special Tax on Banks
		454 342	**313 860**	**(40 281)**	**(243 694)**	**266 138**	**198 989**	**22 149**	**263 500**	**13 343**	**433 112**	**667 707**	**27 276**
Interest and similar income	758 691	758 691											
Interest expense and similar charges	304 349	304 349											
Net Interest Income	**454 342**												
Dividend income	8 974			8 974									
Fee and Commission income	366 068		366 068										
Fee and Commission expense	59 734		59 734										
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(68 675)			(68 675)									
Net gains / (losses) from assets at fair value through profit or loss mandatory	(32 877)			(32 877)									
Net gains / (losses) from financial assets at fair value through other comprehensive income	34 472			34 472									
Net gains / (losses) from foreign exchange revaluation	42 503			42 503									
Net gains/ (losses) from the sale of other assets	(176 004)				(176 004)								
Other operating income and expenses	(78 951)		7 526	(24 678)	(34 523)								(27 276)
Operating Income	**490 118**												
Staff costs	266 138					266 138							
General and administrative expenses	198 989						198 989						
Depreciation and amortisation	22 149							22 149					
Provisions, net of reversals	238 870										238 870		
Impairment losses on loans, net of reversals and recoveries	263 500								263 500				
Impairment losses on other financial assets, net of reversals and recoveries	6 479									13 343	(6 864)		
Impairment of other sssets, net of reversals and recoveries	201 106										201 106		
Operating Costs	**1 197 231**												
Sale of subsidiaries and associates	1 026				1 026								
Results from associated companies consolidated by the equity method	5 626				5 626								
Profit / (loss) before income tax	**(700 461)**												
Corporate tax	-												
Current tax	8 790											8 790	
Deferred tax	658 917											658 917	
	667 707												
Income from continuing activities	**(1 368 168)**												
Income from discontinued operations	(39 819)				(39 819)								
Net Income for the year	**(1 407 987)**												
	-												
Attributable to shareholders of the Bank	**(1 412 642)**												
Attributable to Non-controlling interests	4 655												
	(1 407 987)												

II – Alternative Performance Measures

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

ITEM	DEFINITION / PURPOSE	CALCULATION BASIS	RECONCILIATION WITH THE FINANCIAL STATEMENTS (IS): Income Statement Item (BS): Balance Sheet Item
INCOME STATEMENT			
Fees and Commissions	Measure of results of financial activity directly related to services rendered to clients *Historical financial performance measure*	Fee and commission income - Fee and commission expense	(IS): Fee and commission income and Fee and commission expense
Commercial Banking Income	Measure of results of commercial activity directly related with the clients *Historical financial performance measure*	Net interest income + Fees and commissions	
Capital markets results	Measure of results from financial markets activity *Historical financial performance measure*	Results in trading and hedging operations with assets at fair value through other comprehensive income and at amortised cost	(IS): Dividend income, Net gains / (losses) from financial assets and liabilities at fair value through profit or loss, Net gains / (losses) from assets and liabilities at fair value through profit or loss mandatory, Net gains / (losses) from assets and liabilities at fair value through other comprehensive income, 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, at fair value through profit or loss, at fair value through profit or loss mandatory, at fair value through other comprehensive income and at amortised cost *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 funding	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
Customer funds	Measure of assets funding capacity *Historical financial performance measure*	Deposits + Other customer funds + Debt securities placed with clients	(BS): Customer funds, Debt securities and subordinated debt
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*	Deposits + Other customer funds + Debt issued + Subordinated debt + Off-Balance Sheet funds	(BS): Customer funds, Debt securities and subordinated debt
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
Liquidity gap	Measure of the accumulated liquidity need/surplus up to 1 year, in each cummulative scale of residual maturity. *Historical financial performance measure*	Difference between [(Net assets - Volatile liabilities)]	
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) to customer deposits	(BS): Net customer loans and Customer deposits

ITEM	DEFINITION / PURPOSE	CALCULATION BASIS	RECONCILIATION WITH THE FINANCIAL STATEMENTS (IS): Income Statement Item (BS): Balance Sheet Item
ASSET QUALITY AND COVERAGE RATIOS			
Overdue loans ratio	Measure of asset quality, it reflects the defaulting share of the gross loan book *Historical financial performance measure*	Ratio of overdue loans to total loans	(BS): Overdue loans, i.e., credit with overdue instalments of principal and interest and Gross customer loans
Overdue loans by more than 90 days ratio	Measure of asset quality, it reflects the share of the gross loan book in default for more than 90 days *Historical financial performance measure*	Ratio of overdue loans by more than 90 day to total loans	(BS): Overdue loans > 90 days, i.e., credit with overdue instalments of principal and interest for more than 90 days and Gross customer loans
Non-performing loans ratio	Measure of the quality of the loan portfolio, reflects the proportion of the gross loan portfolio including cash and deposits at banks that is non-performing *Historical financial performance measure*	Ratio between the total balance of the loans to customers and cash and deposits at banks identified as: (i) default (internal definition in line with article 178 of Capital Requirements Regulation, i.e., contracts with material overdue above 90 days and contracts identified as unlikely to pay, in accordance with qualitative criteria); and (ii) with specific impairment and total loans	(BS): Loans identified as non-performing loans and Customer loans (gross)
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
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
Non-performing loans coverage ratio	Measure of the capacity to absorb potential losses resulting from non-performing loans *Historical financial performance measure*	Ratio of impairment on customer loans (on balance sheet) to non-performing loans	(BS): Provisions for credit and Non-performing loans
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

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CONSOLIDATED FINANCIAL STATEMENTS OF NOVO BANCO GROUP AS AT 31 DECEMBER 2018

NOVO BANCO GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(in thousands of Euro)

	Notes	31.12.2018	31.12.2017 *
Interest and similar income	5	758 691	888 313
Interest expense and similar charges	5	(304 349)	(484 649)
Net interest income		454 342	403 664
Dividend income	6	8 974	6 156
Fee and commission income	7	366 068	387 245
Fee and commission expenses	7	(59 734)	(71 792)
Net gains / (losses) on financial assets and liabilities at fair value through profit or loss	8	(68 675)	(56 571)
Net gains / (losses) on financial assets and liabilities at fair value through profit or loss - mai	8	(32 877)	-
Net gains / (losses) on financial assets and liabilities at fair value through other comprehens	9	34 472	57 245
Net gains / (losses) from foreign exchange differences	10	42 503	26 387
Net gains/ (losses) from the sale of other assets	11	(176 004)	(39 284)
Other operating income and expenses	12	(78 951)	(50 942)
Operating income		490 118	662 108
Staff costs	13	(266 138)	(275 740)
General and administrative expenses	15	(198 989)	(215 409)
Depreciation and amortisation	27 and 28	(22 149)	(58 057)
Provisions, net of reversals	35	(238 870)	(190 931)
Impairment losses on loans and advances, net of reversals and recoveries	22	(263 500)	(1 229 205)
Impairment losses on other financial assets, net of reversals and recoveries	21 and 23	(6 479)	(134 787)
Impairment losses on other assets, net of reversals and recoveries	25, 27, 28, 29, 30 and 49	(201 106)	(501 984)
Operating expenses		(1 197 231)	(2 606 113)
Disposal of subsidiaries and associated companies	1	1 026	3 931
Results from associated companies under the equity method	29	5 626	8 377
Profit / (loss) before income tax and non-controlling interests		**(700 461)**	**(1 931 697)**
Income tax			
Current tax	36	(8 790)	(14 373)
Deferred tax	36	(658 917)	(430 773)
		(667 707)	**(445 146)**
Profit / (loss) from continuing activities		**(1 368 168)**	**(2 376 843)**
Profit / (loss) from discontinued operations	49	(39 819)	74 779
Net profit / (loss) for the period		**(1 407 987)**	**(2 302 064)**
Attributable to shareholders of the Bank		**(1 412 642)**	**(2 298 049)**
Attributable to non-controlling interests	40	**4 655**	**(4 015)**
		(1 407 987)	**(2 302 064)**
Basic earnings per share (in Euros)	16	(0.14)	(0.39)
Diluted earnings per share (in Euros)	16	(0.14)	(0.39)
Basic earnings per share of continuing activities (in Euros)	16	(0.14)	(0.40)
Diluted earnings per share of continuing activities (in Euros)	16	(0.14)	(0.40)

*Data as of 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

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

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM THE YEAR ENDED 31 DECEMBER 2018 AND 2017

(in thousands of Euro)

	Notes	31.12.2018	31.12.2017 *
Net profit / (loss) for the period			
Attributable to equity holders of the Bank		(1 412 642)	(2 298 049)
Attributable to non-controlling interests	40	4 655	(4 015)
		(1 407 987)	**(2 302 064)**
Other comprehensive income/(loss) for the period			
Items that will not be reclassified to results			
Remeasurement of defined benefit plans	14	(70 931)	(24 646)
Taxes on remeasurement of defined benefit plans	a)	126	(38)
Variation in the credit risk of liabilities at fair value through other comprehensive income		1 202	-
Variation in impairment reserve of equity instruments at fair value through other comprehensive income		604	-
Reserve of sales of equity instruments at fair value through other comprehensive income		(3 315)	-
		(72 314)	(24 684)
Items that may be reclassified to results			
Foreign exchange differences	a)	(8 665)	(2 030)
Taxes on foreign exchange differences	a)	-	(15 572)
Other comprehensive income appropriated from associated companies	a)	779	(212)
		(7 886)	(17 814)
Financial assets at fair value through other comprehensive income			
Potential gains and losses in the period	40	(70 866)	288 950
Gains and losses included in profit and loss for the period	40	(24 001)	(104 691)
Deferred taxes	40	27 310	(46 332)
		(67 557)	137 927
Total other comprehensive income/(loss) for the period		**(147 757)**	**95 429**
Total comprehensive income/(loss) for the period		**(1 555 744)**	**(2 206 635)**
Attributable to shareholders of the Bank		**(1 560 399)**	**(2 202 620)**
Attributable to non-controlling interests		**4 655**	**(4 015)**
		(1 555 744)	**(2 206 635)**

a) See Statement of Changes in the Consolidated Equity

*Data as of 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

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

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018 AND 2017

(in thousand of Euro)

	Notes	31.12.2018	31.12.2017 *
Assets			
Cash and deposits with central banks	17	701 883	3 788 027
Deposits with banks	18	275 789	380 601
Securities held for trading	19	257 270	367
Derivatives held for trading	20	516 336	577 153
Loans and advances to banks	21	423 058	581 901
(of which: Operations with reverse repurchase agreements)		*9 774*	*21 463*
Loans and advances to customers	22	24 754 445	25 790 943
Securities Portfolio	23	10 617 312	8 478 428
Derivatives held for risk management purposes	24	71 404	170 588
Non-current assets held for sale	25	1 888	5 448
Non-current assets held for sale - discontinued units	49	4 090 358	5 130 956
Investment properties	26	1 098 071	1 144 432
Other tangible assets	27	142 494	157 497
Intangible assets	28	5 425	8 682
Investments in associated companies	29	118 698	146 251
Current tax assets	36	6 689	6 014
Deferred tax assets	36	1 196 525	1 964 017
Other assets	30	3 996 257	3 723 544
Total Assets		**48 273 902**	**52 054 849**
Liabilities			
Deposits from central banks	31	6 410 461	6 410 123
Financial liabilities held for trading	20	492 953	559 765
Deposits from banks	32	1 945 099	2 015 044
(of which: Operations with reverse repurchase agreements)		*237 178*	*79 737*
Due to customers	33	28 695 268	30 314 005
(of which: Operations with reverse repurchase agreements)		-	*227 964*
Debt securities issued	34	689 252	1 216 780
Financial liabilities associated to transferred assets	44	44 450	-
Derivatives held for risk management purposes	24	36 150	76 212
Non-current liabilities held for sale	25	-	3 277
Non-current liabilities held for sale - discontinued units	49	4 438 001	5 525 962
Provisions	35	425 935	416 670
Current tax liabilities	36	12 050	13 887
Deferred tax liabilities	36	6 403	6 193
Subordinated debt	37	414 903	-
Other liabilities	38	740 616	775 663
Total Liabilities		**44 351 541**	**47 333 581**
Equity			
Share capital	39	5 900 000	5 900 000
Reserves, Retained earnings and Other comprehensive income	40	(600 343)	1 040 105
Net profit / (loss) for the period attributable to shareholders of the Bank		(1 412 642)	(2 298 049)
Total Equity attributable to shareholders of the Bank		**3 887 015**	**4 642 056**
Non-controlling interests	40	35 346	79 212
Total Equity		**3 922 361**	**4 721 268**
Total Liabilities and Equity		**48 273 902**	**52 054 849**

*Data as of 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

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

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM THE YEAR ENDED 31 DECEMBER 2018 AND 2017

(in thousands of Euro)

	Notes	Share capital	Reserves, Retained earnings and Other comprehensive income			Net profit/ (loss) for the period attributable to shareholders of the Bank	Equity attributable to shareholders of the Bank	Non-controlling interests	Total Equity
			Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total				
Balance as at 31 December 2016		**4 900 000**	**107 202**	**847 744**	**954 946**	**(788 330)**	**5 066 616**	**81 337**	**5 147 953**
Other comprehensive income									
Changes in fair value, net of tax	40	-	137 927	-	137 927	-	137 927	-	137 927
Remeasurement of defined benefit plans, net of tax	40	-	-	(24 684)	(24 684)	-	(24 684)	-	(24 684)
Other comprehensive income appropriated from associated companies		-	-	(212)	(212)	-	(212)	-	(212)
Foreign exchange differences, net of tax		-	-	(17 602)	(17 602)	-	(17 602)	-	(17 602)
Net profit / (loss) for the period		-	-	-	-	(2 298 049)	(2 298 049)	(4 015)	(2 302 064)
Total comprehensive income for the period		**-**	**137 927**	**(42 498)**	**95 429**	**(2 298 049)**	**(2 202 620)**	**(4 015)**	**(2 206 635)**
Share capital increase		1 000 000	-	-	-	-	1 000 000	-	1 000 000
Changes in perimeter		-	-	-	-	-	-	5 500	5 500
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(788 330)	(788 330)	788 330	-	-	-
Reserve of Contingent Capital Agreement *		-	-	791 695	791 695	-	791 695	-	791 695
Transactions with non-controlling interests		-	-	-	-	-	-	45	45
Other movements		-	-	(13 635)	(13 635)	-	(13 635)	-	(13 635)
Other changes in non-controlling interests	40	-	-	-	-	-	-	(3 655)	(3 655)
Balance as at 31 December 2017 *		**5 900 000**	**245 129**	**794 976**	**1 040 105**	**(2 298 049)**	**4 642 056**	**79 212**	**4 721 268**
Impact transition IFRS 9		-	(476 346)	129 700	(346 646)	-	(346 646)	(1 101)	(347 747)
Balance as at 1 January 2018		**5 900 000**	**(231 217)**	**924 676**	**693 459**	**(2 298 049)**	**4 295 410**	**78 111**	**4 373 521**
Other comprehensive income									
Changes in fair value, net of tax	40	-	(67 557)	-	(67 557)	-	(67 557)	-	(67 557)
Remeasurement of defined benefit plans, net of tax	40	-	-	(70 805)	(70 805)	-	(70 805)	-	(70 805)
Other comprehensive income appropriated from associated companies		-	-	779	779	-	779	-	779
Foreign exchange differences, net of tax		-	-	(8 665)	(8 665)	-	(8 665)	-	(8 665)
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	-	1 202	1 202	-	1 202	-	1 202
Reserves of impairment of securities at fair value through OCI		-		604	604	-	604	-	604
Reserves of sales of securities at fair value through OCI		-	-	(3 315)	(3 315)	-	(3 315)	-	(3 315)
Net profit / (loss) for the period		-	-	-	-	(1 412 642)	(1 412 642)	4 655	(1 407 987)
Total comprehensive income for the period		**-**	**(67 557)**	**(80 200)**	**(147 757)**	**(1 412 642)**	**(1 560 399)**	**4 655**	**(1 555 744)**
Changes in perimeter		-	-	-	-	-	-	(13 886)	(13 886)
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(2 298 049)	(2 298 049)	2 298 049	-	-	-
Reserve of Contingent Capital Agreement *		-	-	1 149 295	1 149 295	-	1 149 295	-	1 149 295
Transactions with non-controlling interests		-	-	4 756	4 756	-	4 756	(28 882)	(24 126)
Other movements		-	-	(2 047)	(2 047)	-	(2 047)	-	(2 047)
Other changes in non-controlling interests	40	-	-	-	-	-	-	(4 652)	(4 652)
Balance as at 31 December 2018		**5 900 000**	**(298 774)**	**(301 569)**	**(600 343)**	**(1 412 642)**	**3 887 015**	**35 346**	**3 922 361**

*Data as of 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

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

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

(in thousands of Euro)

	Notes	31.12.2018	31.12.2017
Cash flows from operating activities			
Interest and similar income received		795 484	863 679
Interest expense and similar charges paid		(327 982)	(606 293)
Fees and commissions received		366 634	388 278
Fees and commissions paid		(61 180)	(75 528)
Insurance earned premiums, net of reinsurance		-	1 086
Claims incurred, net of reinsurance		-	(10 674)
Recoveries on loans previously written off		42 424	35 453
Contributions to the pension fund		(93 686)	(65 416)
Cash payments to employees and suppliers		(406 041)	(426 948)
		315 653	**103 637**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		4 742	(1 477)
Financial assets at fair value through profit or loss		(331 573)	(45 910)
Financial assets at fair value through profit / loss - mandatory		129 779	-
Acquisition of financial assets at a fair value through OCI		(11 875 234)	(19 069 753)
Sale of financial assets at a fair value through OCI		9 829 586	17 821 991
Issue of investment contracts		-	(2 450)
Acquisition of financial assets at amortised cost		(7 209 585)	-
Sale of financial assets at amortised cost		7 106 372	-
Investments in other credit institutions		162 485	471 361
Deposits from banks		(69 995)	(1 703 829)
Loans and advances to customers		535 378	1 096 002
Due to customers and other loans		(1 606 574)	2 725 704
Derivatives held for risk management purposes		103 973	48 884
Other operating assets and liabilities		(833 679)	234 814
Net cash from operating activities before corporate income tax		**(3 738 672)**	**1 678 974**
Corporate income taxes paid		(32 965)	(47 398)
Net cash from operating activities		**(3 771 637)**	**1 631 576**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies		(1 003)	(1 400)
Sale of investments in subsidiaries and associated companies		1 025	61 957
Dividends received		8 974	11 681
Acquisition of tangible fixed assets		(16 276)	(5 535)
Sale of tangible fixed assets		332	(1 330)
Acquisition of intangible assets		(5 252)	(8 790)
Sale of intangible assets		3	449
Acquisition of investment properties		(13 720)	-
Sale of investment properties		69 703	21 472
Net cash from investing activities		**43 786**	**78 504**
Cash flows from financing activities			
Capital increase		-	1 000 000
Contingent Capital Agreement		791 695	-
Issue of bonds and other debt securities		-	50 000
Reimbursement of bonds and other debt securities		(391 596)	(433 196)
Issue of subordinated liabilities		141 200	-
Net cash from financing activities		**541 299**	**616 804**
Net changes in cash and cash equivalents		**(3 186 552)**	**2 326 884**
Cash and cash equivalents at the beginning of the period		**3 906 093**	**1 579 209**
Effect of exchange rate changes in cash and cash equivalents		-	-
Net changes in cash and cash equivalents		(3 186 552)	2 326 884
Cash and cash equivalents at the end of the period		**719 541**	**3 906 093**
Cash and cash equivalents include:			
Cash	17	155 860	168 221
Deposits with Central Banks	17	546 023	3 619 806
(of which, Restricted balances)		(258 131)	(262 535)
Deposits with banks	18	275 789	380 601
Total		**719 541**	**3 906 093**

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 2018

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging by the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively. Thus, as at 31 December 2017, the share capital of NOVO BANCO amounted to Euro 5 900 million, represented by 9 799 999 997 nominative shares, with no nominal value.

Within the sale process, a Contingent Capital Agreement was created, which in case its capital ratios decrease below the regulatory requirements defined for NOVO BANCO, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euro 3 890 million.

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

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon.

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

NOVO BANCO Group (hereinafter also designated as Group or NB Group) has a retail network comprising 402 branches in Portugal and abroad (31 December 2017: 473 branches), including branches in London, Spain, Cayman Islands and Luxembourg and 5 representative offices overseas (31 December 2017: 5 representative offices).

Group companies in which the Bank has a direct or indirect holding higher or equal to 20%, over which the Bank exercises control or significant influence, and that were included in the consolidation perimeter, are presented below.

The entities directly consolidated into NOVO BANCO are the following:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Bank		
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 (NB Açores)	2002	2002	Portugal	Bank	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non banking 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	100.00%	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 NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56.78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	95.28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	100.00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	85.80%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	54.74%	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
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	95.28%	Full consolidation
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	1990	2012	Portugal	Agricultural holdings	94.80%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100.00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate development	99.875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho Resort, SA	2007	2017	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho II - Investimento Imobiliário, SA	2008	2017	Portugal	Real estate development	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real estate fund management	100.00%	Full consolidation
R Invest - Fundo Especial de Investimento Imobiliário Fechado	2009	2017	Portugal	Real estate fund management	100.00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real estate fund management	100.00%	Full consolidation
GNB - Companhia de Seguros, SA (GNB SEGUROS)	1996	1996	Portugal	Insurance	25.00%	Equity method
ESEGUR - Empresa de 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% [b)]	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non banking financing	17.50% [a)]	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35.00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50.00% [b)]	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Holding	22.52%	Equity method

a) 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

b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100.00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50.00% b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	100.00%	Full consolidation
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	100.00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
Fundo 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 management	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate management	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate 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% a)	Equity method
Logic C - Logística Integrada, SA	2005	2016	Portugal	Logistics	20.74%	Equity method
Epedal, SGPS, SA	2007	2015	Portugal	Holding	12.22% a)	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	33.83% a)	Equity method
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18.96% a)	Equity method
Ach Brito & Ca, SA	1918	2015	Portugal	Soap manufacturing	8.77% a)	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engeneering	8.11% a)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2010	2010	Portugal	Holding	40.00% a)	Equity method
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	**1990**	**2012**	**Portugal**	**Agricultural holdings**	**94.80%**	**Full consolidation**
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	94.80%	Full consolidation

a) 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
b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

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

	Year incorporated	Year acquired	Registered office	% Economic Interest	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full consolidation
Lusitano SME No. 3 (*)	2016	2016	Portugal	100%	Full consolidation
Lusitano Synthetic Ltd (*)	2012	2012	Ireland	100%	Full consolidation

(*) - Structured entities set up in the scope os securitization operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 44)

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

(in thousands of Euro)

	31.12.2018	31.12.2017
Cash and deposits with banks	147 029	158 185
Loans and advances to customers (net of impairment losses)	1 877 235	2 306 974
Debt securities issued (a)	55 066	352 455

(a) see Note 34

During the financial year ended on 31 December 2018, the main changes in NOVO BANCO Group's structure are as follows:

- Subsidiaries

- In January 2018, ESTV acquired Opway 1.032% of the share capital of GNB Concessões for 1 euro;
- In February 2018, ES Concessions International Holding, BV was liquidated;
- In March 2018, Palexpo Imobiliária was liquidated;
- In May 2018, Fundo Solid increased its share capital by Euro 250 thousand; this capital increase was fully subscribed and paid by NOVO BANCO;
- In June 2018, the companies Quinta dos Cónegos and GNB SI ACE were liquidated;
- In June 2018, NOVO BANCO acquired participation units of Fundo Invesfundo VII for Euro 1 003 thousand, representing 4.14% of its share capital, and now owns 100% of the capital of the Fund;
- In June 2018, Promofundo fund became part of the consolidation perimeter of NOVO BANCO Group as a result of a process of transfer in lieu of payment of the participation units representing the entire share capital of this fund;
- In August 2018, Promofundo fund increased its share capital by Euro 22 850 thousand;
- In October 2018, Sociedade da Vargem Fresca III, owned by Portucale, was liquidated;
- In October 2018, the securitization operation Lusitano Finance N. º 3 was liquidated;
- In October 2018, NOVO BANCO received as a payment in kind 260 000 shares from GNB Concessões equity capital, making NB Group the owner of 100% of the entity;
- In November 2018, Madeira's branch was terminated;
- In December 2018, the companies Herdade da Vargem Fresca V e Herdade da Vargem Fresca VII, owned by Portucale, were liquidated.

- Associated companies

- In February 2018, NOVO BANCO and GNB Concessões sold their stake in Ascendi Pinhal Interior, recording a consolidated capital gain of Euro 1 026 thousand;
- In April 2018, the FCR SME NB fund sold the 33.33% stake held in Attentionfocus, Lda for Euro 1, generating no impact on results. Simultaneously, the accessory capital and shareholder loans granted to this Company were fully reimbursed;
- In October 2018, FCR PME NB Fund started to consolidate the entities Ach Brito and M. N. Ferreira Ramos using the equity method.

In addition, in February 2018, the assets and liabilities of the Venezuelan branch of NOVO BANCO were sold to BANCAMIGA, Banco Universal, CA, of Venezuela, for the amount of 11 707 500 thousand Venezuelan bolivars (approximately Euro 272 thousand at the exchange rate DICOM- BCV of 28 February 2018). The sale has no impact on results because the operation in Venezuela was fully provisioned in 2017. Upon conclusion of the transaction, NOVO BANCO no longer has any banking activity in Venezuela.

During the year of 2017, the main changes in NOVO BANCO Group's structure were as follows:

- Subsidiaries

- In April 2017, the Real Estate companies Herdade do Pinheirinho and Herdade do Pinheirinho II became part of the consolidation perimeter of the NOVO BANCO Group as a result of the transfer in lieu of payment of the shares representative of the total share capital of these two companies;
- In April 2017, ASAS Invest fund realised a capital increase of Euro 500 thousand, totally subscribed and fulfilled by NOVO BANCO;
- In June 2017, NB PME Growth fund realised a capital increase of Euro 100 thousand, totally subscribed and fulfilled by NOVO BANCO;
- In August 2017, Filmes Oriente realised a capital increase of Euro 2 499 thousand, totally subscribed and fulfilled by NOVO BANCO;
- In September 2017, NOVO BANCO sold 100% of its shares in Praça do Marquês for Euro 25 727 thousand, recording an capital gain of Euro 3 167 thousand.

- Associated companies

- In February 2017, the Ascendi Group changed its corporate name to Lineas – Concessões de Transportes, SGPS, SA;
- In May 2017 the sale of 41.06% of shares and of supplementary capital contributions of Nanium was completed for a fixed amount of Euro 18 585 thousand and a variable amount depending on certain conditions, which may result in the recognition of additional earnings in future periods. The net realised capital gain of this transaction amounted to Euro 764 thousand;
- In June 2017, a share capital increase was realised in Moza Banco, but not subscribed by NB África that came to hold 10.13% of the share capital of Moza Banco, ceasing to have a significant influence on its management. For this, Moza Banco ceased to be consolidated by the equity method in the NOVO BANCO Group from that date on. This change in consolidation method had no impact whatsoever on the Group's accounts.
- In July 2017, FCR PME NB fund acquired a participation of 33.4% in Cristalmax capital for Euro 1 400 thousand.

During 2018 and 2017, the movements relating to acquisitions, disposals and other investments and reimbursements in subsidiaries and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2018						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimburse-ments (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
Solid	-	250	250	-	-	-	-
Invesfundo VII	1 003	-	1 003	-	-	-	-
Promofundo	-	22 850	22 850	-	-	-	-
	1 003	23 100	24 103	-	-	-	-
Associated companies							
Ascendi Pinhal Interior	-	-	-	10	-	10	1 026
Attentionfocus	-	-	-	-	-	-	-
	-	-	-	10	-	10	1 026
	1 003	**23 100**	**24 103**	**10**	**-**	**10**	**1 026**

(a) Share capital increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies

(in thousands of Euros)

	31.12.2017						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal amount	Other reimburse-ments (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
Praça do Marquês	-	-	-	25 757	-	25 757	3 167
Portucale	-	340	340	-	-	-	-
Várzea da Lagoa	-	40	40	-	-	-	-
Quinta D. Manuel I	-	30	30	-	-	-	-
Imalgarve	-	70	70	-	-	-	-
JCN	-	246	246	-	-	-	-
Greenwoods	-	250	250	-	-	-	-
Autodril		120	120	-	-	-	-
Fimes Oriente		2 499	2 499	-	-	-	-
BES PME Capital Growth	-	100	100	-	-	-	-
ASAS Invest	-	500	500	-	-	-	-
	-	4 195	4 195	25 757	-	25 757	3 167
Associated companies							
Nanium	-	-	-	18 585	-	18 585	764
Cristalmax	1 400	-	1 400	-	-	-	-
	1 400	-	1 400	18 585	-	18 585	764
	1 400	**4 195**	**5 595**	**44 342**	**-**	**44 342**	**3 931**

(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, is included in Note 40, in the respective table of the movements, under "Changes in the consolidation perimeter and control percentages".

The subsidiaries classified, under IFRS 5, as non-current assets held for sale and discontinued operations, are detailed in Note 49.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 of the European Council and the Parliament and Notices 5/2015 of the Banco de Portugal, the consolidated financial statements from NOVO BANCO, S.A. (the group or NOVO BANCO) were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2018.

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 Standing Interpretations Committee ("SIC").

The consolidated financial statements of NOVO BANCO are presented as at 31 December 2018. 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 2017, except in what concerns with the new standards issued, the change in the accounting treatment of the triggering of the Contingent Capital Agreement and the change of the initial recognition of the liabilities related with the LME operation concluded in the last quarter of 2017. These changes are presented below.

Accounting Policies, Changes in Accounting Estimates and Errors

Changes in accounting policies – adoption of IFRS 9

<u>New and amended standards</u>

As described in Note 52, in the preparation of its consolidated financial statements as at 31 December 2018, the Group adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory effect as from 1 January 2018. The accounting policies used by the Group in preparing the consolidated financial statements, described in this note, were adopted accordingly.

The new standards with material impact at the time of their adoption for the first time are described below.

In these financial statements the Group first applied IFRS 9 and IFRS 7, which are mandatory for periods beginning on or after 1 January 2018. The Group has not early adopted any other standard or interpretation. The Group also changed the accounting policy for the recognition of the Contingent Capital Agreement as from 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 is mandatory and replaces IAS 39 for periods beginning on or after 1 January 2018. The Group has not restated comparative information for 2017, thus using a possibility provided for in IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018.

Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 51.

Changes to classification and measurement

To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (i) fair value through profit or loss; (ii) available for sale; (iii) held-to-maturity and (iv) amortised cost have been replaced by:

• Financial assets at amortised cost;
• Financial assets at fair value through other comprehensive income;
• Financial assets at fair value through profit or loss;
• Financial assets at fair value through profit or loss - mandatory.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains and losses arising from the entity's own credit risk related to financial liabilities measured at fair value through profit or loss, which are presented in other comprehensive income with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from the host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed in relation to IAS 39. The Group's accounting policy for embedded derivatives is described in Note 2.4.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward looking expected credit loss approach recommended in IFRS 9.

IFRS 9 requires an entity to record an allowance for expected credit losses on financial assets such as loans to customers, other debt instruments not held at fair value through profit or loss, loan commitments and financial guarantee contracts. The allowance should be recorded for an amount equivalent to expected credit losses within the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated in impaired credit, the allowance for losses is based on the expected credit loss over the life of the asset.

GNB – Companhia de Seguros de Vida, S.A. (GNB Vida) did not adopt IFRS 9 as of 1 January 2018, benefiting from the deferment period of its adoption granted to the Insurance Companies, which extends until 1 January 2021. As such, the assets and liabilities of GNB Vida recognized in discontinued operations still follow the valuation recommended in IAS 39 - Financial Instruments.

The Group's impairment methodology is described in Note 2.5.

The impact of the application of IFRS 9 as of 1 January 2018 is disclosed in Note 51.

IFRS 7

The Group adopted IFRS 7 Financial Instruments: Disclosures, which was amended to reflect the changes between IFRS 9 and IAS 39.

Changes include transition disclosures as shown in Note 51, qualitative and quantitative information about the expected credit losses, such as the main estimates and assumptions considered by the management in the transition.

Other changes – Contingent Capital Agreement and LME

Contingent Capital Agreement

The Group changed the accounting treatment of the triggering of the Contingent Capital Agreement amount, that in 2018 was accounted for in Other Reserves and Retained earnings, considering that this option is the one that currently best reflects the substance of said agreement. In 2017, this amount was recorded as a result of the year. As such, for the purpose of preparing the financial statements as at 31 December 2018, the comparative information with reference to 31 December 2017 has been restated to reflect this change, in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8). As a result, the consolidated balance sheet as at 31 December 2017 and the consolidated statement of changes in equity for the year ended 31 December 2017 presented for comparison purposes have been restated in accordance with IAS 8. This change did not cause any change in the consolidated statement of cash flows.

<u>Change in the initial recognition of certain liabilities related to the LME Operation</u>

With reference to 31 December 2017, the Group changed the recognition of certain liabilities resulting from the debt exchange operation (performed in the last quarter of 2017), in order to reflect its fair value at the time of the initial recognition of these liabilities.

The impacts on the Group's Balance Sheet and Income Statement as at 31 December 2017, resulting from the change in the accounting treatment of the triggering of the Contingent Capital Agreement and the change of the initial recognition of the liabilities related with the LME operation are presented as follows:

(in thousands of Euro)

Balance Sheet	Notes	Balance as at 31.12.2017	Contingent Capital Agreement	LME Liabilities	Balance as at 31.12.2017 restated
Liabilities					
Due to customers	33	30 208 071	-	105 934	30 314 005
Other Liabilities	38	770 690	-	4 973	775 663
Equity					
Other reserves and retained earnings	40	248 410	791 695	-	1 040 105
Net income attributable to the shareholders of the Bank		(1 395 447)	(791 695)	(110 907)	(2 298 049)

(in thousands of Euro)

Income Statement	Notes	Balance as at 31.12.2017	Capital Contingent Agreement	LME Liabilities	Balance as at 31.12.2017 restated
Interest expense and similar charges	5	(493 743)	-	9 094	(484 649)
Other operating income and expenses	12	860 754	(791 695)	(120 001)	(50 942)

The remaining accounting policies used by the Group in the preparation of these consolidated financial statements are consistent with those used in the preparation of the financial statements as at 31 December 2017.

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 analyzed in Note 52.

The consolidated financial statements are expressed in thousands of Euro, rounded to the nearest thousand. They have been prepared under the assumption of continuity of operations from the accounting records and following 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, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

Changes in accounting estimates

The preparation of financial statements in accordance with IFRS requires the Group to make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences when compared to the reality may impact the current estimates and judgements. The areas involving a higher level of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are analyzed in Note 3.

The consolidated financial statements and the Management Report of 31 December 2018 were approved at the Executive Board of Directors' meeting held on 27 March 2019, and will be submitted for approval in the Annual Assembly which has the power to modify them. However, it is the conviction of the Executive Board of Directors that these will be approved without significant modifications.

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 to all the Group companies during the financial years covered by these consolidated financial statements, with the exception of GNB Vida which did not adopt IFRS 9 as of 1 January 2018 due to the company benefiting from the deferment period of the adoption of this standard granted to Insurance Companies, which extends until 1 January 2021, which is why its assets and liabilities recognized in discontinued operations still follow the valuation recommended in IAS 39 - Financial Instruments.

Subsidiaries

Subsidiaries are entities (including investment funds and securitization vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity, and may take possession of same by way of the power it has over the entity (*de facto* control) and has the ability to affect these variable returns through the power it held over the relevant activities of the entity. As provided 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. Holdings of third parties in these entities are presented in the caption Non-controlling interests, except for open investment funds in which these values are presented in the caption Other liabilities, due to the high probability of their redemption.

The accumulated losses of a subsidiary are attributed proportionally to non-controlling interests even if this results in the recognition of non-controlling interests of a negative value.

When control is obtained in a business combination achieved in stages (step acquisition) the Group remeasures its previously held non-controlling interest in the entity at its fair value and recognizes the resulting gain or loss in the income statement upon determining the respective goodwill. At the moment of a partial sale, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to its fair value at the date the control is lost and the resulting gain or loss is recognised in the income statement.

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

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

Associated companies

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

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

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

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

Gains or losses on disposals of shares in associated companies are recognised in the income statement even if those disposals do not result in the loss of significant influence. Dividends attributed by associated companies reduce the balance sheet value recognised by the Group.

Structured Entities (SE)

The Group consolidates, using the full consolidation method, certain special purpose entities, created specifically to accomplish a narrow and well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, irrespective of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by IFRS 10 – Consolidated Financial Statements, according to which a SE is controlled if (i) the Group is exposed, or has rights to its results; and (ii) the Group has the power to affect the SE's results through the control it exercises over them.

Investment funds managed by the Group

As part of its asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over their activity, according to the criteria established by IFRS 10.

Goodwill

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

Business combinations occurring after 31 December 2009 were accounted for using the purchase method. The acquisition cost includes the fair values: i) of the assets transferred, ii) of the liabilities assumed by the acquirer before the previous shareholders of the acquired, and iii) of the equity instruments issued.

In accordance with IFRS 3 – Business Combinations, the Group measures goodwill as the difference between the fair value of the consideration transferred including the fair value of any non-controlling interest previously held, and the fair value attributable to the assets acquired and the liabilities assumed and any equity instruments issued. The fair values are determined at the acquisition date. The costs directly attributable to the acquisition are expensed at the moment of the acquisition.

As at the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

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

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is, or not, any indication of impairment. Impairment losses are expensed directly in the income statement. The recoverable amount corresponds to the lower 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.

Non-controlling interests in Open Real Estate Funds are recorded under Other Liabilities.

Transcription of financial statements in foreign currency

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 Euro, 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 Euro in accordance with the following criteria:

- Assets and liabilities are translated using the exchange rate prevailing at the reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;
- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognised in results as an integral part of the gain or loss on the disposal.

Balances and transactions eliminated with 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, 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 Euro 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 Euro 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 financial assets at fair value through other comprehensive income, which are recorded in equity reserves.

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

2.4. Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 30 and 38) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) Hedging instruments and hedged items are eligible for the hedge relationship;

(ii) 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;

(iii) There is an economic relationship between the hedged item and the hedging instrument;

(iv) The effect of credit risk does not dominate the changes in value that result from this economic relationship;

(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

The use of derivatives is framed in the Group's risk management strategy and objectives.

- 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. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognised in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Bank may adjust the hedging operation in order to meet the eligibility (rebalancing) criteria.

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), 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 2018 and 2017, the Group had no hedging operations classified as cash flow hedges.

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Group classifies the entire contract in accordance with the policy outlined in note 2.5.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b) a separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and
c) The hybrid contract is not measured at fair value and changes in fair value are recognised in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

These embedded derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

2.5. Other financial assets: placements with credit institutions, customer loans and securities

From 1 January 2018, the Group initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - *solely payments of principal and interest*) on the principal amount outstanding;
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognised in equity;
- Measured at fair value through mandatory results: all cases not within the scope of SPPI.
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above.

Until 1 January 2018, the Group classified its financial assets as financial assets at amortised cost, at fair value through profit or loss, available for sale and held to maturity.

In accordance with its documented strategy for risk management, the Group contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without, however, resorting to hedge accounting as described in Note 2.4. In these situations, the initial recognition of the loan is made through its measurement at fair value through profit or loss. In this manner, measurement consistency is achieved between the loans and the derivatives for risk management purposes (accounting mismatch).

Initial recognition and measurement and derecognition

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

Financial assets are derecognised when (i) the Group's contractual rights to its cash flows have expired, (ii) the Group has transferred substantially all the risks and rewards associated with its holding, or (iii) retained part, but not substantially all the risks and rewards associated with their detention, control over the assets has been transferred. When a financial asset measured at fair value through OCI is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. In the specific case of equity instruments, the cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss and is transferred between equity captions.

Deposits and loans and advances to banks and loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterparty. Acquisitions and disposals of securities are recognised on the trade date, that is, on the date on which the Group undertakes to acquire or dispose of the asset.

Financial assets at amortised cost or at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

(i) The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

(ii) The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Group determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Group's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Group determines whether it is part of an existing business model or if it reflects a new business model. The Group reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IAS 17 - Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently measured at fair value with changes in the fair value recognised in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognised in reserves are reclassified to profit or losses. In the specific case of equity instruments, the cumulative gains/ (losses) previously recognised in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognised in profit or loss.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest, calculated at the effective interest rate, and dividends are recognised in profit or loss.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss present the following characteristics:

- contractual cash flows are not SPPI (fair value through mandatory results); and/or,
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or,
- it is designated at fair value through profit or loss as a result of applying the *fair value option*.

These assets are measured at fair value and the respective revaluation gains or losses are recognised in the income statement.

The fair value of listed financial assets is based on bid-prices, the bid price of the last transaction or on the bid known. In the absence of a price an active market, the Group estimates fair value using (i) valuation techniques, including the use of recent similar arm’s length transactions, discounted cash flow techniques and option pricing models customized to reflect the specificities and circumstances of the instrument and (ii) valuation assumptions based on market information.

Reclassifications

If the Group changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment

The Group record impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Debt instruments at amortised cost or at fair value through equity are in the scope of the impairment calculation.

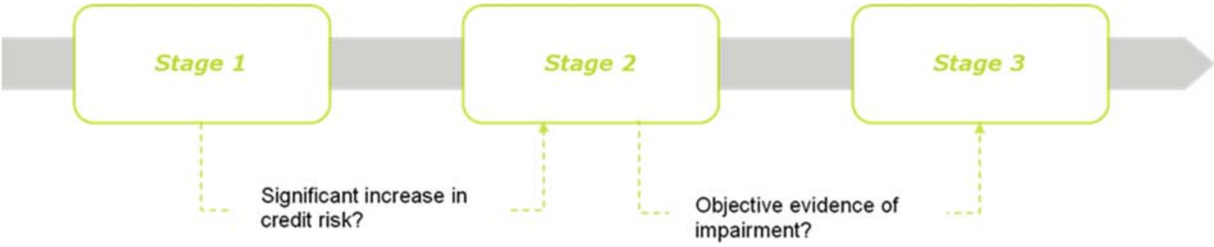
Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

The impairment calculation approach distinguishes between the 12 months' expected credit losses - *Stage 1* - and the lifetime expected credit losses. To determine expected lifetime losses, the approach considers the projection of contractual cash flows - *Stage 2* - or the present value of the expected recoveries - *Stage 3*. Thus, the model of impairment calculation by *Stage* is summarized as follows:

- expected credit loss resulting from a potential loss event occurring within the next 12 months after the calculation date (*Stage 1*); or
- expected credit loss, resulting from all potential loss events expected over the lifetime, applied to the projection of contractual cash flows (*Stage 2*); or
- expected credit loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure [2] (*Stage 3*).

[2] Parameters used to determine recoveries vary, essentially depending on the risk profile / nature of the exposure.

Therefore, for the determination of impairment, the classification by Stage for all exposures according to their level of credit risk, as summarized in the figure below, is made beforehand:



- Stage 3

  The process of assigning Stage to an exposure starts by checking if the *Stage 3* criteria applies. If the exposure is classified as Default - according to the current internal definition[3] - this exposure is classified as *Stage 3*.

  Thus, the classification of exposures in *Stage 3* is based on the occurrence of a default event, with objective evidence of loss occurring at the time from which a significant change occurs in the creditor-debtor relationship, being the creditor exposed to a monetary loss.

- Stage 2

  Exposures are classified as *Stage 2* whenever there is a significant increase in credit risk. If there is no objective evidence of loss associated with the exposure, criteria are analysed to determine whether exposure has significantly increased its credit risk.

  The significant increase in credit risk is assessed through qualitative and quantitative evidence. Once it is verified that - at least - one of these triggers is active, the exposure is classified in *Stage 2.*

  As explained in IFRS 9, the assessment of the significant increase in credit risk also involves comparing the current risk level of an exposure against the level of risk at origination.

  The Group assigns an internal credit risk grade to the exposure / borrower, depending on its quality and associated with the probability of default. In assessing whether the exposure credit risk has increased significantly since initial recognition, the Group compares, at the reporting date, the lifetime probability of default with the probability of default at origination of the exposure. Depending on whether the observed variation falls above a defined threshold - relative and / or absolute - the exposure is classified in *Stage 2*.

[3] The internal definition of Default is aligned with article 178 of CRD IV, providing criteria of material past due for more than 90 days and for unlikely to pay.

In addition to this event, the Group considers other events, that if verified imply the classification in *Stage 2* (e.g.: material default for more than 30 days, risk events in the financial system, internal credit risk grade above a certain threshold, among others).

- *Stage* 1
  The classification of exposures in *Stage 1* depends on:
  (i) absence of active events that qualify for *Stage 3* and *Stage 2, which were* mentioned and described above; or,
  (ii) the framing of these exposures under the low-credit risk exemption. These exposures, if not in *Stage 3*, are automatically classified in *Stage 1*.

The Group assesses collective and individual impairment, for the basis of incidence through an initial classification of the respective credit risk level - Stage 1, 2 or 3 in the collective assessment model and going concern or gone concern approach in the individual analysis model.

If for a particular loan there is no objective evidence of impairment in an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio), and assessed collectively through the application of estimated risk factors for exposure segment - collective assessment of impairment.
If an impairment loss is identified on an individual basis, the amount of the impairment loss determined prevails over the collective impairment.

Individual assessment is carried out for the following exposures:

- All borrowers classified as defaulted (stage 3), or classified in stage 2 and with no internal grade assigned, with exposure above Euro 1 million;
- All borrowers classified in stage 2, with exposure above Euro 5 million;
- All borrowers classified in stage 1 and with no internal grade assigned, with credit exposure above Euro 5 million;
- All real estate entities and financial holdings with credit exposure above Euro 5 million;
- All other low-risk borrowers (stage 1) with exposure above Euro 25 million;
- Additionally, the following borrowers are selected for individual analysis:
  - identified by the Committee based on other justified criteria (e.g.: sector of activity)
  - exposures that in the past were subject to an individual impairment recognition;
  - exposures that based on new events which may impact the impairment calculation, might be elected for analysis by one of the Impairment Committee members or by another body/committee.

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. For each of these homogeneous risk groups, risk factors are estimated and then applied for impairment assessment purposes.

Scenarios

As required by IFRS 9, the impairment assessment should reflect different expectations of macroeconomic developments, i.e., it should incorporate multiple scenarios. In order to incorporate the effects of future macroeconomic behavior on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios must consider the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Group (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Group uses in internal and / or regulatory planning exercises. As a result, the Group has developed macroeconomic regressions for the main credit portfolios, through which risk parameters are projected, taking into account the macroeconomic variables (GDP growth, unemployment rate, inflation, interest rate, price variation of real estate, among other variables) assumed for a given time horizon of projection. These models are subject to regular statistical monitoring and have been used in the Group for several years. Thus, we understand that there is a significant Use Test, which, together with the statistical robustness evidenced by the tests performed and the obvious advantage of using a methodology consistent with the Group's practice in other processes, was the basis for our option.
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

The macroeconomic scenarios and projections available also have a probability of occurrence. So when reviewing / updating the scenarios – at least once a year – the respective probabilities of execution are also reviewed. Once updated the scenarios, the values of the risk parameters are also updated for subsequent consideration on impairment calculation. The final impairment assessment will result from the addition of the impairment in each scenario weighted by the respective probability of execution.

It is still relevant to mention the existence of specific portfolios where the internal credit risk grades incorporate, by its attribution process, *forward-looking* information. We refer to the commonly referred known Low Default Portfolios for which the attribution of an internal credit risk grade is based on a medium and long-term perspective and incorporating all the forward-looking information available.

Therefore, for this universe of portfolios the incorporation of the forward-looking information is guaranteed.

Write-offs

Write-off is defined as the derecognition of a financial asset from the Group's balance sheet, which should only occur when cumulatively:

(i) The total amount of the credit has been demanded, that is, the credit must be fully recognized as overdue credit. Exemptions from this requirement are extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial/ extra-judicial decision;

(ii) All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered) and additional efforts to recover the asset will not be considered economically viable.

(iii) The credit recovery expectations are very low, leading to an extreme scenario of total impairment. This rule is only applicable for contracts without real estate collateral and if the whole contract is classified as overdue. In all other cases, it is necessary to ensure that the amount to be written off is fully impaired (at least in the month prior to the month of the write-off);

(iv) A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered;

(v) If it is considered more beneficial to sell the credit to a third party. At the time of sale, the difference between the sale amount and the balance sheet amount must be fully impaired, and at the time of sale the credit will be derecognized in exchange of the funds/assets received.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries.

2.6. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the 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.

2.7. 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. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or the payment of dividends.

These financial liabilities are recognised (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

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

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Group's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

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

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

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognised in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Group accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognises of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognised in the income statement.

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.

2.8. Financial and performance guarantees

Financial guarantees

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

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

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

Performance guarantees

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

2.9. 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.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of the NOVO BANCO Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterpart.

2.11. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their 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 object (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Group's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Group 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 same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognised at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it 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, and in accordance with Law nº 16/2015, of February 24, fair value is determined as the average between two valuations, obtained from independent entities, determined at the best price that could be obtained if it were put up for sale under normal market conditions at the time of valuation, which is reviewed at least annually or, in the case of open investment funds, with the frequency of redemption, and whenever acquisitions or disposals occur or when significant changes in the value of the real estate property occur.

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

(i) *Market Method*

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

(ii) *Income Method*

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

(iii) *Cost Method*

This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analyzed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Assets / liabilities of subsidiaries acquired for resale purposes reflect, essentially, assets and liabilities of subsidiaries acquired by the Group in the scope of loan restructuring operations, for which the Group's objective is their subsequent disposal within one year. Since these acquisitions arise from loan restructuring operations, they are recognised at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognised as impairment losses on loans and advances. On the acquisition of an entity meeting the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these specific 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 assets and liabilities.

For purposes of determining the fair value of subsidiaries held for resale, the Group adopts the following methodologies:

- for subsidiaries which assets comprise fundamentally real estate, their fair value is determined with reference to the value of those assets, which is based on valuations performed by independent specialised entities;
- for the remaining entities, their fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with that provided for in Note 25.

2.12. 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 its recoverable amount to be estimated and an impairment loss 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 lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

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

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the 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.

2.14. 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.

Financial leases

- As lessee

Finance lease contracts are recorded at the inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value.

Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.15. Employee benefits

Pensions

Pursuant to the signature of the Collective Labor Agreement (“*Acordo Colectivo de Trabalho*” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 14, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans of the Group are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semiannually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan’s liabilities.

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

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

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Group makes payments to the funds to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Group assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Until 1 February 2017, the Group's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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

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

Long-term service bonus and Career bonus

In accordance with the previous Collective Labor Agreement (ACT) for the Banking Sector, in force until July 2016, the Group had the commitment to pay active employees who completed 15, 25 and 30 years of service in the Group, long-term service bonuses corresponding to one, two and three times, respectively, their monthly salary paid at the date the bonuses were paid.

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

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

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Group paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

Under the new ACT, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Group in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

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

Employees' variable remuneration

The Group recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans

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

- Obligations with holidays, holiday subsidy and Christmas subsidy

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

2.16. Corporate Income tax

NOVO BANCO is subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC code).

Corporate income tax comprises current tax and deferred tax. Corporate income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised under deferred tax reserves (other comprehensive income). Corporate income tax recognised directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognised in the income statement when the gains or losses giving rise to said income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognised in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

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

Deferred tax liabilities are recognised for all taxable timing differences except for goodwill, non-deductible for tax purposes, differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit, and that do not result 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 Group does not control the timing of the reversal of the timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

Taxable income or tax loss reported by the Bank may be corrected by the Portuguese Tax Authorities within a period of four years, except when any deduction was made or a tax credit was used, in which case this period corresponds to the period during which this right may be exercised (5 or 12 years in the case of tax losses, depending on the financial year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in interpretation of tax legislation, will not have a material effect on the financial statements.

The Group, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

2.17. Provisions and Contingent liabilities

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

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

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

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

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

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

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 financial assets at fair value through other comprehensive income, 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 and similar income includes interest from financial assets for which were recognised impairment. The interest from financial assets classified as *Stage 3* are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as *Stage 3*, the interest is calculated based on the gross book value.

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.

2.19. Recognition of fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed;

- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Recognition of dividend income

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

2.21. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.22. 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.

2.23. Investment properties

The Group classifies as investment properties the real estate assets held to earn rentals or for capital appreciation or both. Investment properties are initially recognised at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognised in the income statement, under the caption Other operating income and expenses, based on periodic valuations performed 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 other assets to investment properties, any difference between the fair value of the asset at that date and the previous carrying book value is recognised in the income statement.

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

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

Investment properties recorded relate solely to non-banking activities (Investment Funds and Real Estate Companies).

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

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Group 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 financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognised impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Group determines its business model based on how it manages the financial assets and its business objectives. The Group monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes.
- Significant increase on the credit risk: as mentioned on the Note 2.5 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from *stage 1* to *stage 2* with the purpose of determining the respective impairment is made based on the significant increase of its credit risk, though IFRS 9 does not objectively define what constitutes a significant increase on credit risk.
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by NOVO BANCO and which result in performing judgements when assessing the high probability that the borrower does not fulfill its obligations within the conditions agreed with NOVO BANCO.
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Group monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics.
- Models and assumptions: the Group uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

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

Fair value is based on listed market prices when available; otherwise fair value is determined based on 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, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Group uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

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 45 and 46.

3.3. Impairment of goodwill

The recoverable amount of the goodwill recognised as an asset of the Group is revised periodically regardless of the existence, or not, of impairment triggers.

For this purpose, the book value of the cash generating units of the Group in respect of which goodwill has been recognised is compared with their respective recoverable amount. A goodwill impairment loss is recognised when the book value of a cash generating unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows techniques and applying a discount rate that includes a risk premium that is appropriate to the business unit being tested. The determination of the future cash flows to be discounted and the discount rate involve judgement.

Changes in the expected cash flows and in the discount rate may lead to conclusions that differ from those used in the preparation of these financial statements and are evidenced in the amount of goodwill indicated in Note 28.

3.4. 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 36.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank and of its subsidiaries located in Portugal during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank and of its subsidiaries, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.5. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 14 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates. These assumptions are based on the expectations of the NOVO BANCO Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan. The sensitivity analysis of the above assumptions is presented in Note 14.

Changes in these assumptions could materially affect the amounts determined.

3.6. Provisions

The Group recognises provisions intended to cover for losses arising from commercial offers approved by the Executive Board of Directors of the Bank, when these are not opposed by Banco de Portugal. The amount of the provisions reflects 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 (i) due to variations in the assumptions used (ii) for the future recognition of provisions previously disclosed as contingent liabilities;

and/or (iii) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 35.

3.7. Investment properties, Assets received from credit recovery and Non-current assets held for sale

Investment properties are initially recognised at cost, including directly related transaction costs and subsequently at fair value. Assets received from credit recovery and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations conducted by independent entities specialized in this type of service, using the market, income or cost methods, as defined in Notes 2.11 and 2.23. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

The use of alternative methodologies and different assumptions may result in a different level of fair value with respective impact on the recognised balance sheet value.

3.8. Entities included in the consolidation perimeter

For the determination of the entities to be included in the consolidation perimeter, the Group evaluates the extent to which (i) it is exposed, or has rights, to the variability of the return from its involvement with this entity, and (ii) it can seize that return through of its power. In this analysis, the Bank also considers shareholder agreements that may exist and that result in the power to take decisions that impact the management of the entity's activity. The decision that an entity should be consolidated by the Group requires the use of judgments to determine to what extent the Group is exposed to the variability of an entity's return and has the power to seize that return. In using this judgment, the Group analyzes assumptions and estimates. Thus, other assumptions and estimates could lead to a different consolidation perimeter, with a direct impact on the balance sheet.

NOTE 4 – SEGMENT REPORTING

NOVO BANCO Group activities are centered on the financial sector targeting corporate, institutional and private individual customers. Its decision center is in Portugal, making the domestic territory its privileged market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services, investment banking services and the commercialization of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, the Group has NOVO BANCO as its main operating unit - with 362 branches in Portugal (31 December 2017: 429 branches) and branches in London, Spain (17 branches), Cayman Islands, Luxembourg, and 5 representation offices – with NBA Açores (13 branches), Banco BEST (6 branches), GNB GA, GNB Seguros (non-life insurance segment) and GNB Vida – (life insurance segment), amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Life Insurance; (5) Markets; and (6) Corporate Center. Each segment integrates the NOVO BANCO structures that directly relate to it, as well as the units of the Group whose businesses are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group is complemented, at the Board of Directors of NOVO BANCO level, by the definition of specific strategies and commercial programs for each unit.

4.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures, aggregated by criteria of risk, market / geography and nature of the products and services:

Domestic Commercial Banking

This Operating Segment includes all the banking activity developed on national territory involving corporate and private customers and using the branch network, corporate centers and other channels, and includes the following sub segments:

a) **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;

b) **Corporate and Institutional:** includes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centers. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;

c) **Private Banking:** comprises the Private banking activity integrating all the asset-side products and the fundraising activities, namely, deposits, discretionary management services, custodian services, brokerage services and insurance products.

International Commercial Banking

This Operating Segment integrates the units located abroad, which banking activities focus both on corporate and private customers, excluding the asset management business, which is integrated in the corresponding segment.

Amongst the units comprising this segment are NOVO BANCO's branches in Spain, London and Luxembourg. The aggregation of this units in the same segment is related with the geographic criteria and with the nature of the clients, the products and the services provided.

Asset Management

This segment, which depends on the specific nature of the products and services provided, includes the asset management activities developed both in Portugal and abroad through specialised companies incorporated for the purpose. The product range includes all types of funds - investment funds, real estate funds and pension funds - as well as discretionary management and portfolio management.

Life insurance

Segment that depends on the specific nature of the products and services provided, including the activities of Companhia de Seguros GNB Vida that sells traditional and investment insurance contracts and retirement plans. As mentioned in Note 49, a contract for the sale of the participation in GNB Vida was celebrated, therefore a direct involvement of the Group in this segment will be, predictably, discontinued.

Markets

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

Corporate Centre

This area does not correspond to an operating segment in its true sense, but rather to an aggregation of transversal corporate structures acting throughout the entire Group, executing its overall basic management functions, such as the areas relating to the Management and Supervisory bodies, Compliance, Planning, Accounting, Risk Management and Control, Investor Relations, Internal Audit, Organization and Quality, amongst others. Since NOVO BANCO is in a situation of tax loss in 2017 and 2018, the recognised deferred taxes (that includes the annulment of deferred taxes generated by tax losses in the amount of Euro 251 million and Euro 520 million during the exercise of 2018 and 2017, respectively) were totally assigned to this segment.

4.2. Criteria for the allocation of activities and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed in the preparation of the internal information that is analysed by the Executive Board of Directors of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 2, with the adoption of the following additional principles:

Measurement of the profit or loss of the segments

The Group uses net income / (loss) before taxes as the measure of the profit or loss for purposes of evaluating the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit (foreign branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment center. Additionally, based on the characteristics of the primary business developed by these units, they are fully integrated into one of the Operating Segments, i.e. their assets, liabilities, income and expenses.

NOVO BANCO structures dedicated to the Segment

NOVO BANCO's activity, given its characteristics, can be allocated to most of its operating segments and is, therefore, accordingly disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the Group, strategically, decides to securitize some of the assets; (ii) the allocation of a commercial margin to mass-products, defined at top management level when the products are launched; (iii) for non-mass products, the allocation of a margin directly negotiated by the commercial structures with customers; (iv) the allocation of the direct costs of commercial and central structures dedicated to the segment; (v) the allocation of indirect costs (central support and IT services) determined based on specific drivers; (vi) the allocation of credit risk determined in accordance with the impairment model; and (vii) the allocation of NOVO BANCO's total equity to the Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments, without any margin for the supplier; the strategic decisions and/or of an exceptional nature are analysed on a case-by-case basis, with the income and/or costs being generally allocated to the Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, which mission it is to undertake the Bank's financial management, and which activity and results are included in the Markets segment.

Interest and similar income / expense

Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation "Net interest income / expense".

Investments presented using the equity method

Investments in associated companies presented under the equity method are included in the Markets segment, in the case of NOVO BANCO's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets

Non-current assets, according to IFRS 8, include Other tangible assets, Intangible assets and Non-current assets held for sale. NOVO BANCO includes these assets in the Markets segment, with the non-current assets held by the remaining subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income tax

Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the Operating Segments, by the Executive Board of Directors, does not affect the evaluation of most of the Operating Segments. In the tables presented below the deferred tax recognised in net income for the year are included in the Corporate Centre. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas

In the disclosure of financial information by geographical area, the operating units integrating the International Area are Bank Well Link (previously NB Ásia, in May 2017 NOVO BANCO alienated 80% of its participation in this institution), Banco Internacional de Cabo Verde (in July 2018, NOVO BANCO alienated 90% of its participation in this institution), BES Vénétie (in December 2018, NOVO BANCO alienated 100% of its participation in this institution) and Banco Delle Tre Venezie as discontinued operations, and NOVO BANCO Servicios, Novo AF, Ijar Leasing Algérie, the NOVO BANCO branches in London, Spain and Luxembourg, as well as the GNB GA units located abroad.

The financial and economic elements related to the international area are those consistent with the financial statements of such units, with the respective consolidation adjustments and removals.

Legacy and recurring activity

From 2018 the group started to present separate financial information between "NOVO BANCO Recurrent", that includes all the core banking activity, and "NOVO BANCO Legacy" that include loans and advances to customers, integrating not only the credits included in Contingent capital (about 92% of the total credit portfolio legacy), as well as other receivables, securities, real estate and discontinued operations considered, on its majority, as no strategic in the commitments with DGCOMP after the resolution.

When determining the NOVO BANCO legacy, the bank considered the following items:

- Loans and advances to customers include all clients of the CCA and other non-strategic exposures, marked at the level of the client;

- Securities and associated companies were selected by contract and include restructuring funds, real estate funds, commercial paper and mandatory convertible securities ("VMOCs");
- The portfolio of real estate properties available for sale has been selected by contract and excludes high yield assets;
- Assets and liabilities of the discontinued operations were totally allocated to legacy;
- All profit and loss associated with legacy assets was considered as results of this activity;
- The cost of funding corresponds to the percentage of legacy liabilities in the total liabilities of the Group (excluding discontinued operations); and
- Operating costs include all CCA costs, and the operating costs of some departments, according to the weight of legacy assets in these departments.

The Group considers that the split between the NOVO BANCO Recurrent and NOVO BANCO Legacy will allow customers and other stakeholders to have a better understanding of the Bank's ongoing restructuring process.

The segment reporting is presented as follows:

(in thousands of Euro)

	31.12.2018								
	Retail	Corporate and Institutional	Private banking	International commercial banking	Asset management	Life insurance	Markets	Corporate center	**Total**
Net interest	116 791	184 243	(10 044)	74 598	43	-	88 711	-	454 342
Net fees and commissions	168 002	111 186	6 951	24 287	25 465	-	(29 557)	-	306 334
Other operating income	(25 305)	(89 282)	(208)	(74 167)	161	(19 741)	(62 016)	-	(270 558)
Total operating income	259 488	206 147	(3 301)	24 718	25 669	(19 741)	(2 862)	-	490 118
Operating expenses	280 545	496 943	8 333	136 061	12 396	-	179 278	83 675	1 197 231
Includes:									
Provisions / Impairment losses	*13 479*	*452 347*	*(1 067)*	*84 126*	*462*	-	*160 608*	-	*709 955*
Depreciation and amortization	*12 742*	*1 499*	*676*	*1 798*	*136*	-	*2 546*	*2 752*	*22 149*
Net gains / (losses) on disposal of subsidiaries and associated companies*	-	-	-	-	-	-	1 026	-	1 026
Net gains / (losses) on acquisition of subsidiaries and associated companies*	-	-	-	-	-	-	-	-	-
Net share of profits / (losses) of associated companies*	-	-	-	-	-	-	5 626	-	5 626
Profit / (loss) before tax and non-controlling interests	**(21 057)**	**(290 796)**	**(11 634)**	**(111 343)**	**13 273**	**(19 741)**	**(175 488)**	**(83 675)**	**(700 461)**
Taxes	-	-	-	1 129	3 139	-	3 961	659 478	667 707
Profit / (loss) of discontinued operations	-	-	-	(939)	-	(38 540)	(340)	-	(39 819)
Net Profit / (loss) assignable to non-controlling interest	1 518	-	-	181	-	-	2 956	-	4 655
Net Profit / (loss) assignable to the bank´s shareholders	**(22 575)**	**(290 796)**	**(11 634)**	**(113 592)**	**10 134**	**(58 281)**	**(182 745)**	**(743 153)**	**(1 412 642)**
Intersegment operating income (1)	*6 865*	*4 790*	-	*55 928*	*20 173*	-	*(71 503)*	-	*16 253*
Total Net Assets	**17 363 284**	**12 931 833**	**1 673 216**	**4 431 112**	**72 282**	**4 843 999**	**6 958 176**	**-**	**48 273 902**
Total Liabilities	**17 118 848**	**13 085 227**	**1 680 757**	**4 516 267**	**9 035**	**4 458 423**	**3 482 984**	**-**	**44 351 541**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**-**	**118 698**	**-**	**118 698**
Investments in tangible fixed assets	**1 722**	**-**	**-**	**346**	**11**	**-**	**14 197**	**-**	**16 276**
Investments in intangible assets	**-**	**-**	**-**	**1 257**	**50**	**-**	**897**	**-**	**2 204**
Investments in non-current assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**13 720**	**-**	**13 720**
Investments in other assets - real estate properties	**2 352**	**-**	**-**	**21 404**	**-**	**-**	**154 935**	**-**	**178 691**

(1) Intersegment operating income relates essentially to interest (net interest income)

(in thousands of Euro)

	31.12.2017								
	Retail	Corporate and Institutional	Private banking	International commercial banking	Asset management	Life insurance	Markets	Corporate center	**Total**
Net interest*	47 705	103 424	(405)	46 818	79	-	206 043	-	403 664
Net fees and commissions*	160 149	115 693	7 783	26 913	29 406	-	(24 491)	-	315 453
Other operating income*	12 019	9 342	1 907	(159 653)	(594)	-	79 970	-	(57 009)
Total operating income*	219 873	228 459	9 285	(85 922)	28 891	-	261 522	-	662 108
Operating expenses*	324 602	1 089 725	11 359	199 742	16 911	-	881 566	82 208	2 606 113
Includes:									
*Provisions / Impairment losses**	*24 703*	*1 038 789*	*(670)*	*131 501*	*5 171*	-	*857 413*	-	*2 056 907*
*Depreciation and amortization**	*29 213*	*4 388*	*1 144*	*13 181*	*200*	-	*4 979*	*4 952*	*58 057*
Net gains / (losses) on disposal of subsidiaries and associated companies*	-	-	-	-	-	-	3 931	-	3 931
Net gains / (losses) on acquisiton of subsidiaries and associated companies*	-	-	-	-	-	-	-	-	-
Net share of profits / (losses) of associated companies*	-	-	-	-	-	-	8 377	-	8 377
Profit / (loss) before tax and non-controlling interests*	**(104 729)**	**(861 266)**	**(2 074)**	**(285 664)**	**11 980**	**-**	**(607 736)**	**(82 208)**	**(1 931 697)**
Taxes*	-	-	-	2 370	3 959	-	4 020	434 797	445 146
Profit / (loss) of discontinued operations*	-	-	-	67 556	-	3 672	3 551	-	74 779
Net Profit / (loss) assignable to non-controlling interest*	920	-	-	291	-	-	(5 226)	-	(4 015)
Net Profit / (loss) assignable to the bank´s shareholders*	**(105 649)**	**(861 266)**	**(2 074)**	**(220 769)**	**8 021**	**3 672**	**(602 979)**	**(517 005)**	**(2 298 049)**
*Intersegment operating income [(1) *]*	*5 330*	*4 606*	-	*222 594*	*4 565*	-	*(215 729)*	-	*21 366*
Total Net Assets	**17 076 161**	**13 350 401**	**2 079 770**	**7 364 931**	**64 090**	**5 033 723**	**7 085 773**	**-**	**52 054 849**
Total Liabilities *	**17 074 184**	**13 926 328**	**2 082 118**	**6 978 514**	**10 178**	**4 546 285**	**2 715 974**	**-**	**47 333 581**
Investments in associated companies	**-**	**-**	**-**	**9 633**	**-**	**-**	**136 618**	**-**	**146 251**
Investments in tangible fixed assets	**72**	**-**	**-**	**154**	**-**	**-**	**5 309**	**-**	**5 535**
Investments in intangible assets	**-**	**-**	**-**	**2 263**	**24**	**-**	**10 239**	**-**	**12 526**
Investments in non-current assets	**-**	**-**	**-**	**1 469**	**-**	**-**	**-**	**-**	**1 469**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments in other assets - real estate properties	**2 666**	**-**	**-**	**10 806**	**-**	**-**	**170 731**	**-**	**184 203**

(1) Intersegment operating income relates essentially to interest (net interest income)

*Data as of 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

The geographical distribution of the different Group business units is as follows:

(in thousands of Euro)

	31.12.2018									
	Portugal	Spain	Luxembourg	United Kingdom	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period	(1 369 651)	(84 058)	47 255	(3 745)	(542)	-	(1 901)	-	-	(1 412 642)
(of which: rel. to discontinued units	*(38 880)*	-	*1 268*	-	-	-	*(2 207)*	-	-	(39 819)
Total income	3 846 914	111 784	568 727	9 585	461	-	-	-	-	4 537 471
Intersegment operating income	*(58 887)*	*2 116*	*79 965*	*(6 941)*	-	-	-	-	-	*16 253*
Net assets	44 247 528	2 247 277	1 755 453	8 447	3 688	3 060	-	-	8 449	48 273 902
(of which: rel. to discontinued units	*4 075 962*	-	-	-	-	*3 060*	*1 299*	*4 013*	*6 024*	4 090 358
Investments in associated companies	114 372	-	-	-	-	-	-	-	4 326	118 698
Investments in tangible fixed assets	15 930	346	-	-	-	-	-	-	-	16 276
Investments in intangible assets	947	1 234	23	-	-	-	-	-	-	2 204
Investments in non-current assets	-	-	-	-	-	-	-	-	-	-
Investments in investment properties	13 720	-	-	-	-	-	-	-	-	13 720
Investments in other assets - real estate properties	157 287	21 404	-	-	-	-	-	-	-	178 691
Profit / (loss) before income tax and non-controlling interests [(a)]	(656 195)	(77 431)	38 880	(3 272)	(542)	-	(1 901)	-	-	(700 461)
Turnover [(a) (b)]	866 021	68 464	171 957	9 231	48	-	-	-	-	1 115 721
Number of employees [(a)]	4 804	262	13	3	5	-	-	-	9	5 096
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 Euro)

	31.12.2017									
	Portugal	Spain	France / Luxembourg	United Kingdom	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period [(1)]	(2 014 342)	(140 398)	(131 439)	(2 307)	-	-	(229)	(378)	(8 956)	(2 298 049)
(of which: rel. to discontinued units)	*73 644*	-	*2 179*	-	-	-	*(33)*	*(378)*	*(633)*	74 779
Total income [(1)]	5 239 461	119 585	209 177	209 207	-	-	11	-	-	5 777 441
Intersegment operating income	*(209 373)*	*9 194*	*66 743*	*154 802*	-	-	-	-	-	*21 366*
Net assets	45 120 990	2 514 981	2 956 722	1 336 713	15 897	3 060	89 619	-	16 867	52 054 849
(of which: rel. to discontinued units)	*4 110 141*	-	*973 724*	-	-	*3 060*	*28 440*	*4 785*	*10 806*	5 130 956
Investments in associated companies	141 835	-	-	-	-	-	-	-	4 416	146 251
Investments in tangible fixed assets	5 381	154	-	-	-	-	-	-	-	5 535
Investments in intangible assets	10 263	2 263	-	-	-	-	-	-	-	12 526
Investments in non-current assets	-	1 469	-	-	-	-	-	-	-	1 469
Investments in investment properties	-	-	-	-	-	-	-	-	-	-
Investments in other assets - real estate properties	173 397	10 806	-	-	-	-	-	-	-	184 203
Profit / (loss) before income tax and non-controlling interests [(a) (1)]	(1 722 083)	(67 531)	(130 853)	(1 667)	-	-	(229)	(378)	(8 956)	(1 931 697)
Turnover [(a) (b) (1)]	1 256 267	83 753	157 445	203 586	-	-	11	-	-	1 701 062
Number of employees [(a)]	5 156	291	16	14	-	-	-	-	11	5 488
Government grants received [(a)]	-	-	-	-	-	-	-	-	-	-

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items of the consolidated income statement: interest and similar income, dividend income, fee and commission income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange differences, net gains / (losses) from the sale of other assets, other operating income and share of profits / (losses) of associated companies consolidated by the equity method

[(1)] Data from 31 December 2017 restated in order to reflect in Other reserves and retained earnings the activation of the Contingent Capital Mechanism and the alteration of the initial register of liabilities related to the LME operation realised in the last quarter of 2017

The information aggregated by legacy and recurring activity is as follows:

(in thousands of Euro)

	31.12.2018			31.12.2017 *		
	Legacy	Recurring	Total	Legacy	Recurring	Total
Net interest income	67 178	387 164	454 342	120 308	283 356	403 664
Net fees and commissions	4 643	301 691	306 334	5 576	309 877	315 453
Other operating income	(267 818)	(2 740)	(270 558)	(26 422)	(30 587)	(57 009)
Total operating income	(195 997)	686 115	490 118	99 462	562 646	662 108
Operating expenses	479 305	717 926	1 197 231	1 690 082	916 031	2 606 113
Includes:						
Provisions / Impairment losses	456 368	253 587	709 955	1 656 140	400 767	2 056 907
Net gains / (losses) on disposal of subsidiaries and associated companies	-	1 026	1 026	-	3 931	3 931
Net share of profits / (losses) of associated companies	(72)	5 698	5 626	1 203	7 174	8 377
Profit / (loss) before tax and non-controlling interests	(715 193)	14 732	(700 461)	(1 514 638)	(417 059)	(1 931 697)
Taxes	620 194	47 513	667 707	405 458	39 688	445 146
Profit / (loss) of discontinued operations	(39 819)	-	(39 819)	74 779	-	74 779
Net Profit / (loss) assignable to non-controlling interest	-	4 655	4 655	-	(4 015)	(4 015)
Net Profit / (loss) assignable to the bank´s shareholders	(1 335 387)	(77 255)	(1 412 642)	(1 920 096)	(377 953)	(2 298 049)
Total Net Assets	10 658 651	37 615 251	48 273 902	14 736 419	37 318 430	52 054 849
(relative to discontinued operations)	*4 090 358*	-	*4 090 358*	*5 130 956*	-	*5 130 956*

* Data from 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

NOTE 5 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017 *		
	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	612 405	19 437	631 842	729 615	24 242	753 857
Interest from deposits with and loans and advances to banks	27 439	-	27 439	34 151	-	34 151
Interest from securities	85 162	1 383	86 545	76 638	-	76 638
Interest from derivatives held for risk management purposes	-	10 188	10 188	-	19 311	19 311
Other interest and similar income	2 677	-	2 677	4 356	-	4 356
	727 683	**31 008**	**758 691**	**844 760**	**43 553**	**888 313**
Interest expense and similar charges						
Interest on debt securities	42 993	4 068	47 061	192 933	11 325	204 258
Interest on amounts due to customers	194 327	-	194 327	212 165	1 895	214 060
Interest on deposits from Central Banks and other banks	26 973	-	26 973	26 487	-	26 487
Interest on subordinated liabilities	16 742	-	16 742	-	-	-
Interest on derivatives held for risk management purposes	-	14 755	14 755	-	25 404	25 404
Other interest and similar charges	4 491	-	4 491	14 440	-	14 440
	285 526	**18 823**	**304 349**	**446 025**	**38 624**	**484 649**
	442 157	**12 185**	**454 342**	**398 735**	**4 929**	**403 664**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The interest from deposits and loans and advances to banks, on amounts due to customers and on deposits from Central Banks and other banks include, as at 31 December 2018, respectively, the amounts of Euro 756 thousand, Euro 576 thousand and Euro 1 850 thousand of operations with repurchase agreements (31 December 2017: Euro 523 thousand of interest from loans and advances to banks, Euro 3 555 thousand of interest on amounts due to customers and Euro 5 842 thousand of interest on deposits from Central Banks and other banks).

The Interest income and Interest expenses captions relating to interest from derivatives held for risk management purposes include, in accordance with the accounting policy described in Notes 2.4 and 2.18, 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 and 2.7.

NOTE 6 – INCOME FROM EQUITY INSTRUMENTS

During 2018, income from equity instruments in the amount of Euro 8 974 thousand, includes dividends received from Explorer III (FIQ) in the amount of Euro 3 027 thousand, from Euronext in the amount of Euro 1 514 thousand and from Haitong FCR in the amount of Euro 1 251 thousand (31 December 2017: Euro 6 156 thousand which includes dividends recorded from SIBS in the amount of Euro 1 483 thousand and from at Euronext in the amount of Euro 1 243 thousand).

NOTE 7 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Fee and commission income		
From banking services	254 193	263 869
From guarantees provided	52 778	64 058
From transactions of securities	7 015	6 650
From commitments to third parties	11 465	10 253
Other fee and commission income	40 617	42 415
	366 068	**387 245**
Fee and commission expense		
With banking services rendered by third parties	41 581	50 652
With guarantees received	1 566	2 915
With transactions of securities	5 876	5 512
Other fee and commission expenses	10 711	12 713
	59 734	**71 792**
	306 334	**315 453**

In 31 December 2017, the caption Fee and commission expense with guarantees received includes an amount of Euro 2.0 million, relating to fees with a guarantee from the Portuguese State for the issuing of debt securities which were fully reimbursed in the beginning of 2017 exercise.

NOTE 8 – NET GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND NET GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - MANDATORY

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	6 032	1 100	4 932	8	7	1
Issued by other entities	2	119	(117)	673	163	510
Shares	-	-	-	161	3	158
	6 034	**1 219**	**4 815**	**842**	**173**	**669**
Derivative financial instruments						
Foreign exchange rate contracts	36 721	36 774	(53)	39 027	43 173	(4 146)
Interest rate contracts	570 783	616 078	(45 295)	803 297	803 332	(35)
Equity / Index contracts	65 744	63 356	2 388	61 519	20 128	41 391
Credit default contracts	47 055	52 180	(5 125)	71 017	90 437	(19 420)
Other	17 958	1 695	16 263	8 387	4 114	4 273
	738 261	**770 083**	**(31 822)**	**983 247**	**961 184**	**22 063**
Other assets and liabilities at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	-	-	484	7 364	(6 880)
Shares	-	983	(983)	514	3	511
Other variable income securities	-	140	(140)	427	-	427
	-	**1 123**	**(1 123)**	**1 425**	**7 367**	**(5 942)**
Other financial assets [(1)]						
Loans and advances to customers	**20 540**	**59 959**	**(39 419)**	**8 875**	**42 071**	**(33 196)**
Financial liabilities [(1)]						
Deposit from banks	-	-	-	2 339	-	2 339
Due to customers	-	-	-	2 067	-	2 067
Debt securities issued	-	1 126	(1 126)	174	44 745	(44 571)
	-	**1 126**	**(1 126)**	**4 580**	**44 745**	**(40 165)**
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	**764 835**	**833 510**	**(68 675)**	**998 969**	**1 055 540**	**(56 571)**
Financial assets and liabilities at fair value through profit or loss - mandatory						
Bonds and other fixed income securities						
Issued by other entities	222	2	220	-	-	-
Shares	31 407	4 163	27 244	-	-	-
Other variable income securities	25 559	85 900	(60 341)	-	-	-
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss - mandatory	**57 188**	**90 065**	**(32 877)**	**-**	**-**	**-**
	822 023	**923 575**	**(101 552)**	**998 969**	**1 055 540**	**(56 571)**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option, as presented in Note 24

As at 31 December 2017, this caption includes a negative effect of Euro 63,7 million relating to the change in fair value of financial liabilities designated at fair value through profit or loss, attributable to the Group's own credit risk. Since 1 January 2018, this component is reflected in changes in other comprehensive income.

In accordance with the accounting policies followed by the Group, financial instruments are initially recorded 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 Group recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group's access to the wholesale market.

As at 31 December 2018, the gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 6 914 thousand (31 December 2017: Euro 6 137 thousand).

NOTE 9 – NET GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT A FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	52 957	18 411	34 546	46 944	6 459	40 485
Issued by other entities	644	718	(74)	904	28	876
Shares	-	-	-	8 306	165	8 141
Other variable income securities	-	-	-	8 172	429	7 743
	53 601	**19 129**	**34 472**	**64 326**	**7 081**	**57 245**

NOTE 10 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE REVALUATION

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 012 302	969 799	42 503	1 125 281	1 098 894	26 387
	1 012 302	**969 799**	**42 503**	**1 125 281**	**1 098 894**	**26 387**

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 11 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Loans and advances to customers	(213 507)	(35 166)
Real estate properties	28 648	(3 316)
Equipment	(296)	(376)
Securities at amortised cost	5 175	-
Others	3 976	(426)
	(176 004)	**(39 284)**

The caption Net gains / (losses) from the sale of other assets – loans to customers includes a loss of Euro 207.1 million related to the results of the operation of the sale of loans and related assets, denominated Project *Nata* (see Note 50). The impact of this operation pertaining to securities sold, which were registered to at amortised cost, was Euro -1.2 million.

NOTE 12 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017 *
Other operating income		
IT services	566	597
Gains / (losses) on recoveries of loans	42 424	35 453
Non-recurring advisory services	814	436
Income of Funds and real estate companies	28 937	30 226
Gains on the acquisition of debt issued by the Group (see Note 34)	-	187 114
Gains on investment properties revaluation (see Note 26)	29 370	27 704
Other income	74 832	56 499
	176 943	**338 029**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 34)	(86 210)	-
Direct and indirect taxes	(14 353)	(18 064)
Contributions to the Deposit Guarantee Fund	(45)	(19)
Contributions to the Resolution Fund	(10 995)	(7 821)
Contributions to the Single Resolution Fund	(20 678)	(19 683)
Banking levy	(27 276)	(30 838)
Membership subscriptions and donations	(1 358)	(1 952)
Expenses of Funds and real estate companies	(16 151)	(18 701)
Charges with Supervisory entities	(2 360)	(1 670)
Contractual indemnities (SPE)	(4 844)	(3 307)
Losses on investment properties revaluation (see Note 26)	(45 888)	(95 394)
Other expenses	(25 736)	(191 522)
	(255 894)	**(388 971)**
Other operating income / (expenses)	**(78 951)**	**(50 942)**

*Data from 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Mechanism and the alteration of the initial register of liabilities related to the LME operation realised in the last quarter of 2017.

As at 31 December 2018 caption Other income includes the amount of Euro 46.7 million, received as part of the early repayment of a fixed rate financing agreement corresponding to the amount of the early settlement of the respective interest rate risk hedging agreement, having the loss been recorded under the caption Gains/ (Losses) on financial assets and liabilities at fair value through profit or loss.

As at 31 December 2017, the caption other expenses include the impact of the change of the initial recognition of liabilities related to operation LME realised in the last quarter of 2017.

NOTE 13 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Wages and salaries	195 476	206 636
Remuneration	194 958	205 168
Long-term service / Career bonuses (see Note 16)	518	1 468
Mandatory social charges	60 807	62 461
Costs with post-employment benefits (see Note 16)	746	1 767
Other costs	9 109	4 876
	266 138	**275 740**

The costs of remuneration and other benefits attributed to key management personnel of NOVO BANCO are presented in Note 43.
The provisions and costs related to the restructuring process are presented in Note 35.

As at 31 December 2018 and 2017, the number of employees of the NOVO BANCO Group has the following breakdown:

	31.12.2018	31.12.2017
Novo Banco employees	4 578	4 970
Employees of the Group's subsidiaries	518	518
Total employees of the Group	**5 096**	**5 488**

The breakdown by professional category of the number of employees of the NOVO BANCO Group is as follows:

	31.12.2018	31.12.2017
Senior management functions	546	497
Middle management positions	536	641
Specific positions	2 227	2 389
Administrative and other functions	1 787	1 961
	5 096	**5 488**

NOTE 14 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labor Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the 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, having the Group made (until February 2017) annual contributions to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy. The measurement and recognition of the Group's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

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

For employees hired until 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 who 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 2nd 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 considers 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 on the behalf of *Caixa de Abono de Família dos Empregados Bancários* (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Banco de Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, is based on the recommendation of the ASF transmitted to *Sociedade Gestora do Fundo de Pensões* (Managing Company of the Pension Fund). However, up to the present date, the formalization of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund, currently designated *Fundo de Pensões* NB.

On 1 June 2016, an amendment was made to *Fundo de Pensões* NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans.

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

	31.12.2018		31.12.2017	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	2.10%	-1.57%	2.10%	9.04%
Discount rate	2.10%	-	2.10%	-
Pension increase rate	0.50%	0.06%	0.50%	-3.04%
Salary increase rate	0.75%	1.00%	0.75%	1.63%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-2 years		TV 88/90-2 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2018 and 2017 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:

	31.12.2018	31.12.2017
Employees	4 628	4 084
Pensioners and survivors	6 765	6 590
TOTAL	**11 393**	**10 674**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2018 and 2017 is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 675 608)**	**(1 663 489)**
Pensioners	(1 132 795)	(1 053 871)
Employees	(542 813)	(609 618)
Coverage		
Fair value of plan assets	**1 648 168**	**1 648 405**
Net assets / (liabilities) in the balance sheet (See Notes 30 and 38)	**(27 440)**	**(15 084)**
Accumulated actuarial deviations recognized in other comprehensive income	**492 177**	**421 246**

According to the policy defined in Note 2.15 - 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 of the respective pension liabilities.

As at 31 December 2018 and 2017, the sensitivity analysis to a 0.25% increase in the rate of the assumptions and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the change:			
	31.12.2018		**31.12.2017**	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(61 543)	60 526	(62 082)	60 977
Salary increase rate	19 707	(24 102)	21 201	(25 050)
Pension increase rate	46 995	(46 845)	44 766	(44 630)
	of +1 year	of -1 year	of +1 year	of -1 year
Mortality table	(55 362)	52 265	(53 674)	49 781

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

(in thousands of Euros)

	31.12.2018	**31.12.2017**
Retirement pension liabilities at beginning of period	**1 663 489**	**1 577 750**
Current service cost	562	421
Interest cost	33 839	33 099
Plan participants' contribution	2 678	2 764
Contributions from other entities	203	237
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	(427)	102 268
- Experience adjustments (gains) / losses	17 839	15 263
Pensions paid by the fund / transfers and once-off bonuses	(63 998)	(66 569)
Amount of the responsibilities transferred to defined contribution plans	-	(26 066)
Early retirement	28 688	30 240
Foreign exchange differences and other	(7 265)	(5 918)
Retirement pension liabilities at end of period	**1 675 608**	**1 663 489**

The evolution of the value of the pension funds during 2018 and 2017 can be analysed as follows:

(in thousands of Euros)

	31.12.2018	**31.12.2017**
Fair value of fund assets at beginning of period	**1 648 405**	**1 557 979**
Net return from the fund	(22 093)	124 512
- Share of the net interest on the assets	31 824	32 612
- Return on assets excluding net interest	(53 917)	91 900
Group contributions	93 686	65 416
Plan participants' contributions	2 678	2 764
Pensions paid by the fund / transfers and once-off bonuses	(63 998)	(66 569)
Amount of the assets transferred to defined contribution plans	-	(26 066)
Foreign exchange differences and other	(10 510)	(9 631)
Fair value of fund assets at end of period	**1 648 168**	**1 648 405**

The assets of the pension funds can be analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	133 062	56 732	189 794	139 119	89 444	228 563
Debt instruments	870 930	4	870 934	856 242	282	856 524
Investment funds	229 914	52 410	282 324	209 244	54 238	263 482
Structured debt	9 950	9 649	19 599	10 701	484	11 185
Real estate properties	-	103 942	103 942	-	114 537	114 537
Cash and cash equivalents	-	181 575	181 575	-	174 114	174 114
Total	**1 243 856**	**404 312**	**1 648 168**	**1 215 306**	**433 099**	**1 648 405**

The assets of the pension funds used by the Group or representative of securities issued by the Group's entities are detailed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Real estate properties	58 083	70 752
Total	**58 083**	**70 752**

As at 31 December 2018 and 2017, the fund had no securities representative of capital or issued by subsidiaries of the NOVO BANCO Group.

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**421 246**	**396 576**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	(427)	102 268
- Experience adjustments (gains) / losses	71 756	(76 637)
Other	(398)	(961)
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**492 177**	**421 246**

The cost with retirement pensions and health-care benefits during 2018 and 2017, can be analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Current service cost	562	421
Interest expense / (income)	2 015	2 748
Other	184	1 346
Cost with post-employment benefits	**2 761**	**4 515**

During 2018, the value of early retirements amounted to Euro 28,7 million (2017: Euro 30,2 million), which are related to the Group's restructuring process, and as such, were recognised against the restructuring provision (see Note 35).

The evolution of net assets/ (liabilities) on balance sheet may be analysed, during 2018 and 2017 as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
At the beginning of the period	**(15 084)**	**(19 771)**
Cost for period	(2 761)	(4 515)
Actuarial gains / (losses) recognized in other comprehensive income	(71 329)	(25 631)
Contributions made in the period	93 686	65 416
Other	(31 952)	(30 583)
At the end of the period	**(27 440)**	**(15 084)**

The summary of the liabilities and balance of the funds, as well as the experience gains and losses is analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Retirement pension liabilities	(1 675 608)	(1 663 489)	(1 577 750)	(1 545 996)	(1 501 735)
Funds balance	1 648 168	1 648 405	1 557 979	1 514 326	1 442 119
(Under) / overfunding of liabilities	**(27 440)**	**(15 084)**	**(19 771)**	**(31 670)**	**(59 616)**
(Gains) / losses on experience adjustments in retirement pension liabilities	17 839	15 263	12 318	(2 330)	14 251
(Gains) / losses on experience adjustments in plan assets	53 917	(91 900)	43 716	17 545	119 040

The weighted average maturity of the liabilities of the defined benefit plans is approximately 16 years (31 December 2017: approximately 16 years). The table below presents the temporal breakdown of the estimated benefits payable:

(in thousands of Euro)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	58 920	59 761	183 286	1 872 289

Career bonuses

As at 31 December 2018, the liabilities assumed by the Group amounted to Euro 6 486 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.15 – Employee benefits (31 December 2017: Euro 6 371 thousand) (see Note 38).

In the year 2018, the costs recognised with career bonuses were Euro 518 thousand (31 December 2017: Euro 1 468 thousand) (see Note 13).

NOTE 15 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Rentals	25 325	27 397
Advertising	9 139	9 737
Communication and postal services	13 956	15 121
Maintenance and repairs expenses	8 510	8 860
Travelling and representation expenses	3 475	3 023
Transportation of valuables	4 241	4 184
Insurance	3 656	5 562
IT services	47 972	52 550
Independent work	4 852	8 343
Temporary work	1 544	1 859
Electronic payment systems	10 052	10 541
Legal costs	15 111	15 989
Consultancy and audit fees	19 712	19 358
Water, energy and fuel	5 095	5 990
Consumables	2 208	2 146
Other costs	24 141	24 749
	198 989	**215 409**

The caption Rentals includes Euro 4 881 thousand (31 December 2017: Euro 5 675 thousand) related to costs with operating leases of vehicles, having the Group the possibility to, at any moment, cancel future payments.

The caption Other costs includes, amongst others, specialised service costs incurred with security and surveillance, information services, training and sundry external supplies.

The fees invoiced during financial year 2018 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code (*Código das Sociedades Comerciais*), have the following breakdown:

(in thousands of Euro)

	31.12.2018	31.12.2017
Statutory audit of annual accounts	524	1 955
Other reliability assurance services	509	1 158
Other services	-	90
Total value of billable services	**1 033**	**3 203**

NOTE 16 – 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.

(in thousands of Euros)

	31.12.2018	31.12.2017 *
Net consolidated profit / (loss) attributable to shareholders of the Bank	**(1 412 642)**	**(2 298 049)**
Weighted average number of ordinary shares outstanding (thousands)	9 800 000	5 906 849
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**(0,14)**	**(0,39)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0,14)**	**(0,40)**

*restated in order to reflect in Other reserves and retained earnings the activation of the Contingent Capital Mechanism and the alteration of the initial register of liabilities related to the LME operation

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 there are no dilutive effects.

NOTE 17 – CASH AND DEPOSITS WITH CENTRAL BANKS

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Cash	**155 860**	**168 221**
Demand deposits with Central Banks		
Banco de Portugal	531 664	3 584 409
Banks of the European System of Central Banks (ESCB)	14 359	35 397
	546 023	**3 619 806**
	701 883	**3 788 027**

The caption Demand Deposits with Banco de Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 243,8 million (31 December 2017: Euro 224,1 million). According to the 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 2018, the average interest rate on these deposits was 0.00% (31 December 2017: 0.00%).

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 account with Banco de Portugal as at 31 December 2018 was included in the observation period running from 19 December 2018 to 29 January 2019.

NOTE 18 – DEPOSITS WITH OTHER BANKS

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Deposits with banks in Portugal		
Repayable on demand	7 541	16 909
Uncollected checks	59 603	68 057
	67 144	**84 966**
Deposits with banks abroad		
Repayable on demand	188 470	271 366
Other	20 175	24 269
	208 645	**295 635**
	275 789	**380 601**

The Uncollected checks in Portugal and abroad were sent for collection during the first business days after the balance sheet dates.

NOTE 19 – SECURITIES HELD FOR TRADING

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Bonds and other fixed income securities		
Public issuers	257 269	-
Issued by other entities	1	2
Shares	-	79
Other variable income securities	-	286
	257 270	**367**

As at 31 December 2018 and 2017, the analysis of the securities held for trading, by maturity, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Up to 3 months	50 029	2
3 months to 1 year	2 007	-
1 to 5 years	157 434	-
More than 5 years	47 800	-
Undetermined	-	365
	257 270	**367**

In accordance with the accounting policy described in Note 2.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 45.

NOTE 20 –DERIVATIVES HELD FOR TRADING

As at 31 December 2018 and 2017, the breakdown of this caption is as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Derivative financial instruments with positive fair value	516 336	577 153
Derivative financial instruments with negative fair value	492 953	559 765

As at 31 December 2018 and 2017, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	375 271	4 141	5 670	410 673	3 719	3 829
- sell	375 697			410 176		
Currency Swaps						
- buy	1 701 938	2 319	770	1 393 771	1 539	579
- sell	1 706 018			1 400 834		
Currency Interest Rate Swaps						
- buy	23 417	21 036	21 029	24 507	21 657	21 886
- sell	23 413			24 508		
Currency Options						
- buy	256 052	5 235	5 279	394 388	6 783	7 041
- sell	156 257			399 717		
		32 731	**32 748**		**33 698**	**33 335**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 489 169	436 188	435 401	7 206 977	496 747	507 324
- sell	7 532 826			7 241 798		
Interest Rate Caps & Floors						
- buy	54 352	583	600	43 734	501	539
- sell	57 105			47 623		
Interest Rate Futures [a)]						
- buy	-	-	-	-	-	-
- sell	50 000			185 000		
Interest Rate Options						
- buy	-	-	-	1 650 963	-	-
- sell	-			-		
		436 771	**436 001**		**497 248**	**507 863**
Equity / Index contracts						
Equity / Index Swaps						
- buy	116 752	13 058	13 061	26 625	561	557
- sell	116 752			26 625		
Equity / Index Options						
- buy	1 020 012	33 767	11 026	957 486	45 631	17 897
- sell	1 130 702			1 083 041		
Equity / Index Futures [a)]						
- buy	1 330	-	-	12 968	-	-
- sell	-			-		
Future Options [a)]						
- buy	-	-	-	6	-	-
- sell	-			-		
		46 825	**24 087**		**46 192**	**18 454**
Credit default contracts						
Credit Default Swaps						
- buy	7 814	9	117	7 814	15	113
- sell	7 814			7 814		
		9	**117**		**15**	**113**
Total		**516 336**	**492 953**		**577 153**	**559 765**

a) Derivatives traded on organized markets, whose market value is settled daily through the margin account (see Note 30)

The Group calculates the Credit Valuation 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 recovery rate, 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 calculated exposure.

During 2018, the Group recognised an income of Euro 16,0 related with the CVA of derivative instruments (2017: gain of Euro 6,7 million).

As at 31 December 2018 and 2017, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 467 814	2 419 978	(693)	2 455 482	2 634 097	(15 051)
3 months to 1 year	1 461 925	1 538 680	(4 336)	2 589 198	957 743	7 853
1 to 5 years	1 698 310	1 707 800	14 076	2 329 637	2 413 337	(12 766)
More than 5 years	5 418 058	5 490 126	14 336	4 755 595	4 821 959	37 352
	11 046 107	**11 156 584**	**23 383**	**12 129 912**	**10 827 136**	**17 388**

NOTE 21 – LOANS AND ADVANCES TO BANKS

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Loans and advances to banks in Portugal		
Deposits with banks	269	8 865
Loans	20 051	9 552
Very short-term placements	64 517	-
Operations with reverse repurchase agreements	-	11 713
Other loans and advances	3	3
	84 840	**30 133**
Loans and advances to banks abroad		
Deposits with banks	28 078	72 584
Very short-term placements	-	169
Loans	376 004	540 332
Operations with reverse repurchase agreements	9 774	9 750
Other loans and advances	28	91
	413 884	**622 926**
Outstanding applications	74	-
	498 798	**653 059**
Impairment losses	(75 740)	(71 158)
	423 058	**581 901**

All the loans and advances to banks are registered in the amortised cost portfolio.

The operations with repurchasing agreement, as at 31 December 2018 and 2017, relate entirely to operations with a maturity of up to 1 year.

As at 31 December 2018 and 2017, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Up to 3 months	97 461	29 181
3 months to 1 year	6 369	256 000
1 to 5 years	14 471	4 471
More than 5 years	380 423	363 407
Undetermined (overdue loans)	74	-
	498 798	**653 059**

The changes occurred in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2017				**71 158**
Impact of transition to IFRS 9				8 950
Balance as at 1 January 2018	**1 227**	**78 563**	**318**	**80 108**
Increases due to changes in credit risk	517	3 389	426	4 332
Decreases due to changes in credit risk	(894)	(10 183)	(119)	(11 196)
Utilisation	-	-	(13)	(13)
Other movements	(680)	3 374	(185)	2 509
Balance at the end of the period	**170**	**75 143**	**427**	**75 740**

(in thousands of Euros)

	31.12.2017
Balance at the beginning of the period	472 414
Utilisation	(341 497)
Transfers	(50 000)
Exchange and other differences	(9 759)
Balance at the end of the period	**71 158**

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2018 e 2017, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Domestic loans and advances		
Corporate		
Current account loans	1 473 186	1 533 033
Loans	8 531 668	8 983 849
Discounted bills	141 700	83 206
Factoring	866 677	859 311
Overdrafts	36 034	5 343
Finance leases	1 547 898	1 499 863
Other loans and advances	30 577	35 709
Individuals		
Residential Mortgage loans	8 547 136	8 778 632
Consumer credit and other loans	1 101 674	1 012 595
	22 276 550	**22 791 541**
Foreign loans and advances		
Corporate		
Current account loans	352 770	338 899
Loans	1 031 223	1 569 439
Discounted bills	39 086	82 339
Factoring	101 980	105 199
Overdrafts	30 894	72 382
Finance leases	42 765	51 965
Other loans and advances	1	4 805
Individuals		
Residential Mortgage loans	956 838	848 266
Consumer credit and other loans	341 592	342 436
	2 897 149	**3 415 730**
Overdue loans and advances and interest		
Up to 3 months	74 885	88 087
3 months to 1 year	354 233	347 498
1 to 3 years	1 196 333	2 306 650
More than 3 years	1 913 217	2 472 935
	3 538 668	**5 215 170**
	28 712 367	**31 422 441**
Impairment losses	**(3 957 922)**	**(5 631 498)**
	24 754 445	**25 790 943**

During 2018, a sale of a non-performing loans portfolio was carried out and the impact of this transaction on the balance sheet resulted in a reduction of Euro 543.9 million in loans and advances to customers (Euro 1,529.9 million of gross amount and Euro 986.1 million of impairment), and a loss of Euro 108.9 million was recognized on the income statement (see Notes 11 and 50).

All the operations related to loans and advances to customers are registered in the amortised cost portfolio.

As at 31 December 2018, the balance for Loans and advances to customers (net of impairment) includes an amount of Euro 1 877,2 million (31 December 2017: Euro 2 307 million), related to securitization operations in respect of which, in accordance with the accounting policy described in Note 2.2, the structured entities are consolidated by the Group (see Notes 1 and 44). The liabilities related to these securitization operations were booked as Liabilities represented by debt securities (see Note 34).

As at 31 December 2018 the caption Loans and advances to customers includes Euro 4 617.4 million in residential mortgage loans that collateralise the issue of covered bonds (31 December 2017: Euro 4 684.8 million) (see Note 34).

The caption Loans and advances to customers includes a positive fair value of Euro 33 385 thousand related to the fair value adjustment of interest rate hedges (31 December 2017: positive fair value of Euro 73 213 thousand) (see Note 24).

This caption includes, as at 31 December 2018, Euro 1 459 481 thousand of loans to clients hedged by risk management derivatives (31 December 2017: Euro 1 200 541 thousand).

As at 31 December 2018, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations totals Euro 28 912 thousand (31 December 2017: Euro 57 561 thousand).

As at 31 December 2018, the analysis of loans and advances to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Up to 3 months	2 244 430	2 542 410
3 months to 1 year	1 803 652	2 095 336
1 to 5 years	4 579 144	4 296 082
More than 5 years	16 546 473	17 273 443
Undetermined (overdue loans)	3 538 668	5 215 170
	28 712 367	**31 422 441**

The changes occurred during the 2018 in impairment for loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2017				**5 631 498**
Impact of transition to IRFS 9				216 139
Balance as at 1 January 2018	**273 558**	**230 694**	**5 343 385**	**5 847 637**
Financial assets originated or acquired	2 359	-	-	2 359
Financial assets derecognised	(572)	(1 573)	(999 880)	(1 002 025)
Increases due to changes in credit risk	35 785	63 608	793 097	892 490
Decreases due to changes in credit risk	(54 298)	(68 382)	(506 310)	(628 990)
Utilisation	(94 287)	(2 189)	(1 015 434)	(1 111 910)
Other movements	102 808	(111 803)	(32 644)	(41 639)
Balance at the end of the period	**265 353**	**110 355**	**3 582 214**	**3 957 922**

(in thousands of Euro)

	31.12.2017
Balance at the beginning of the period	5 566 041
Charges / (reversals)	1 229 205
Utilisation	(1 173 259)
Transfers	50 000
Discount effect	(88 279)
Exchange and other differences	47 790
Balance at the end of the period	**5 631 498**

The increase of impairment for loans of Euro 1 229.2 million recorded in 2017 was mainly related to a series of events occurred during 2017 in some of the main economic groups to which the Bank was exposed and which led, through the normal application of the credit impairment policy described in Note 2.5., to an increase in impairment losses in that year as a result of the individual impairment analysis. To this increase has also contributed the main exposures to certain sectors or to certain economic groups that have a high concentration of their activity in geographies that continue to present macroeconomic difficulties.

Loans and advances to customers by interest rate type are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Fixed rate	3 260 266	3 152 135
Variable rate	25 452 101	28 270 306
	28 712 367	**31 422 441**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Gross investment in finance leases receivable		
Up to 1 year	275 621	271 967
1 to 5 years	819 974	784 883
More than 5 years	720 998	738 420
	1 816 593	1 795 270
Unrealized finance income in finance leases		
Up to 1 year	37 344	39 237
1 to 5 years	97 615	104 945
More than 5 years	46 048	57 577
	181 007	201 759
Present value of minimum lease payments receivable		
Up to 1 year	238 277	232 730
1 to 5 years	722 359	679 938
More than 5 years	674 870	680 843
	1 635 506	1 593 511
Impairment	(289 405)	(259 388)
	1 346 101	**1 334 123**

NOTE 23 – SECURITIES PORTFOLIO

This caption as at 31 December 2018 and 2017 is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Fair value through profit or loss	480	30 183
Fair value through profit or loss - mandatory	1 566 225	-
Fair value through other comprehensive income	7 661 207	8 448 245
Amortised cost	1 389 400	-
Total securities portfolio	**10 617 312**	**8 478 428**

The detail of the securities portfolio is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From other issuers	480	620
Other securities with variable income	-	29 563
	480	**30 183**
Securities at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	47	-
Shares	674 823	-
Other securities with variable income	891 355	-
	1 566 225	**-**
Securities at fair value through profit or loss - mandatory		
Bonds and other fixed income securities		
From public issuers	6 620 509	5 967 997
From other issuers	951 085	961 112
Shares	89 610	702 828
Other securities with variable income	3	816 308
	7 661 207	**8 448 245**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	503 123	-
From other issuers	1 081 063	-
Impairment	(194 786)	-
	1 389 400	**-**
	10 617 312	**8 478 428**

The shares owned by the Group in Restructuring Funds are registered according to the accounting policy described in Note 2.5, based to the net book value published by their respective management companies. The Group is currently developing an internal model to value the assets owned by these Funds as to substantiate the net book value disclosed by the management companies.

As at 31 December 2018 and 2017, the detail of the securities at fair value through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance Sheet Value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 563 893**	**58 463**	**(1 847)**	**6 620 509**	**(816)**
Residents	3 646 985	28 037	(612)	3 674 410	(390)
Non residents	2 916 908	30 426	(1 235)	2 946 099	(426)
From other issuers	**934 722**	**24 490**	**(8 127)**	**951 085**	**(397)**
Residents	28 613	20 600	(54)	49 159	(22)
Non residents	906 109	3 890	(8 073)	901 926	(375)
Shares	**487 063**	**19 154**	**(416 607)**	**89 610**	**-**
Residents	382 110	17 085	(328 800)	70 395	-
Non residents	104 953	2 069	(87 807)	19 215	-
Other securities with variable income	**2**	**1**	**-**	**3**	**-**
Residents	2	-	-	2	-
Non residents	-	1	-	1	-
Balance as at 31 December 2018	**7 985 680**	**102 108**	**(426 581)**	**7 661 207**	**(1 213)**

[1] Acquisition cost with respect to shares and other equity instruments and amortized cost for debt securities

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance Sheet Value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**5 848 735**	**120 553**	**(1 291)**	**-**	**5 967 997**
Residents	3 743 434	112 241	(298)	-	3 855 377
Non residents	2 105 301	8 312	(993)	-	2 112 620
From other issuers	**1 122 559**	**52 067**	**(996)**	**(212 518)**	**961 112**
Residents	1 025 368	51 831	(170)	(193 124)	883 905
Non residents	97 191	236	(826)	(19 394)	77 207
Shares	**1 426 285**	**60 887**	**(19 688)**	**(764 656)**	**702 828**
Residents	700 156	20 124	(541)	(559 537)	160 202
Non residents	726 129	40 763	(19 147)	(205 119)	542 626
Other securities with variable income	**988 280**	**30 699**	**(795)**	**(201 876)**	**816 308**
Residents	916 859	25 464	(670)	(162 911)	778 742
Non residents	71 421	5 235	(125)	(38 965)	37 566
Balance as at 31 December 2018	**9 385 859**	**264 206**	**(22 770)**	**(1 179 050)**	**8 448 245**

[1] Acquisition cost with respect to shares and other equity instruments and amortized cost for debt securities

The changes occurred in impairment reserves in securities at fair value through other comprehensive income are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2017 *				**1 179 050**
Impact of transition to IFRS 9				(1 178 443)
Balance as at 1 January 2018	**607**	**-**	**-**	**607**
Increases due to changes in credit risk	9 032	23	12	9 067
Decreases due to changes in credit risk	(7 608)	(1)	(12)	(7 621)
Utilisation during the period	(852)	-	-	(852)
Other movements	12	-	-	12
Balance at the end of the period	**1 191**	**22**	**-**	**1 213**

* Corresponds to accumulated impairment losses on available-for-sale securities as at 31 December 2017, recorded in accordance with IAS 39.

	(in thousands of Euro) 31.12.2017 *
Balance at the beggining of the period	1 055 723
Charges	139 916
Utilisation	(40 160)
Reversals	(12 613)
Transfers [(a)]	47 323
Exchange and other differences	(11 139)
Balance at the end of the period	**1 179 050**

[(a)] Corresponds to the reduction of the percentage of ownership of NB Africa in Moza Banco from 49% to 10.13%, which implied its deconsolidation and by the equity method.

* Corresponds to accumulated impairment losses on available-for-sale securities as at 31 December 2017, recorded in accordance with IAS 39.

During 2018, the Group sold Euro 9 235.2 thousand securities classified in financial instruments classified at fair value through other comprehensive income, with a gain of Euro 34.5 million. Out of the accumulated gain due to this derecognition, Euro -3.3 million, were transferred from revaluation reserves to reserves associated with sales and the remaining amount was recognised in the income statement of the year.

During 2018, the dividends received from equity instruments at a fair value through other comprehensive income amount to Euro 2 101 thousand.

The changes occurred in impairment losses on securities at amortised cost are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2017				-
Impact of transition to IFRS 9				213 808
Balance as at 1 January 2018	**3 549**	**4 162**	**206 097**	**213 808**
Increases due to changes in credit risk	7 001	245 353	4 385	256 739
Decreases due to changes in credit risk	(6 368)	(237 556)	(918)	(244 842)
Utilisation during the period	(1 953)	(2 945)	(74 665)	(79 563)
Other movements	4	48 609	31	48 644
Balance at the end of the period	**2 233**	**57 623**	**134 930**	**194 786**

In accordance with the accounting policy mentioned on Note 2.5, the Group regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 3.1.

As at 31 December 2018 and 2017, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Securities at fair value through profit or loss		
Up to 3 months	480	620
Unlimited duration	-	29 563
	480	**30 183**
Securities at fair value through profit or loss - mandatory		
Up to 3 months	1	-
More than 5 years	47	-
Unlimited duration	1 566 177	-
	1 566 225	**-**
Securities at fair value through other comprehensive income		
Up to 3 months	155 385	831 514
From 3 months to 1 year	618 944	1 094 637
From 1 to 5 years	4 219 916	3 469 524
More than 5 years	2 577 349	1 533 434
Unlimited duration	89 613	1 519 136
	7 661 207	**8 448 245**
Securities at amortised cost *		
Up to 3 months	754 681	-
From 3 months to 1 year	125 633	-
From 1 to 5 years	37 576	-
More than 5 years	666 296	-
	1 584 186	**-**
	10 812 098	**8 478 428**

(*) Gross value before impairments

The detail of the securities portfolio, by fair value hierarchy, is presented in Note 45.

The securities in the portfolio given as guarantee by the Group are analysed in the Note 41.

As at 31 December 2018, the exposure in this caption to the public debt of Eurozone "peripheral" countries are presented in the Note 46 – Risk Management.

NOTE 24 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2018 and 2017, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	1 227	70 177	71 404	49	170 539	170 588
Derivatives held for risk management purposes - liabilities	(36 150)	-	(36 150)	(76 212)	-	(76 212)
	(34 923)	**70 177**	**35 254**	**(76 163)**	**170 539**	**94 376**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to customers	33 835	-	33 835	73 213	-	73 213
Financial liabilities						
Debt securities issued	-	12 608	12 608	-	16 757	16 757
	33 835	**12 608**	**46 443**	**73 213**	**16 757**	**89 970**

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 assets and liabilities designated at fair value through profit or loss.

Hedging derivatives – fair value

As at 31 December 2018 and 2017, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2018

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [2]	Change in fair value of derivative in period	Fair value component of item hedged [1]	Change in fair value component of item hedged in period [1]
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest and exchange rates	2 597 116	(34 923)	42 611	33 835	(39 419)
			2 597 116	**(34 923)**	**42 611**	**33 835**	**(39 419)**

[1] Attributable to hedged risk
[2] Includes accrued interest

(in thousands of Euros)

31.12.2017

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [2]	Change in fair value of derivative in period	Fair value component of item hedged [1]	Change in fair value component of item hedged in period [1]
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest and exchange rates	1 403 697	(76 163)	29 409	73 213	(33 722)
Interest Rate Swap	Other banks	Interest rate	-	-	(2 379)	-	2 339
Equity / Interest Rate Swap	Debt securities issued	Interest rate / quote	-	-	(95)	-	82
			1 403 697	**(76 163)**	**26 935**	**73 213**	**(31 301)**

[1] Attributable to hedged risk
[2] Includes accrued interest

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (see Note 8).

As at 31 December 2018, the ineffective portion of the fair value hedging operations resulted in a gain of Euro 3.2 million that was recognised in the income statement (31 December 2017: cost of Euro 4.4 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 2.4 and 2.7 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)

31.12.2018								
Derivative	Associated financial asset/ liability	Derivative			Associated financial asset/ liability			
		Notional	Fair Value	Change in fair value during period	Fair Value	Change in fair value during period	Carrying book value	Redemption amount at maturity [1]
	Liabilities							
Interest Rate Swap/ FX Forward	Debt securities issued	342 744	70 177	(24 085)	25 216	76	96 762	104 699
		342 744	**70 177**	**(24 085)**	**25 216**	**76**	**96 762**	**104 699**

[1] Corresponds to the contractually guaranteed amount to be redeemed at maturity

(in thousand of Euros)

31.12.2017								
Derivative	Associated financial asset/ liability	Derivative			Associated financial asset/ liability			
		Notional	Fair Value	Change in fair value during period	Fair Value	Change in fair value during period	Carrying book value	Redemption amount at maturity [1]
	Assets							
Credit Default Swap	Loans and advances to customers	271 046	103 779	-	-	-	-	135 523
	Liabilities							
Interest Rate Swap	Due to customers	-	-	(1 628)	-	2 067	-	-
Interest Rate Swap/ FX Forward	Debt securities issued	342 744	66 760	(33 708)	16 757	(52 469)	158 080	168 976
		613 790	**170 539**	**(35 336)**	**16 757**	**(50 402)**	**158 080**	**304 499**

[1] Corresponds to the contractually guaranteed amount to be redeemed at maturity

As at 31 December 2017, the credit default swaps associated with loans and advances to customers are part of synthetic securitization operations, as mentioned in Note 44.

As at 31 December 2018, the fair value of financial liabilities at fair value through profit or loss attributable to the credit risk of the Group includes a positive cumulative effect of Euro 50.8 million (31 December 2017: Euro 77.5 million) (see Note 34). During 2017, the Group recognised in the income statement a negative effect of Euro 63.7 million related to changes in the fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's own credit risk (see Note 8). From 1 January

2018, these changes started to be registered in equity, having a positive variation in reserves in the amount of Euro 1 202 thousand been recognized (see Note 40).

As at 31 December 2018 and 2017, the analysis of derivatives held for risk management and hedging purposes, by maturity, may be analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
3 months to 1 year	25 000	25 000	(436)	45 000	45 000	(967)
1 to 5 years	638 850	638 850	(12 021)	229 688	229 688	(12 790)
More than 5 years	806 080	806 080	47 711	734 056	734 055	108 133
	1 469 930	**1 469 930**	**35 254**	**1 008 744**	**1 008 743**	**94 376**

NOTE 25 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This caption, as at 31 December 2018 and 2017, is analysed as follows:

(in thousands of Euros)

	31.12.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Assets / liabilities of subsidiaries acquired for resale	**1 471**	**-**	**13 851**	**3 277**
Impairment losses	-	-	(8 820)	-
Net amount	**1 471**	**-**	**5 031**	**3 277**
Other assets	**4 162**	**-**	**4 162**	**-**
Impairment losses	(3 745)	**-**	(3 745)	**-**
Net amount	**417**	**-**	**417**	**-**
	1 888	**-**	**5 448**	**3 277**

Non-current assets and liabilities held for sale include, namely, the assets / liabilities of subsidiaries acquired for resale relating to companies controlled by the Group but acquired exclusively for the purpose of resale in the short-term.

The Group implemented a plan aimed at the immediate sale of all non-current assets held for sale, continuing its efforts to meet the sales program established.

The changes in the non-current assets held for sale as at 31 December 2018 and 2017, were as follows:

(in thousands of Euro)

	31.12.2018			31.12.2017		
	Other assets	Assets of subsidiaries acquired for resale	Total	Other assets	Assets of subsidiaries acquired for resale	Total
Balance at the beginning of the perioc	4 162	13 851	18 013	4 162	14 288	18 450
Additions	-	-	-	-	1 469	1 469
Transfers		(9 797)	(9 797)			-
Sales	-	(2 585)	(2 585)	-	(2 920)	(2 920)
Other	-	2	2	-	1 014	1 014
Balance at the end of the period	**4 162**	**1 471**	**5 633**	**4 162**	**13 851**	**18 013**

As at 31 December 2018 and 2017, the assets and liabilities of subsidiaries acquired for resale have the following breakdown:

(in thousands of Euro)

	31.12.2018					
	% Economic Interest	Amounts incorporated by NB Group				
		Assets	Impairment	Carrying book value	Liabilities	Net profit / (loss) for the
Nueva Pescanova	1.30%	1 471	-	1 471	-	-
		1 471	**-**	**1 471**	**-**	**-**

(in thousands of Euro)

	31.12.2017					
	% Economic Interest	Amounts incorporated by NB Group				
		Assets	Impairment	Carrying book value	Liabilities	Net profit / (loss) for the
Greendraive – Gest. e Expl. Campos Golf e Complexos Turíst.	83.33%	2 816	(1 885)	931	3 277	-
Landscape Osuna, SL	12.50%	6 842	(6 842)	-	-	-
Afirma International	0.40%	40	(40)	-	-	-
Ampurda Valores SICAV	96.95%	2 585	(53)	2 532	-	-
Spot Inversiones SICAV	1.30%	1 469	-	1 469	-	-
Outras		99	-	99	-	-
		13 851	**(8 820)**	**5 031**	**3 277**	**-**

The changes occurred in impairment losses of non-current assets held for sale are presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	12 565	10 686
Allocation / reversals	-	1 969
Utilisation	(53)	(91)
Transfers	(9 093)	-
Foreign exchange differences and other	326	1
Balance at the end of the period	**3 745**	**12 565**

NOTE 26 – INVESTMENT PROPERTIES

The movement in the caption Investment properties is presented as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Balance at the beginning of the period	**1 144 432**	**1 206 355**
Changes in consolidation perimeter	23 401	68 616
Acquisitions	13 720	-
Sales	(69 703)	(21 472)
Betterments	13	11 894
Changes in fair value	(16 518)	(67 690)
Other [a)]	2 726	(53 271)
Balance at the end of the period	**1 098 071**	**1 144 432**

a) As at 31 December 2017, includes Euros 52 404 thousand related to the classification of GNB Vida as a discountinued operation

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 value is determined according to the accounting policy indicated in Note 2.23.

Investment properties comprise some assets held by real estate investment funds, and include commercial properties leased for revenue and properties held for valuation. Most of the lease contracts have no specific tenor, enabling the lessee to cancel it at any time. However, for a small number of these commercial properties leased to third parties there is a non-cancelling clause for approximately 10 years. Subsequent leases are negotiated with the lessee.

During 2018, the decrease in the fair value of investment properties of Euro 16.5 million, (see Note 12), and the rental income from investment properties of Euro 10.4 million, are recognised in Other operating income and expenses (31 December 2017: decrease of Euro 67.7 million in the fair value and rental income of Euro 15 million).

For the purposes of determining the fair value of these assets, generally accepted criteria and methodologies are used, which integrate analyzes by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 45).

NOTE 27 – OTHER TANGIBLE ASSETS

This caption as at 31 December 2018 and 2017, is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Real estate properties		
For own use	207 478	224 165
Improvements in leasehold properties	139 746	151 535
	347 224	**375 700**
Equipment		
Computer equipment	109 977	109 527
Fixtures	66 048	70 320
Furniture	73 311	76 471
Security equipment	27 124	27 754
Office equipment	8 341	8 585
Transport equipment	707	816
Other	1 307	1 431
	286 815	**294 904**
Other	-	2
	634 039	**670 606**
Work in progress		
Improvements in leasehold properties	846	117
Real estate properties	160	405
Equipment	936	38
	1 942	**560**
	635 981	**671 166**
Accumulated impairment	(10 609)	(11 122)
Accumulated depreciation	(482 878)	(502 547)
	142 494	**157 497**

The changes in this caption were as follows

(in thousands of Euro)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 2016	**423 857**	**522 740**	**2**	**848**	**947 447**
Acquisitions	424	3 769	-	1 342	5 535
Disposals / write-offs	(23 006)	(221 834)	-	-	(244 840)
Transfers **(a)**	(20 517)	(877)	-	(1 628)	(23 022)
Foreign exchange differences and other **(b)**	(5 058)	(8 894)	-	(2)	(13 954)
Balance at 31 December 2017	**375 700**	**294 904**	**2**	**560**	**671 166**
Acquisitions	607	12 814	-	2 855	16 276
Disposals / write-offs	(12 672)	(19 088)	-	-	(31 760)
Transfers **(b)**	(16 403)	(1 669)	-	(1 474)	(19 546)
Foreign exchange differences and other	(8)	(146)	(2)	1	(155)
Balance at 31 December 2018	**347 224**	**286 815**	**-**	**1 942**	**635 981**
Accumulated depreciation					
Balance at 31 December 2016	**257 806**	**483 061**	**121**	**-**	**740 988**
Depreciation*	8 201	13 322	-	-	21 523
Disposals / write-offs	(22 810)	(220 707)	(2)	-	(243 519)
Transfers **(a)**	(7 900)	(1 563)	-	-	(9 463)
Foreign exchange differences and other*	666	(7 661)	13	-	(6 982)
Balance at 31 December 2017	**235 963**	**266 452**	**132**	**-**	**502 547**
Depreciation	6 075	10 786	1	-	16 862
Disposals / write-offs	(12 672)	(18 809)	-	-	(31 481)
Transfers **(b)**	(4 077)	(1 690)	-	-	(5 767)
Foreign exchange differences and other	424	304	(11)	-	717
Balance at 31 December 2018	**225 713**	**257 043**	**122**	**-**	**482 878**
Impairment					
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**-**
Impairment losses	11 122	-	-	-	11 122
Balance at 31 December 2017	**11 122**	**-**	**-**	**-**	**11 122**
Transfers	(513)	-	-	-	(513)
Balance at 31 December 2018	**10 609**	**-**	**-**	**-**	**10 609**
Net book value at 31 December 2018	**110 902**	**29 772**	**(122)**	**1 942**	**142 494**
Net book value at 31 December 2017	**128 615**	**28 452**	**(130)**	**560**	**157 497**

(a) Includes Euros 20 448 thousand of tangible fixed assets (real estate properties and equipment) and Euros 6 696 thousand in accumulated depreciation relating to discontinued branches that were reclassified at their carrying book value to the appropriate captions of the balance sheet

(b) Includes Euros 10 053 thousand of tangible fixed assets (real estate properties and equipment) and Euros 3 109 thousand in accumulated depreciation relating to discontinued branches that were reclassified at their carrying book value to the appropriate captions of the balance sheet

NOTE 28 – INTANGIBLE ASSETS

This caption as at 31 December 2018 and 2017, is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Goodwill	**251 004**	**251 007**
Internally developed		
Software - Automatic data processing system	72 713	82 815
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	369 776	396 210
Other	4	4
	442 494	**479 030**
Work in progress	**2 618**	**1 921**
	696 116	**731 958**
Accumulated amortization	(440 130)	(472 715)
Impairment losses	(250 561)	(250 561)
	5 425	**8 682**

The changes in this caption were as follows:

(in thousands of Euro)

	Goodwill and Value in force	Software	Work in progress	Total
Acquisition cost				
Balance at 31 December 2016	**251 007**	**759 593**	**7 456**	**1 018 056**
Acquisitions:				
Internally developed	-	-	3 736	3 736
Acquired from third parties	-	3 527	5 263	8 790
Disposals / write-offs	-	(274 474)	(397)	(274 871)
Transfers **(a)**	-	2 842	(14 137)	(11 295)
Foreign exchange differences and other	-	(12 458)	-	(12 458)
Balance at 31 December 2017	**251 007**	**479 030**	**1 921**	**731 958**
Acquisitions:				
Internally developed	-	-	1 446	1 446
Acquired from third parties	-	1 507	3 745	5 252
Disposals / write-offs	(3)	(37 829)	-	(37 832)
Transfers **(b)**	-	-	(4 494)	(4 494)
Foreign exchange differences and other	-	(214)	-	(214)
Balance at 31 December 2018	**251 004**	**442 494**	**2 618**	**696 116**
Accumulated amortization				
Balance at 31 December 2016	**-**	**713 388**	**-**	**713 388**
Amortization for the period *	-	36 534	-	36 534
Disposals / write-offs	-	(274 422)	-	(274 422)
Foreign exchange differences and other	-	(2 785)	-	(2 785)
Balance at 31 December 2017	**-**	**472 715**	**-**	**472 715**
Amortization for the period	-	5 287	-	5 287
Disposals / write-offs	-	(37 829)	-	(37 829)
Foreign exchange differences and other	-	(43)	-	(43)
Balance at 31 December 2018	**-**	**440 130**	**-**	**440 130**
Impairment				
Balance at 31 December 2016	**250 561**	**-**	**-**	**250 561**
Balance at 31 December 2017	**250 561**	**-**	**-**	**250 561**
Balance at 31 December 2018	**250 561**	**-**	**-**	**250 561**
Net book value at 31 December 2018	**443**	**2 364**	**2 618**	**5 425**
Net book value at 31 December 2017	**446**	**6 315**	**1 921**	**8 682**

(a) Includes 477 thousands of Euros of discontinued investment projects that were allocated to costs

(b) Includes 4 494 thousands of Euros of discontinued investment projects that were allocated to costs

Goodwill, recognised in accordance with the accounting policy described in Note 2.2, is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Subsidiaries		
GNB Vida	234 575	234 575
ES Gestion	2 460	2 460
Imbassaí	13 526	13 526
Other	443	446
	251 004	**251 007**
Impairment losses		
GNB Vida	(234 575)	(234 575)
Imbassaí	(13 526)	(13 526)
ES Gestion	(2 460)	(2 460)
	(250 561)	**(250 561)**
	443	**446**

GNB Vida

As at 31 December 2016, the Bank performed the annual impairment test on the goodwill of GNB Vida based on an independent appraisal, in accordance with the accounting policy defined in Note 2.2. The independent appraisal used for the impairment test was based on information available at the time, namely macroeconomic conditions, market environment and segment where the Company operates, amongst others. The valuation of GNB Vida was determined taking into consideration the Traditional Embedded Value and the Goodwill value. The Embedded value consists in the sum of (i) the equity of the Company (adjusted for items such as unrealised capital gains / losses, net of taxes) and (ii) the estimated present value of the flow of future distributable profits arising from the insurance policies in force at the date of the valuation (adjusted for 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, and the main assumptions used were the following:

1. Required capital determined under the Solvency II SCR rules;
2. Discount rate based on the Portuguese Government Bonds' yield curve added up of 5%;
3. Reinvestment of the bonds is made at the Portuguese Government Bonds' yield curve;
4. Inflation rate flat at 1.5%;
5. Mortality table used was GKM80.

Considering (i) the decrease in the Traditional Embedded Value at the end of 2016 in about Euro 60 million when compared to the estimated value for the equivalent period and (ii) the existing uncertainty in the adherence of some key assumptions used to determine the Goodwill Value, namely regarding projection of the APE – Annual Premium Equivalents until 2021, at the end of 2016, the Bank decided to reinforce the impairment of the Goodwill generated with the acquisition of GNB Vida, being since the end of 2017, the value of Euro 234 575 thousand, fully impaired.

In 2017, the Bank launched an organised sale process of up to 100% of GNB Vida's share capital and as at 31 December 2017 all the assets and liabilities of the Company started to be presented as a discontinued operation, in a specific asset and liability line (see Note 49), being valued at the lowest between the accounting value or the fair value net of cost of sale. Thus, contrary to what happened in 31 December 2016, when the Bank used for the purposes of the Goodwill annual impairment test the above-mentioned independent valuation, in order to determine the fair value as at 31 December 2017, the Bank used the indicative values of the non-binding proposals received at the end of 2017 for the purchase of this company.

On 12 September 2018 a purchase and sale agreement for the share capital of GNB Vida was signed with Bankers Insurance Holdings, SA, a company of the Global Bankers Insurance Group, LLC., whose settlement is pending on the verification of several conditions, including obtaining the necessary regulatory authorizations (see Note 49). On 31 December 2018, the fair value of GNB vida was determined using the sale price defined in the purchase agreement.

NOTE 29 – INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies are presented as follows:

(in thousands of Euros)

	Cost of participation		Economic interest		Book value		Group profit/ losses attributable to the Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
LOCARENT	2 967	2 967	50,00%	50,00%	18 688	18 971	1 451	2 604
GNB SEGUROS	3 749	3 749	25,00%	25,00%	7 989	8 309	1 199	1 625
ESEGUR	9 634	9 634	44,00%	44,00%	14 446	14 347	411	360
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40,00%	28,66%	63 571	65 944	(352)	(470)
UNICRE **a)**	11 497	11 497	17,50%	17,50%	26 284	25 048	3 541	4 254
Other	33 025	28 885			24 370	21 883	(624)	4
	207 641	**203 501**			**155 348**	**154 502**	**5 626**	**8 377**
Impairment					**(36 650)**	**(8 251)**		
					118 698	**146 251**		

a) Although the Group's shareholding is less than 20%, this entity was consolidated under the equity method as the Group exercises significant influence over its activities

The financial information of the most relevant associated companies is presented in the following table:

(in thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the period	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
LOCARENT	260 816	271 519	224 061	234 197	36 755	37 322	74 061	69 981	2 901	5 207
GNB SEGUROS	121 987	122 287	90 033	89 053	31 954	33 234	64 770	79 430	4 800	6 504
ESEGUR	37 973	39 173	20 696	22 120	17 277	17 053	44 566	43 965	933	819
LINEAS - CONCESSÕES DE TRANSPORTES	263 684	935 475	170 688	521 817	92 996	413 658	12 294	29 068	(3 209)	5 869
UNICRE **a)**	350 610	347 928	200 414	204 799	150 196	143 129	162 274	156 227	20 234	24 309

Note: Data adjusted for consolidation purposes

a) Although the Group's shareholding is less than 20%, this entity was consolidated under the equity method as the Group exercises significant influence over its activities

The changes that occurred in this caption during 2018 and 2017, are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	146 251	158 650
Disposals and other reimbursements (see Note 1)	(1)	-
Acquisitions and additional investments (see Note 1)	-	1 400
Share of profits / (losses) of associated companies	5 626	8 377
Impairment in associated companies	(28 401)	(5 808)
Fair value reserves of investments in associated companies	779	236
Dividends received	(6 090)	(5 525)
Changes in consolidation perimeter **(a)**	-	(13 732)
Foreign exchange differences and other	534	2 653
Balance at the end of the period	**118 698**	**146 251**

(a) At 31 December 2017 refers to the reclassification of Banco Delle Tre Venezie, of Económico FI and of Económico FP as discontinued units.

The changes occurred in impairment losses in investments in associated companies were as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Balance at the beginning of the period	**8 251**	**26 987**
Charges	30 006	5 808
Utilisation	-	(3 477)
Appropriations	(1 608)	-
Transfers (1)	-	(47 321)
Foreign exchange differences	1	26 254
Balance at the end of the period	**36 650**	**8 251**

(1) in 2017, it refers to the deconsolidation of Moza Banco, which is now recorded as an available-for-sale financial asset.

NOTE 30 – OTHER ASSETS

As at 31 December 2018 and 2017, the caption Other assets is analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Collateral deposits placed	680 685	800 636
Derivative products	*468 442*	*531 965*
Collateral CLEARNET, VISA and EBA	*33 350*	*49 711*
Collateral deposits relating to reinsurance operations	*167 967*	*195 947*
Other collateral deposits	*10 926*	*23 013*
Recoverable government subsidies on mortgage loans	1 915	2 617
Public sector	325 968	299 539
Contingent Capital Agreement	1 149 295	791 695
Other debtors	849 835	383 894
Income receivable	11 211	27 051
Deferred costs	63 205	70 266
Retirement pensions and health-care benefits (see Note 14)	-	3 333
Precious metals, numismatics, medal collection and other liquid assets	9 384	9 373
Real estate properties [a)]	1 551 977	1 989 477
Equipment [a)]	22 157	22 277
Stock exchange transactions pending settlement	2 010	50 268
Other transactions pending settlement	30 617	2 930
Other assets	164 346	132 515
	4 862 605	**4 585 871**
Impairment losses		
Real estate properties [a)]	(615 157)	(643 294)
Equipment [a)]	(19 479)	(13 470)
Other debtors - Shareholder loans, supplementary capital contributions	(141 605)	(135 444)
Other	(90 107)	(70 119)
	(866 348)	**(862 327)**
	3 996 257	**3 723 544**

a) Real estate properties and equipments due to debt recoveries and discountinued operations.

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

The caption Other debtors includes, amongst others:

- Euro 50 million, as at 31 December 2017 related to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, SA;
- Euro 21.4 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business which are entirely provisioned (31 December 2017: Euro 22 million, entirely provisioned);
- Euro 112.8 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2017: Euro 112.9 million, entirely provisioned), and

- Euro 435.5 million in relation to the sale operation of non-performing loans (Project NATA), which will be liquidated during the first semester of 2019 (see Note 50).

As at 31 December 2018, the caption Deferred costs includes the amount of Euro 47 299 thousand (31 December 2017: Euro 47 927 thousand) related to the difference between the nominal amount of the loans and advances granted to Group employees under the Collective Labor Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. 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 years of service life of the employee.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Group has the objective of immediate sale.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; (iv) the regular sponsorship of auctions; and (v) the organization of marketing actions near the major emigration centers. Despite its intention to sell these assets, the Group regularly requests the Banco de Portugal’s authorization, under article 114 of RGICSF, to extend the period the Group has to hold foreclosed assets.

Stock exchange transactions pending settlement refer to transactions of securities, recorded at the trade date and pending settlement, in accordance with the accounting policy described in Note 2.5.

During 2018, the Group celebrated a promissory purchase and sale agreement for the sale of a portfolio of real estate assets, designated Project *Viriato*, whose details can be found in Note 50.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Balance at the beginning of the period	862 327	907 853
Charge for the period	270 009	95 079
Utilisation during the period	(261 036)	(114 900)
Write-back for the period	(25 209)	(8 140)
Foreign exchange differences and other	20 257	(17 565)
Balance at the end of the period	**866 348**	**862 327**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	1 989 477	2 163 991
Additions	178 691	184 203
Sales	(610 135)	(356 434)
Other movements	(6 056)	(2 283)
Balance at the end of the period	**1 551 977**	**1 989 477**

As at 31 December 2018 and 2017, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2018				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	1 163	314 298	114 032	200 266	210 864
Rural	396	307 500	140 028	167 472	172 319
	1 559	621 798	254 060	367 738	383 183
Buildings under construction					
Commercial	3	115	14	101	128
Residential	5	1 195	449	746	944
Other	2	1 668	487	1 181	1 181
	10	2 978	950	2 028	2 253
Buildings constructed					
Commercial	829	321 748	177 109	144 639	163 375
Residential	2 965	309 224	61 583	247 641	271 307
Other	575	272 666	82 591	190 075	210 446
	4 369	903 638	321 283	582 355	645 128
Other [(a)]	**24**	**23 563**	**38 864**	**(15 301)**	**(14 195)**
	5 962	**1 551 977**	**615 157**	**936 820**	**1 016 369**

(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 2.11

(in thousands of Euros)

	31.12.2017				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	2 511	464 587	146 069	318 518	331 738
Rural	611	322 588	96 761	225 827	232 928
	3 122	787 175	242 830	544 345	564 666
Buildings under construction					
Commercial	11	825	147	678	1 305
Residential	35	4 220	1 007	3 213	3 274
Other	24	22 826	11 958	10 868	12 124
	70	27 871	13 112	14 759	16 703
Buildings constructed					
Commercial	1 648	417 114	183 925	233 189	249 799
Residential	3 700	398 483	64 453	334 030	352 362
Other	1 128	339 045	94 299	244 746	267 532
	6 476	1 154 642	342 677	811 965	869 693
Other [(a)]	**8**	**19 789**	**44 675**	**(24 886)**	**(23 853)**
	9 676	**1 989 477**	**643 294**	**1 346 183**	**1 427 209**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 2.11

The detail of the real estate properties included in Other assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2018				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	23 428	52 122	25 092	99 624	200 266
Rural	13 627	24 819	48 303	80 723	167 472
	37 055	76 941	73 395	180 347	367 738
Buildings under construction					
Commercial	-	-	98	3	101
Residential	-	53	108	585	746
Other	-	-	1 168	13	1 181
	-	53	1 374	601	2 028
Buildings constructed					
Commercial	9 021	20 914	20 322	94 382	144 639
Residential	44 179	78 330	55 871	69 261	247 641
Other	22 996	26 663	41 171	99 245	190 075
	76 196	125 907	117 364	262 888	582 355
Other [(a)]	**(15 236)**	**-**	**-**	**(65)**	**(15 301)**
	98 015	**202 901**	**192 133**	**443 771**	**936 820**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2017				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	5 712	74 464	112 934	125 408	318 518
Rural	62 562	22 575	92 360	48 330	225 827
	68 274	97 039	205 294	173 738	544 345
Buildings under construction					
Commercial	-	161	451	66	678
Residential	238	-	2 518	457	3 213
Other	-	1 299	-	9 569	10 868
	238	1 460	2 969	10 092	14 759
Buildings constructed					
Commercial	16 751	41 537	75 143	99 758	233 189
Residential	49 789	86 808	97 171	100 262	334 030
Other	13 703	55 913	91 457	83 673	244 746
	80 243	184 258	263 771	283 693	811 965
Other [(a)]	**(25 193)**	**2**	**-**	**305**	**(24 886)**
	123 562	**282 759**	**472 034**	**467 828**	**1 346 183**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2018, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 22 488 thousand (31 December 2017: Euro 20 448 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 9 494 thousand (31 December 2017: Euro 6 696 thousand).

NOTE 31 – DEPOSITS FROM CENTRAL BANKS

The caption Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
From the European System of Central Banks		
Deposits	461	5
Other funds	6 410 000	6 410 000
	6 410 461	**6 410 005**
From other Central Banks		
Deposits	-	118
	-	**118**
	6 410 461	**6 410 123**

As at 31 December 2018, the caption Other funds from the European System of Central Banks includes Euro 6 410 million, covered by Group financial assets pledged as collateral (31 December 2017: Euro 6 410 million) (see Note 41).

As at 31 December 2018 and 2017, the analysis of deposits from Central Banks, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Up to 3 months	461	123
1 to 5 years	6 410 000	6 410 000
	6 410 461	**6 410 123**

NOTE 32 – DEPOSITS FROM BANKS

The caption Deposits from banks is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Domestic		
Deposits	115 324	174 091
Other funds	41 890	52 836
	157 214	**226 927**
International		
Deposits	833 858	815 030
Loans	660 338	771 791
Repurchase Agreement Operations	237 178	79 737
Other funds	56 511	121 559
	1 787 885	**1 788 117**
	1 945 099	**2 015 044**

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 2.6.

As at 31 December 2018 and 2017, the analysis of the caption Deposits from banks, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Up to 3 months	1 156 885	1 005 223
3 months to 1 year	168 639	306 904
1 to 5 years	252 532	294 896
More than 5 years	367 043	408 021
	1 945 099	**2 015 044**

The maturity period of the Repurchase Agreement Operations is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
International		
3 months to 1 year	237 178	79 737
	237 178	**79 737**

NOTE 33 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(in thousands of Euro)

	31.12.2018	31.12.2017 *
Repayable on demand		
Demand deposits	11 023 476	8 785 094
Time deposits		
Time deposits	13 383 174	17 441 957
Other	205	323
	13 383 379	**17 442 280**
Savings accounts		
Retirement saving accounts	240 892	245 981
Other	3 701 783	3 323 740
	3 942 675	**3 569 721**
Other funds		
Repurchase agreements	-	227 964
Other	345 738	288 946
	345 738	**516 910**
	28 695 268	**30 314 005**

* Data from the 31 of December 2017, restated in order to reflect the changes of the initial register of liabilities related to the LME operation completed in the last quarterr of 2017

The balance of the Sales operations with repurchase agreements corresponds to the sale of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.6.

As at 31 December 2017, the sales of securities with repurchasing agreements, in the amount of Euro 228.0 million, matured within 3 months.

As at 31 December 2018 and 2017, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017 *
Repayable on demand	11 023 476	8 785 094
Term deposits		
Up to 3 months	7 612 614	8 459 309
3 months to 1 year	6 898 305	7 625 069
1 to 5 years	2 691 429	5 034 262
More than 5 years	469 444	410 271
	17 671 792	**21 528 911**
	28 695 268	**30 314 005**

* Data from the 31 of December 2017, restated in order to reflect the changes of the initial register of liabilities related to the LME operation completed in the last quarter of 2017

NOTE 34 – DEBT SECURITIES ISSUED

The caption Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2018	31.12.2017
Euro Medium Term Notes (EMTN)	634 186	864 325
Bonds	55 066	352 455
	689 252	**1 216 780**

Under the Covered Bonds Program (*Programa de Emissão de Obrigações Hipotecárias*), which has a maximum amount of Euro 10 000 million, the Group issued covered bonds which amount to Euro 4 200 million (31 December 2017: Euro 4 200 million).

The main characteristics of the outstanding issues as at 31 December 2018 and 2017 are as follows:

31.12.2018								Rating	
Description	**Nominal value** (in thousands of Euro)	**Carrying book value** (in thousands of Euros)	**Issue date**	**Maturity date**	**Interest payment**	**Interest rate**	**Market**	**Moody's**	**DBRS**
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 Months + 0,25%	XDUB	A3	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0,25%	XDUB	A3	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0,25%	XDUB	A3	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0,25%	XDUB	A3	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	A3	A
	4 200 000	-							

31.12.2017									
Description	Nominal value (in thousands of Euro)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2018 a)	Quarterly	Euribor 3 Months + 0,25%	XDUB	Baa2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0,25%	XDUB	Baa2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0,25%	XDUB	Baa2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0,25%	XDUB	Baa2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	Baa2	A
	4 200 000	**-**							

a) Date of the next *call option*

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law no. 59/2006, and in Notices nos. 5, 6, 7 and 8 and Instruction 13, of Banco de Portugal.

As at 31 December 2018, the assets that collateralize these covered debt securities amount to Euro 4 617.4 million (31 December 2017: Euro 4 684.8 million) (see Note 22).

The changes occurred in debt securities issued, during 2018 and 2017, were as follows:

(in thousands of Euros)

	Balance at 31.12.2017	Issues	Redemptions [b)]	LME	Net purchases	Other movements [a)]	Balance at 31.12.2018
Euro Medium Term Notes (EMTN)	864 325	-	-	(250 717)	(355)	20 933	634 186
Bonds	352 455	-	(180 575)	-	(116 735)	(79)	55 066
	1 216 780	**-**	**(180 575)**	**(250 717)**	**(117 090)**	**20 854**	**689 252**

[a)] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences
[b)] During 2018 financial year Lusitano SME nº3 emission Class A was repaid in anticipation, for its full amount

(in thousands of Euros)

	Balance at 31.12.2016	Issues	Redemptions	LME	Net purchases	Other movements [a)]	Balance at 31.12.2017
Euro Medium Term Notes (EMTN)	2 998 440	-	(25 000)	(2 157 623)	(1 467)	49 975	864 325
Bonds	777 351	-	(357 498)	-	(59 554)	(7 844)	352 455
Covered Bonds	42 010	50 000	(40 000)	-	(50 025)	(1 985)	-
	3 817 801	**50 000**	**(422 498)**	**(2 157 623)**	**(111 046)**	**40 146**	**1 216 780**

[a)] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

Liability Management Exercise (LME) - 2018

On 29 June 2018, NOVO BANCO issued Euro 400 million of instruments of subordinated liabilities. This issuance was carried out jointly with tender and exchange offers addressed to holders of senior bonds of NOVO BANCO Group, having been prioritized the allocation of the new Tier 2 issuance to the investors participating in the exchange offer (65%), against the allocation to new investors (35%). The tender and exchange offers allowed the extinction of a balance sheet value of Euro 250.7 million of senior bonds (see Note 37).

Liability Management Exercise (LME) - 2017

The LME operation, completed on 4 October 2017, was one of the conditions precedent under the terms of the purchase and sale agreement for the sale of NOVO BANCO to Lone Star announced on 31 March 2017. The LME was a tender and exchange offers operations over several senior bonds issued by NOVO BANCO, in order to strengthen the Bank´s equity and took place between 25 July and 2 October 2017, with the financial settlement on 4 October. The operation involved 36 bond series with maturities between 2019 and 2052, with the overall nominal value of Euro 8.3 billion, corresponding to *circa* Euro 3 billion in accounting liabilities.

The completion of this operation involved the acquisition and reimbursement of bonds, representing 73% of their book value, with an immediate result of Euro 209.7 million. For the Bank´s clients who opted for the sale or who were reimbursed, term deposits with specific conditions were made available, therefore this operation had limited impact on cash flows.

In accordance with the accounting policy mentioned in the Note 2.7, in case of purchases of securities representatives of the Group's liabilities, these securities are written off from consolidated liabilities and the difference between the purchase price and the respective book value is recognised in the income statement. Following the debt exchange operation addressed to holders of senior bonds of Grupo NOVO BANCO by subordinated liabilities (LME) and purchases made, the Group recognised a net loss of Euro 86.2 million (see Note 12), from which Euro 81.8 million are related to operations of debt exchange by subordinated liabilities (see Note 37). During the year 2017, with the purchases made and with the operation *Liability Management Exercise* (LME), the group recognised a total net gain of Euro 187.1 million, from which Euro 209.7 million from LME.

As at 31 December 2018 and 2017, the analysis of Debt securities issued, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2018	**31.12.2017**
1 to 5 years	2 218	7 012
More than 5 years	687 034	1 209 768
	689 252	**1 216 780**

The main characteristics of the debts securities, as at 31 December 2018 and 2017, are as follows:

(in thousands of Euros)

Entity	Description		Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
			31.12.2018					
Bonds								
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe A		EUR	2007	53 566	2060	Euribor 3m + 0,40%	Irlanda
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe B		EUR	2007	1 500	2060	Euribor 3m + 0,60%	Irlanda
Euro Medium Term Notes								
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	41 225	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	95 411	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	61 704	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	45 447	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	32 452	2048	Zero coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	40 223	2049	Zero coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	35 324	2049	Zero coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	30 550	2051	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	13 329	2051	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	37 968	2048	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	34 169	2052	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	9 906	2046	Zero coupon	XLUX
NB Finance	EMTN 40	a)	EUR	2005	96 762	2035	Indexed to the swap 12m	XLUX
NB Finance	EMTN 56		EUR	2009	10 713	2043	Zero coupon	XLUX
NB Finance	EMTN 57		EUR	2009	3 491	2044	Zero coupon	XLUX
NB Finance	EMTN 58		EUR	2009	5 293	2045	Zero coupon	XLUX
NB Finance	EMTN 59		EUR	2009	13 884	2042	Zero coupon	XLUX
NB Finance	EMTN 60		EUR	2009	14 669	2040	Zero coupon	XLUX
NB Finance	EMTN 61		EUR	2009	9 448	2041	Zero coupon	XLUX
NB Finance	EMTN 114		EUR	2011	2 218	2021	Fixed rate 6%	XLUX
					689 252			

a) Liabilities at fair value through profit or loss or with embedded derivatives

(in thousands of Euros)

Entity	Description		Currency	Issue date	Carrying book value	Maturity	Interest rate	Market
			31.12.2017					
Bonds								
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe A		EUR	2007	221 647	2060	Euribor 3m + 0,40%	Irland
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe B		EUR	2007	1 500	2060	Euribor 3m + 0,60%	Irland
Lusitano SME nº 3	Lusitano SME nr 3- Classe A	b)	EUR	2016	129 308	2037	Euribor 3m + 1,15%	Portugal
Euro Medium Term Notes								
NB (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	55 581	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	108 157	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	83 073	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	59 087	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	43 241	2048	Zero coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	51 424	2049	Zero coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	49 813	2049	Zero coupon	XLUX
NB (Luxembourg Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	32 327	2051	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	16 052	2051	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	48 083	2048	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	42 308	2052	Zero coupon	XLUX
NB (Luxembourg Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	28 641	2046	Zero coupon	XLUX
NB Finance	EMTN 40	a)	EUR	2005	158 080	2035	Indexed to the swap 12m	XLUX
NB Finance	EMTN 56		EUR	2009	14 055	2043	Zero coupon	XLUX
NB Finance	EMTN 57		EUR	2009	16 017	2044	Zero coupon	XLUX
NB Finance	EMTN 58		EUR	2009	6 014	2045	Zero coupon	XLUX
NB Finance	EMTN 59		EUR	2009	12 986	2042	Zero coupon	XLUX
NB Finance	EMTN 60		EUR	2009	13 702	2040	Zero coupon	XLUX
NB Finance	EMTN 61		EUR	2009	18 672	2041	Zero coupon	XLUX
NB Finance	EMTN 114		EUR	2011	7 012	2021	Fixed rate 6%	XLUX
					1 216 780			

a) Liabilities at fair value through profit or loss or with embedded derivatives

b) During 2018 financial year Lusitano SME nº3 emission Class A was repaid in anticipation, for its full amount

As at 31 December 2018, this caption includes a balance value of Euro 96 762 thousand of debt securities issued recognised at fair value through profit or loss (31 December 2017: Euro 158 080 thousand) (see Note 45). This value compares with Euro 104 699 thousand related to the amount to be repaid on the maturity date of this bond.

The table below shows the changes occurred in the fair value attributable to the credit risk of the bonds at fair value through income statement:

(in thousands of Euro)

	31.12.2018
Fair value attributable to credit risk at the beginning of the period	77 529
Changes through other comprehensive income (see note 40)	1 202
Changes due to debt repurchases	(27 925)
Fair value attributable to credit risk at the end of the period	**50 806**

The change in the fair value attributable to changes in the credit risk of the issuances is calculated using the credit spread observed in recent issuances of similar debt, adjusted for subsequent changes in the CDS credit spread of senior debt issued by Group entities. From 1 January 2018 onwards, in accordance with IFRS 9, this liability component is now reflected in Other comprehensive income.

The Group did not present any capital or interest defaults regarding debt issued during the 2018 and 2017.

NOTE 35 – PROVISIONS

As at 31 December 2018 and 2017, the caption Provisions presents the following changes:

(in thousands of Euro)

	Restructuring provisions	Provision for guarantees and commitments	Commercial offers	Programme of antecipated repayment of liabilities	Other provisions	Total
Balance at 31 December 2016	**9 508**	**112 343**	**153 255**	**-**	**89 509**	**364 615**
Charge / (write-backs) for the period	134 259	39 825	300	-	16 547	190 931
Utilization during the period	(51 704)	-	(48 715)	-	(9 305)	(109 724)
Foreign exchange differences and other	(71)	(5 694)	260	-	(23 647)	(29 152)
Balance at 31 December 2017	**91 992**	**146 474**	**105 100**	**-**	**73 104**	**416 670**
Impact of the transition to IFRS 9	-	4 471	-	-	-	4 471
Balance at 1 January 2018	**91 992**	**150 945**	**105 100**	**-**	**73 104**	**421 141**
Charge / (write-backs) for the period	(21 086)	26 189	(2 222)	182 800	53 189	238 870
Utilization during the period	(61 125)	-	(29 902)	(143 935)	(19 292)	(254 254)
Foreign exchange differences and other	-	12 527	(99)	-	7 750	20 178
Balance at 31 December 2018	**9 781**	**189 661**	**72 877**	**38 865**	**114 751**	**425 935**

The changes in the caption Provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at 31 December 2017				**144 488**
Impact of the transition to IFRS 9				4 548
Balance at 1 January 2018	**14 196**	**7 948**	**126 892**	**149 036**
Increases through changes in credit risk	14 199	10 209	79 126	103 534
Decreases through changes in credit risk	(2 100)	(11 963)	(63 675)	(77 738)
Other movements	484	10 638	1 395	12 517
Balance at the end of the period	**26 779**	**16 832**	**143 738**	**187 349**

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at 31 December 2017				**1 986**
Impact of the transition to IFRS 9				(77)
Balance at 1 January 2018	**1 328**	**581**	**-**	**1 909**
Increases through changes in credit risk	1 290	399	-	1 689
Decreases through changes in credit risk	(666)	(626)	(4)	(1 296)
Other movements	(85)	91	4	10
Balance at the end of the period	**1 867**	**445**	**-**	**2 312**

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 divestment in non-strategic assets and the reduction, in 2016, of Euro 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 Euro 98.2 million, to cover the facilities' closure costs and the employee downsizing. As at 31 December 2018 the provision booked in the balance sheet amounted to Euro 0.8 million, of which Euro 0.6 million was used and Euro 2.2 million were write down during 2018. The restructuring plan was executed during 2016, and in 31 December 2016 the employees reduction goal was met, and the distribution network was reduced as well as the operational costs recorded a surpassing decrease.

The goals agreed with the European Commission for 30 June 2017, included a Euro 230 million reduction on recurring operational costs (excluding restructuring costs) when compared to 2015. This cost reduction is due to a re-sizing to 5 908 employees at the Group level and the distribution network to 475 branches. In IAS 37 scope, in 2017 a provision for this restructure was created, in the amount of Euro 52.6 million, making up for the costs of shutting down facilities and reducing headcount. This new phase of the restructuring plan was executed, and as at 30 June 2017, the goal of downsizing employees and the distribution network was met and the operational costs recorded a decrease bigger than the established goal. As at 31 December 2018, the balance of this provision amounted to Euro 2.3 million, and was intended to bear the costs still related with this restructuring process, having been used Euro 2.8 million of this provision and Euro 1.1 million reinstated during the year of 2018.

Under the sale process of NOVO BANCO, concluded in October 2017, additional commitments were made with the European Commission. As such, at the end of 2017 a restructuring provision was established in the amount of Euro 82.3 million in order to address the new objectives. This provision contemplates restructuring measures including the focus of the banking activity in Portugal and Spain and on the retail and corporate segments, the divestment of non-strategic assets, the reduction of the number of employees and the resizing of the distribution network. During 2018, approximately Euro 57.7 million of the established provision were used and Euro 17.9 million were reinstated, whereby as at 31 December 2018 the balance of Euro 6.7 million was intended to address the costs yet to be occurred related to this restructuring process.

Provisions for commercial offers, in the amount of Euro 72.9 million (31 December 2017: Euro 105.1 million), are intended to cover costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers holding NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision to be adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by customers.

During 2018, the Group launched a program of early repayment of liabilities. In this regard, provisions of Euro 182.8 million were incorporated for the clients that adhered to this program, in return for a compensation for loss of capital revenue, from which were used approximately Euro 143.9 million still in 2018.

Other provisions amounting to Euro 114.8 million (31 December 2017: Euro 73.1 million) are intended to cover certain duly identified contingencies related to the Group’s activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Group maintains provisions of Euro 20.6 million (31 December 2017: Euro 15.3 million);
- The remaining amount, of Euro 94.2 million (31 December 2017: Euro 57.8 million), is intended to cover for losses in connection to the Group’s normal activities, such as, amongst others, fraud, theft and robbery, and ongoing legal lawsuits.

NOTE 36 – INCOME TAXES

NOVO BANCO and its subsidiaries and associated companies located in Portugal are subject, individually, to tax in accordance with the Corporate Income Tax (IRC) Code. As a result, deferred taxes are recorded depending on the temporary differences between accounting and tax income relevant for IRC purposes, whenever such temporary differences are to be reverted in the future.

NOVO BANCO is also subject to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which it adhered, and to taxes, contribution and other levies foreseen in standalone legislation.

The current taxes correspond to the value determined of taxable income (if applicable) of the period, using the overall Corporate Income Tax (IRC) at the general rate of 21% and corresponding surcharges, and autonomous taxations.

Corporate income taxes (current or deferred) are recognised in the income statement except when the underlying transactions or items to which they are related have been reflected under equity captions (e.g. revaluation of financial assets at a fair value through other comprehensive income). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

For the purpose of the deferred tax asset calculation as at 31 December 2018, and as occurred in the periods following 3 August 2014, the following aspects were considered:

- 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 applicable. 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 temporary differences arising from the assets and liabilities included in the transfer made under said deliberation were also transferred to NOVO BANCO;
- According to no. 2 of article 145-AU of the RGICSF and the deliberations of Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct tax losses declared by BES in respect of IRC were transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF, requesting the confirmation that the tax losses generated by BES and subject to carry forward could be transmitted to NOVO BANCO, which was deferred. As explained below, based on the assessment of the recoverability of the deferred 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 have not been recognized in the Balance Sheet;

- The Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:
  - The negative equity change arising from the accounting policy change 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 be fully deductible for 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 pensions and survival benefit liabilities vis-à-vis retirees and pensioners are not applicable to a specific financial year if in said period a tax loss is determined.
- In accordance with the previous paragraphs:
  - As at 31 December 2015, the deferred tax assets arising from the transfer of liabilities and from the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euro 25 022 thousand and Euro 159 188 thousand, respectively, are therefore recoverable over the minimum periods of 12 and 6 years, and are also eligible for the purpose of the conversion into tax credits foreseen in the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August.
  - Following the determination of a negative net result for the 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 from the transfer of the liabilities to the Social Security and from the accounting policy change regarding the recognition of actuarial gains and losses, were converted into tax credits, having the final amount of Euro 153 555 thousand been approved during the second half of 2017.
  - Following the establishment of a negative net result in 2016 and the approval of the annual accounts by the corporate bodies, the application of the Special Regime in 2017 once again led to the conversion of the deferred tax assets into a tax credit having the final amount of Euro 99 474 thousand being approved during the second half of 2018.
  - Following the establishment of a negative net result in 2017 and the approval of the annual accounts by the corporate bodies, the application of the Special Regime in 2018 once again led

to the conversion of the deferred tax assets into a tax credit due to of the proportion of this net result in the value of shareholders' equity, estimated at Euro 152.5 million. This estimated amount may change due to the certification of the auditors and the Tax and Customs Authority itself, which is expected to take place in 2019.

- During the year of 2018, the regulatory decree n. 13/2018, from 28 December was applied, maintaining the tax regime in place as at 31 December 2017, extending to 2018, the tax regime of impairment losses for credit risk applicable in 2017 and the preceding years. Therefore, it was applied, for tax effects, the framework resulting from Notice n. 3/95 from the Banco de Portugal.

Deferred taxes are calculated based on the tax rates expected to be in force at the temporary differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Thus, at 31 December 2018 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Bank Levy (*Contribuição sobre o Sector Bancário*) was established, 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 and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December, by Law no. 83-C/2013, of 31 December, by Law no. 82-B/2014, of 31 December, by Law no.159-C/2015, of 30 December, by Law no. 42/2016, of 28 December and by Law no. 114/2017, of 29 December. As at 31 December 2018, NOVO BANCO Group recognised Banking Levy charges as a cost in the amount of Euro 27 276 thousand (31 December 2017: Euro 30 838 thousand). The cost recognised as at 31 December 2018 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of 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 2018 and 2017 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Financial instruments	57 571	239 633	(32 502)	(106 634)	25 069	132 999
Impairment losses on loans and advances to customers	907 482	1 345 946	-	-	907 482	1 345 946
Other tangible assets	-	-	(8 552)	(8 735)	(8 552)	(8 735)
Investments in subsidiaries and associated companies	-	-	-	(1 058)	-	(1 058)
Provisions	81 815	70 713	-	-	81 815	70 713
Pensions	37 760	20 159	-	-	37 760	20 159
Long-term service bonuses	23	22	-	-	23	22
Debt securities issued	8 357	8 749	-	-	8 357	8 749
Other	5 677	5 474	(6 403)	(6 498)	(726)	(1 024)
Tax losses carried forward	138 894	390 053	-	-	138 894	390 053
Deferred tax asset / (liability)	**1 237 579**	**2 080 749**	**(47 457)**	**(122 925)**	**1 190 122**	**1 957 824**
Asset / liability set-off for deferred tax purposes	(41 054)	(116 732)	41 054	116 732	-	-
Net Deferred tax asset / (liability)	**1 196 525**	**1 964 017**	**(6 403)**	**(6 193)**	**1 190 122**	**1 957 824**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilization of the deductible temporary differences. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverable deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

At 31 December 2018 and 2017, deferred tax assets related to tax liabilities were of Euro 138 894 thousand and Euro 390 053 thousand, respectively.

As referred in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognised based on the Group's expectation of their recoverability. The assessment of the recoverability of the deferred tax assets with reference to 31 December 2018 was made based on the business plan for the period 2018-2021 reflected in the Recovery Plan, which was based on the budget document for 2019. This evaluation led the Bank to the annulment of deferred tax assets generated by tax losses recognized in previous years in the amount of Euro 251 million.

The reduction in the Group´s capacity to recover the deferred tax assets generated from tax liabilities, which was the reason for the abovementioned write down at the end of 2018, when compared to the amount estimated by the Executive Board of Directors at the end of 2017, is due, with the commitments between the Portuguese State and Directorate-General for Competition of the European Commission ("DGCOMP"), reviewed upon the partial sale of NOVO BANCO concluded by the end of October 2017 and formally announced to the Bank in December 2017, and due to a higher level of conservatism on the Portuguese macroeconomic projections for the medium and long term, bearing in mind the challenges and difficulties faced by NOVO BANCO, as well as the current expectations for the reference rates in the medium term.

The plan incorporates also a greater focus on reducing non-performing assets, reflecting the requirements and commitments the bank faces in the regulatory framework of the European Union, something that also contribute to this less favorable evolution when compared with the previous plan.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- Growth of pre-tax income at a rate of 3.20% from 2022;
- Significantly unfavorable evolution of net interest income in relation to the projections presented in the previous Medium-term Plan (PMP), since the positive impact of the expected decrease in the cost of term deposits and the reduction in the Bank's cost of funding, are not sufficient to offset the significant reduction of the loan portfolio in the period from 2018 to 2021, compared to the growth shown in the previous PMP, as well as the effect of the reduction in the interest rate benchmarks, according to the current macroeconomic estimates;
- Reduction of operating costs, reflecting the favorable effect of the decreases in the number of employees and branches and, generally, of the simplification and increased process efficiency; and
- Increase in credit impairment in line with the evolution of the Group's activity and based on the macroeconomic projections, especially bearing in mind the significant effort made in the last years in the provisioning of the loan portfolio.

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	1 957 824	2 584 678
Recognised in Results for the period	(658 917)	(430 773)
Recognised in Fair value reserves	81 127	(45 678)
Recognised in Other reserves	(74)	(7 977)
Change in method of consolidation (1)	-	(28 750)
Impact of the transition to IFRS 9	(47 993)	-
Conversion of Deferred taxes into Tax credits	(152 478)	(114 198)
Foreign exchange differences and other	10 633	522
Balance at the end of the period (Assets / (Liabilities))	**1 190 122**	**1 957 824**

(1) In 2017 GNB Vida was transferred to discontinued units (see Note 1)

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2018 and 2017 may be analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Assets		
Corporate tax recoverable	2 790	945
Other	3 899	5 069
	6 689	**6 014**
Liabilities		
Corporate tax payable	7 249	7 968
Other	4 801	5 919
	12 050	**13 887**

The current and deferred taxes recognised in the income statement and in reserves, in 2018 and 2017, had the following origins:

(in thousands of Euros)

	31.12.2018		31.12.2017	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial Instruments	50 554	(84 254)	49 797	45 678
Impairment losses on loans and advances to customers	382 488	-	(142 536)	-
Other tangible assets	(183)	-	(5 780)	15 572
Investments in subsidiaries and associated companies	(1 058)	-	68	-
Provisions	(9 708)	-	15 774	1 589
Pensions	(17 694)	74	(6 050)	66
Long-term service bonuses	(1)	-	(2)	-
Debt securities issued	392	-	(366)	(7 502)
Other	2 968	-	324	(1 748)
Tax losses carried forward	251 159	-	519 544	-
Deferred taxes	**658 917**	**(84 180)**	**430 773**	**53 655**
Current taxes	8 790	254	14 373	923
Total tax recognised (income) / cost	**667 707**	**(83 926)**	**445 146**	**54 578**

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)

	31.12.2018		31.12.2017 *	
	%	Amount	%	Amount
Income before tax [(a)]		**(740 280)**		**(1 856 918)**
Tax rate of NOVO BANCO	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		**(155 459)**		**(389 953)**
Tax-exempt dividends	0.3	(2 106)	0.2	(2 908)
Impairment on investments in subsidiaries or associated companies not subject to participation exemption	-	-	(3.4)	62 274
Impairment on investments in subsidiaries or associated companies subject to participation exemption	(2.6)	19 463	(3.1)	58 056
Rate differential on the generation / reversal of timing differences	(4.4)	32 363	1.9	(35 062)
Profits / losses in units with a more favorable tax regime	1.1	(8 211)	(1.0)	19 263
Taxes of Bank Branches and tax withheld abroad	(0.8)	5 580	(0.4)	7 709
Change in the rate of IRC	-	-	5.6	(104 531)
Impairments and provisions for loans	(34.4)	254 374	(3.1)	57 244
Impairments for stocks	(3.3)	24 491	0.2	(4 122)
Provisions for other risks, costs and contingencies	0.7	(4 849)	(1.0)	18 608
Annulment of tax losses carried forward	(33.9)	251 000	(28.0)	520 000
Share of profits / (losses) of associated companies	0.2	(1 604)	(0.1)	2 429
Other	(34.1)	252 665	(12.7)	236 139
Total tax recognized	**(90.2)**	**667 707**	**(24.0)**	**445 146**

[(a)] Includes the profit / (loss) of discontinued units

*Data from 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

NOTE 37 – SUBORDINATED DEBT

The caption Subordinated debt is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Bonds	414 903	-
	414 903	**-**

The main characteristics of the caption Subordinated debt, as at 31 December 2018, are presented as follows:

(in thousands of Euros)

		31.12.2018						
Issuer	**Designation**	**Currency**	**Issue date**	**Issue amount**	**Carrying book value**	**Interest rate**	**Maturity**	**Market**
NOVO BANCO	NB 06/07/2028	EUR	2018	400 000	414 903	Fixed rate	2023 a)	XDUB
				400 000	**414 903**			

a) Next call option date

On 29 June 2018, NOVO BANCO issued Euro 400 million of instruments of subordinated liabilities. This issuance was carried out jointly with tender and debt exchange offers addressed to holders of senior bonds of NOVO BANCO Group, having been prioritized the allocation of the new Tier 2 issuance to the investors participating in the exchange offer (65%), against the allocation to new investors (35%). The tender and exchange offers allowed the extinction of a balance sheet value of Euro 250.7 million of senior bonds (see Note 34).

NOTE 38 – OTHER LIABILITIES

As at 31 December 2018 and 2017, the caption Other liabilities is analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017 *
Public sector	56 974	35 534
Security deposit accounts	81 514	101 096
Creditors for transactions with securities	4 928	10 011
Creditors for povision of goods	29 464	31 734
Creditors for factoring operations	10 024	6 011
Other creditors	237 817	210 635
Non-controlling interests of Open Investment Funds (Note 40)	111 763	106 074
Career bonuses (see Note 14)	6 486	6 371
Retirement pensions and health-care benefits (see Note 14)	27 440	18 417
Other accrued expenses	84 520	101 012
Deferred income	3 241	4 389
Stock exchange transactions pending settlement	961	25 999
Foreign exchange transactions pending settlement	7 193	12 552
Other transactions pending settlement	78 291	105 828
	740 616	**775 663**

*Data from 31 December 2017 restated in order to reflect the alteration of the initial register of liabilities related to the LME operation completed in the last quarter of 2017

Stock exchange transactions pending settlement refer to transactions of securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.5.

NOTE 39 – SHARE CAPITAL

Ordinary shares

In 2017, and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised. Thus, as at 31 December 2018 and 31 December 2017, the share capital of the Bank amounts to Euro 5 900 000 000, represented by 9 799 999 997 registered shares, with no nominal value, fully subscribed and realised by the following shareholders.

	Share Capital %	
	31.12.2018	31.12.2017
Nani Holdings, SGPS, SA	75.00%	75.00%
Fundo de Resolução (1)	25.00%	25.00%
	100.00%	**100.00%**

(1) In view of the commitments assumed by the Portuguese Republic before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law no. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

Law no. 23/2016, of 19 August, changed the temporal scope of this Special Regime, establishing that it was not applicable to expenses and eligible negative changes in shareholders' equity accounted for in taxable periods beginning on or after 1 January 2016.

Hence, following the net loss reported for the 2015 financial year, the approval of the annual accounts by the corporate bodies and the application of said Special Regime on deferred tax assets, part of the eligible deferred tax assets resulting from the transfer of liabilities to Social Security and from the changes in the accounting policies on recognition of actuarial deviations, was converted to tax credit, where the final amount approved during the second semester of 2017 was of Euro 153 555 thousand, and received in December 2017. The application of the aforementioned Special Regime implied the simultaneous establishment of a special reserve amounting to Euro 168 911 thousand.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level.

A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that grant the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. The shareholders of NOVO BANCO have the unilateral right to acquire the conversion rights from the State.

As a result of the net losses reported in 2016, and the approval of the annual accounts by the corporate bodies, the application of the aforementioned Special Regime implied again in 2017, the conversion of the eligible deferred tax assets into a tax credit, having the final amount been certified by the Tax Authority during the second semester of 2018 in the amount of Euro 99 474 thousand and received in December 2018.

As a result of the net losses reported in 2017, and of the approval of the annual accounts by the corporate bodies, the application of the aforementioned Special Regime implied again in 2018, the conversion of the eligible deferred tax assets into a tax credit, proportionate to the ratio of that loss to total equity, estimated in Euro 152 478 thousand. These estimated amounts may change due to the certification of the auditors and the Tax Authority which will presumably occur in 2019.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015, 2016 and 2017 will confer a shareholding of up to approximately 6.5% of the share capital of NOVO BANCO.

NOTE 40 – OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

The Group's reserves and retained earnings had the following breakdown as at 31 December 2018 and 2017:

(in thousands of Euro)

	31.12.2018	31.12.2017 *
Originating reserve	2 234 440	2 402 165
Special reserve	470 295	302 569
Other reserves and Retained earnings	(3 006 304)	(1 909 758)
	(301 569)	**794 976**
Fair value reserves	(298 774)	245 129
	(600 343)	**1 040 105**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation completed in the last quarter of 2017.

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Banco de Portugal to BES. The amount of the reserve includes the effects of Banco de Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Banco de Portugal.

Special reserve

As mentioned in Note 39, the special reserve was created as a result of the adherence of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve, following the determination of a net loss in years 2015, 2016 and 2017, and the approval of the respective annual accounts by the corporate bodies. The special reserve was set up for the same amount of the tax credit calculated, increased by 10%, against the originating reserve and it shall be incorporated in the share capital. The amounts of the originating reserve transferred to the special reserve are presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	133 658	133 658
2018 (net loss of 2017)	167 726	-
	470 295	**302 569**

Resulting from the credit tax certified by the Tax authority at the end of 2018, the amount of the Special Reserve booked during 2017 (referring to the negative results in 2016), will be adjusted throughout 2019, after correcting for the number of rights issued in favor of the Portuguese State.

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes occurred in the fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(in thousands of Euro)

	31.12.2018			31.12.2017		
	Fair value reserves			Fair value reserves		
	Financial assets at a fair value through Other Comprehensive Income	Deferred tax reserves	Total Fair value reserves	Fair value reserves	Deferred tax reserves	Total Fair value reserves
Balance at the beginning of the period	**333 503**	**(88 374)**	**245 129**	**149 244**	**(42 042)**	**107 202**
Impact of the transition to IFRS 9	(533 037)	56 691	**(476 346)**	-	-	-
Balance at 1 January 2018	**(199 534)**	**(31 683)**	**(231 217)**	-	-	-
Changes in fair value	(52 886)	-	(52 886)	321 021	-	321 021
Change in foreign exchange reserves	(17 980)	-	(17 980)	-	-	-
Sales in the period	(24 001)	-	(24 001)	(104 691)	-	(104 691)
Impairment recognized in the period	-	-	-	(32 071)	-	(32 071)
Deferred taxes recognized in the period in reserves	-	27 310	27 310	-	(46 332)	(46 332)
Balance at the end of the period	**(294 401)**	**(4 373)**	**(298 774)**	**333 503**	**(88 374)**	**245 129**

The fair value reserves are analysed as follows:

(in thousands of Euro)

	31.12.2018
Amortised cost of financial assets at fair value through Other Comprehensive Income	7 985 680
Market value of financial assets at fair value through Other Comprehensive Income	7 661 207
Unrealised gains / (losses) recognised in fair value reserves	(324 473)
Unrealised gains / (losses) of associated companies recognised in fair value reserves	543
Fair value reserves of discontinued activities	31 780
Non-controlling interests	(2 251)
Total fair value reserves	(294 401)
Deferred taxes	(4 373)
Fair value reserves attributable to shareholders of the Bank	**(298 774)**

(in thousands of Euro)

	31.12.2017
Amortised cost of financial assets at fair value through other comprehensive income	9 385 859
Accumulated impairment recognised	(1 179 050)
Amortised cost of financial assets at a fair value through other comprehensive income, net of impairment	8 206 809
Market value of financial assets at fair value through other comprehensive income	8 448 245
Unrealised gains / (losses) recognised in fair value reserves	241 436
Unrealised gains / (losses) of associated companies recognised in fair value reserves	(755)
Fair value reserves of discontinued activities	99 496
Non-controlling interests	(6 674)
Total fair value reserves	333 503
Deferred taxes	(88 374)
Fair value reserves attributable to shareholders of the Bank	**245 129**

Other reserves and retained earnings

The changes occurred in Other Reserves and Retained Earnings were as follows:

(in thousands of Euro)

	Other comprehensive income, Other reserves and Retained earnings							Total Other comprehensive income, Other reserves and Retained earnings
	Impairment reserves	Credito Risk reserves	Reserves related to sales	Actuarial deviations (net of taxes)	Exchange differences (net of taxes)	Legal reserve	Other reserves and Retained earnings	
Balance at 31 December 2016	**-**	**-**	**-**	**(393 376)**	**(128 944)**	**-**	**1 370 064**	**847 744**
Actuarial deviations	-	-	-	(24 684)	-	-	-	(24 684)
Interest on other financial instruments				-	-	-	-	-
Foreign exchange differences	-	-	-	-	(17 602)	-	-	(17 602)
Incorporation in retained earnings of net income for the previous year	-	-	-	-	-	-	(788 330)	(788 330)
Reserve of Contingent Capital Agreement*	-	-	-	-	-	-	791 695	791 695
Transactions on non-controllable interests	-	-	-	-	-	-	-	-
Changes in the consolidation perimeter **(a)**	-	-	-	-	-	-	-	-
Other comprehensive income of associated companies	-	-	-	-	-	-	(212)	(212)
Other	-	-	-	-	-	-	(13 635)	(13 635)
Balance at 31 December 2017*	**-**	**-**	**-**	**(418 060)**	**(146 546)**	**-**	**1 359 582**	**794 976**
Impact of the transition to IFRS 9	607	-	-	-	-	-	129 093	129 700
Balance at 1 January 2018	**607**	**-**	**-**	**(418 060)**	**(146 546)**	**-**	**1 488 675**	**924 676**
Actuarial deviations	-	-	-	(70 805)	-	-	-	(70 805)
Foreign exchange differences	-	-	-	-	(8 665)	-	-	(8 665)
Changes in the credit risk of financial liabilities at fair value, net of taxes	-	1 202	-	-	-	-	-	1 202
Reserves of impairment of securities at fair value through other comprehensive income	604	-	-	-	-	-	-	604
Reserves of sales of securities at fair value through other comprehensive income	-	-	(3 315)	-	-	-	-	(3 315)
Incorporation in retained earnings of net income for the previous year *	-	-	-	-	-	-	(2 298 049)	(2 298 049)
Transactions on non-controllable interests	-	-	-	-	-	-	4 756	4 756
Reserve of Contingent Capital Agreement	-	-	-	-	-	-	1 149 295	1 149 295
Other comprehensive income of associated companies	-	-	-	-	-	-	779	779
Other	-	-	-	-	-	-	(2 047)	(2 047)
Balance at 31 December 2018	**1 211**	**1 202**	**(3 315)**	**(488 865)**	**(155 211)**	**-**	**343 409**	**(301 569)**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial register of liabilities related to the LME operation completed in the last quarter of 2017.

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3 890 million (see Note 41 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2018 these assets had a net value of Euro 4 billion, mainly as a result of the recording of losses and the occurrence of receipts and recoveries (31 December 2017: net value of Euro 5.4 billion). In view of the losses presented by NOVO BANCO on 31 December 2017, the conditions determining the payment by Resolution Fund of Euro 791 695 thousand were verified and the payment occurred in May 2018. In 2018, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 1 149 295 thousand relating to the Contingent Capital Agreement. The amount is accounted for under Other reserves and it depends at each Balance Sheet date on the incurred losses and on the regulatory ratios in force at the moment of its determination.

The accumulated variation of the credit risk reserves of financial liabilities at fair value through profit or loss is, at 31 December 2018, negative in the amount of Euro 1 202 thousand.

Non-controlling interests

The caption Non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
GNB Concessões			-	27 812	(526)	28,34%
NB Património [a)]	-	4 778	45,23%	-	3 471	45,24%
NB Açores	16 586	1 518	42,47%	16 403	920	42,47%
BES Vénétie	-	181	-	21 637	291	12,50%
Amoreiras	9 419	94	5,84%	9 326	(3 054)	5,84%
Other	9 341	(1 916)		4 034	(5 117)	
	35 346	**4 655**		**79 212**	**(4 015)**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 42)

The changes occurred in the caption Non-controlling interests may be analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Non-controlling interests at the beginning of the period	**79 212**	**81 337**
Changes in consolidation perimeter and control percentages [(a)]	(42 768)	5 545
Increases / (decreases) in share capital of subsidiaries	-	(23)
Changes in fair value reserves	(402)	767
Other	(5 351)	(4 399)
Net profit / (loss) for the period	4 655	(4 015)
Non-controlling interests at the end of the period	**35 346**	**79 212**

NOTE 41 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2018 and 2017 are the following:

(in thousands of Euros)

	31.12.2018	31.12.2017
Contingent liabilities		
Guarantees and standby letters	3 358 589	3 782 974
Financial assets pledged as collateral	12 341 217	12 058 821
Open documentary credits	664 905	760 797
Other	-	2 747
	16 364 711	**16 605 339**
Commitments		
Revocable commitments	5 155 118	5 211 866
Irrevocable commitments	455 264	769 546
	5 610 382	**5 981 412**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

As at 31 December 2018, 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 Euro 12.1 billion (31 December 2017: Euro 11.6 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 9 million (31 December 2017: Euro 9.9 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 71.4 million (31 December 2017: Euro 71.4 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 155.4 million (31 December 2017: Euro 263.1 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 46.

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, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Deposit and custodianship of securities and other items for customers	30 625 948	31 973 583
Assets received for subsequent collection on behalf of clients	296 990	234 249
Securitized loans under management (servicing)	1 524 064	1 719 439
Other responsibilities related with banking services	2 552 909	2 286 198
	34 999 911	**36 213 469**

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 the deliberation of Banco de Portugal of 11 August 2014, the "*Excluded Liabilities*" from the transfer to NOVO BANCO include "*any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (…)*".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include *"any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".*

On 29 December 2015, Banco de Portugal adopted a new deliberation for the "*Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of Banco de Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Banco de Portugal of 11 August 2014 (5 p.m.)*". Through this deliberation, Banco de Portugal:

(i) Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labor, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of 3 August; and

(ii) Clarified that the following liabilities had not been transferred from BES to NOVO BANCO:

   a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;

   b. All liabilities, damages and expenses related to real estate assets that were transferred to NOVO BANCO;

   c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 20h00 on 3 August 2014;

d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;

e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;

f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and

g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

(iii) To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to NOVO BANCO which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 20hours of 3 August 2014.

In the preparation of its consolidated financial statements as at 31 December 2018 (as well as in the previous financial statements), NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet items and assets under management of BES, as well as from the deliberation of 29 December 2015 of Banco de Portugal, in particular, with regards to the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by the deliberation of Banco de Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to neutralize, at the NOVO BANCO level, the effects of decisions that are legally binding, beyond the control of NOVO BANCO and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the perimeter of the transfer to NOVO BANCO as defined by Banco de Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Banco de Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Banco de Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely regarding the various disputes relating to the loan made by Oak Finance to BES and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Banco de Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO.

These disputes include the two lawsuits of late January 2016, with the Supreme Court of Justice of Venezuela, Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and NOVO BANCO, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of 37 million dollars and 335 million dollars, respectively, and which requests the reimbursement of the amount invested, plus interest, compensation for the value of inflation and costs (at the date, in a total approximate amount of 96 and 871 million dollars, respectively). In accordance with resolution measure, these responsibilities were not transferred to NOVO BANCO and is still pending before the Supreme Court of Venezuela the main actions and precautionary seizure procedures.

In the preparation of the separate and consolidated financial statements of the Bank as at 31 December 2018 and 31 December 2017, the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Banco de Portugal, in particular the decisions of 29 December 2015, especially the one regarding the clarification of the contingent liabilities. In this context, the present financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred from BES to NOVO BANCO, as determined by Banco de Portugal and taking as reference the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Banco de Portugal, dated 29 December 2015, concerning the neutralisation, at the level of NOVO BANCO, of the effects of unfavorable decisions that are legally binding, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Significant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely regarding the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Banco de Portugal (and the criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of

Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective.

(ii) Lawsuit brought by NOVO BANCO, S.A. challenging the resolution decided in favor of the insolvent estate in respect of the acts of the constitution and subsequent execution of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A., due to considering that there are no grounds for the resolution of these acts, as well as demanding the reimbursement of the amount received by way of price (Euro 25 000 000.00, susceptible of a positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

(iii) Following the conclusion of the sale agreement of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, related to the conditions of the sale, namely the administrative action brought by Banco Comercial Português, SA (BCP) against the Resolution Fund, of which NOVO BANCO is not a party, and according to the public disclosure of inside information made by BCP on the website of the CMVM on 1 September 2017, it requested the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the CCA.

(iv) In addition, NOVO BANCO was informed by the publication in the Official Journal of the European Union of 16 July 2018, of the existence of an appeal to the General Court by Banco Comercial Português, SA and other entities of the group seeking the annulment of the decision of the European Commission C (2017 / N) of 11 October 2017 which considers the contingent capital agreement agreed between the Resolution Fund and the Lone Star Group in connection with the sale of NOVO BANCO, compatible with the internal market. Although NOVO BANCO is not a party to this proceeding, it has asked the General Court to intervene as a party and this request was granted.

Resolution Fund

Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law no. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Banco de Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Banco de Portugal, based, essentially, on the amount of its liabilities. As at 31 December 2018, the periodic contribution made by the Group amounted to Euro 10 995 thousand (31 December 2017: Euro 7 821 thousand).

As part of its responsibility as the supervisory and resolution authority, Banco de Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under no. 5 of article 145-G of the RGICSF, which consisted on the transfer of most of its activity to NOVO BANCO, created specifically for this purpose and the capital was assured by the Resolution Fund.

To realise the share capital of NOVO BANCO, Resolution Fund made available Euro 4 900 million, of which Euro 365 million corresponded to own funds. A loan was also granted by a banking syndicate to Resolution Fund, amounting to Euro 635 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euro 3 900 million) had its origin in a reimbursable loan granted by the Portuguese State.

In December 2015, national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (Banif) to Banco Santander Totta, S.A. (Santander Totta), for Euro 150 million, also in the scope of the application of a resolution measure. This operation involved an estimated Euro 2 255 million of public funding, aimed at covering future contingencies, financed in Euro 489 million by Resolution Fund and Euro 1 766 million directly by the Portuguese State. 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..

The serious financial imbalance of BES in 2014 and Banif in 2015 , which justified the application of resolution measures, created uncertainties related to the risk of litigation involving Resolution Fund, which is significant, as well as to the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and by the banks participating in Resolution Fund in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Resolution Fund. To this end, an addendum to the financing agreements with Resolution Fund was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Resolution Fund’s ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Resolution Fund for special contributions or any other extraordinary contribution.

As announced by the Resolution Fund in 31 March 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, with the basis of a stable, predictable and affordable charge to the banking sector. Based on this review, the assumed Resolution Fund is assured the full payment of their responsibilities, and the respective remuneration, without need for recourse to special contributions or any other type of contributions extraordinary by the banking industry

Also on 31 March 2017, Banco de Portugal announced that it had selected Lone Star Funds for the acquisition of NOVO BANCO, which was completed on 18 October 2017, through the injection, by the new shareholder, of Euro 750 million, followed by another capital injection of Euro 250 million, made on 21 December 2017. Lone Star Funds came to hold 75% of the share capital of NOVO BANCO and Resolution Fund the remaining 25%. In addition, the approved conditions include:

- A Contingent Capital Agreement, under which the Resolution Fund, whilst shareholder, may be called upon to make payments in the event of certain cumulative conditions related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalization levels. The possible payments needed, in the agreed terms of this Contingent Capital Agreement are of an absolute maximum of Euro 3 890 million.
- A Compensation Mechanism to NOVO BANCO if in the event that some conditions are met, and it is convicted to make payments of any responsibilities, due to a final court judicial decision not recognising or that is opposed to the resolution measure applied by Banco de Portugal, or to NOVO BANCO's perimeter of assets and liabilities. Within the sale operation of NOVO BANCO, SA, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Banco de Portugal, dated 29 December 2015, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Notwithstanding the possibility under the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Resolution Fund by the Portuguese State and by a syndicate of banks, and of the public press releases made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and Banif, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs.

According to the announcement issued by the Resolution Fund on 1 March 2019, for the payment to be made to the NOVO BANCO under the Contingent Capital Agreement, the available financial resources will be used first, resulting from the contributions paid, directly or indirectly by the banking sector, and these resources are complemented by a loan agreed with the State in October 2017 with an annual maximum limit then defined of Euro 850 million.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTE 42 – ASSETS UNDER MANAGEMENT (DISINTERMEDIATION)

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 31 December 2018 and 2017, the value of the assets under management by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Investment funds	1 123 369	1 211 358
Real estate investment funds	174 395	154 767
Pension funds	2 112 011	2 087 399
Bancassurance	381 839	387 771
Discretionary management	977 102	988 048
	4 768 716	**4 829 343**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 43 – RELATED PARTY TRANSACTIONS

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of NOVO BANCO); (ii) people or entities with a family, legal or business relationship with shareholders; (iii) people or entities with a family, legal or business relationship with key management personnel; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of NOVO BANCO; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which NOVO BANCO Group holds the power to significantly influence financial and operational polices, despite not having control; and (vii) entities under joint control of NOVO BANCO (joint ventures).

During the year of 2018, NOVO BANCO carried out the following credit operations and other transactions with Related Parties:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euro)
FUNDO GESTÃO PATRIMÓNIO IMOB. FUNGEPI NOVO BANCO	Subsidiary	Bank guarantee	210,000
GRUPO ESEGUR	Associate	Credit Card Authorized overdraft NB Express Bill Collateral Line Guarantees	225,000 2,400,000 100,000 2,000,000
GRUPO ESEGUR	Associate	Furniture Leasing	2,000,000
EDENRED PORTUGAL SA	Associate	Authorized overdraft	4,000,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Loan Account Cc_ Op. Markets Rce_ Credit Card Furniture Leasing	2,500,000 3,000,000 10,000 3,500,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	CC Loan or Commercial Paper	7,500,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Direct Debits Limits	4,000,000
GNB - COMPANHIA SEGUROS SA	Associate	Direct Debits Limits	8,120,000
GRUPO MULTIPESSOAL	Associate	Multipurpose Line Credit Card Collateral Line Guarantees Factoring Loan Account Cc_	6,500,000 117,500 1,750,000 8,880,000 1,500,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Commercial paper	1,500,000 6,000,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Commercial paper Leasing	23,000,000 27,000,000
NOVO VANGUARDA SL	Subsidiary	Authorized overdraft	650,000
GNB - COMPANHIA SEGUROS VIDA SA	Subsidiary	Direct Debits Limits	8,010,000
GNB - COMPANHIA SEGUROS VIDA SA	Subsidiary	Op. Markets Rce_	10,000,000
NOVO BANCO SERVICIOS CORPORATIVOS	Subsidiary	Authorized overdraft Participative Loan	45,000,000 4,750,000
ENTIDADES GNB: BEST,BESV, NB AÇORES, ESPLC BESIL, NB FINANCE	Subsidiary	Interbank Boundaries (Business Boundaries)	1,270,000,000
GRUPO ESEGUR	Associate	Credit Card Authorized overdraft NB Express Bill Collateral Line Guarantees	225,000 2,400,000 100,000 2,000,000
EDENRED PORTUGAL SA	Associate	Authorized overdraft Credit Card	4,000,000 5,000
GRUPO MULTIPESSOAL	Associate	Multipurpose Line Credit Card Collateral Line Guarantees Factoring Collateral Line CC	2,500,000 115,000 1,750,000 9,200,000 4,500,000
NEXXPRO - FÁBRICA CAPACETES SA	Associate	Factoring	500,000
GRUPO ESEGUR	Associate	Credit Card Authorized overdraft NB Express Bill Collateral Line Guarantees	225,000 2,400,000 100,000,00 2,000,000
NOVO BANCO DOS AÇORES SA	Subsidiary	Derivatives Interbank Boundaries	3,000,000
UNICRE - CARTÃO INTERNACIONAL CRÉDITO SA	Associate	MLT Funding	up to 15,000,000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation
NANI HOLDINGS SGPS SA	Shareholders	Securities Custody
FUNDO RESOLUÇÃO	Shareholders	Securities Custody
HUDSON ADVISORS PORTUGAL UNIPESSOAL LDA e NANI HOLDINGS SGPS SA	Shareholders	Service Contracts Services (1st Addendum)
GNB - COMPANHIA SEGUROS SA	Associate	Addendum - Contract Distribution Insurance
GNB - COMPANHIA SEGUROS VIDA SA	Subsidiary	Addendum - Contract Distribution Insurance
NANI HOLDINGS SGPS SA	Shareholders	Intragroup contract for Sharing and Reporting Information
LOCARENT-COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Vehicle Renting
NB PATRIMÓNIO - FUNDO INVEST. IMOB. ABERTO	Subsidiary	Rental Agreement
GNB - SOC. GESTORA FUNDOS INVEST. IMOB. SA	Subsidiary	Recruitment of Employees
HUDSON ADVISORS PORTUGAL UNIPESSOAL LDA e NANI HOLDINGS SGPS SA	Shareholders	Service Contracts Services (2nd Addendum)
GRUPO ESEGUR	Associate	Acquiring Alarms for the Network
NB LOGÍSTICA - FUNDO ESPECIAL INVEST. IMOB. ABERTO	Subsidiary	Real estate sale
FUNDES -NB LOGÍSTICA - FUNDO ESPECIAL INVEST. IMOB. FECHADO	Subsidiary	Real estate sale
LOCARENT-COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Distribution Agreement

The Group Balance Sheet balances with related parties as at 31 December 2018 and 2017, as well as the respective costs and revenue recognised, can be summarised as follows:

(in thousands of Euro)

	31.12.2018					31.12.2017 (*)				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholder										
NANI HOLDINGS	-	153	-	390	-	-	-	-	-	-
FUNDO DE RESOLUÇÃO	1 149 295	-	-	-	10 995	791 695	-	-	791 695	7 821
Associated companies										
LINEAS	97 644	34 426	-	4 710	3	208 013	44 660	3 844	11 593	3
LOCARENT	31 304	1 295	-	1 323	5 607	56 624	837	-	1 777	5 991
NANIUM a)	-	-	-	-	-	-	-	-	107	-
ASCENDI PINHAL INTERIOR	-	-	-	-	-	102 259	48 311	7 639	12 529	18 012
GNB SEGUROS	380	9 079	-	10	2	367	14 214	-	25	5
ESEGUR	5 528	3 510	69	-	19	5 959	1 185	909	-	61
UNICRE	10 001	26	-	26	-	-	13	-	-	-
MULTIPESSOAL	3 074	40	251	52	-	5 512	49	251	95	-
BANCO DELLE TRE VENEZIE	-	31	-	-	-	-	62	-	-	-
EDENRED	9	62 400	26	6	128	1	42 364	26	-	158
ENKROTT	1 168	-	2	32	-	933	10	23	18	-
MOZA BANCO b)	-	-	-	-	-	-	-	-	976	34
YUNIT	-	-	21	-	-	-	-	21	-	-
	1 298 403	**110 960**	**369**	**6 549**	**16 754**	**1 171 363**	**151 705**	**12 713**	**818 815**	**32 085**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	5 444	-	-	-	-	-
NACIONAL CONTA LDA	120	7	-	-	-	-	-	-	-	-
Other (**)	**120**	**7**	**-**	**-**	**5 444**	**-**	**-**	**-**	**-**	**-**

(*) Restated with the amount of the triggering of the Contingent Capital Agreement registered in Reserves
(**) Companies controlled directly or indirectly by members of the corporate bodies
a) Associated company sold in May 2017
b) Ceased to be consolidated in 2017

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding 2018 and 2017.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and NOVO BANCO, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank’s Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 7% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of NOVO BANCO in 2018 and 2017, are as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	2 265	993	3 258	2 207	340	2 547
Post-employment benefits	4	-	4	2	-	2
Other long-term benefits	33	26	59	-	5	5
Employment termination benefits	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-
	2 302	**1 019**	**3 321**	**2 209**	**345**	**2 554**

As at 31 December 2018, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 503 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives was Euro 1 thousand.

As at 31 December 2017, loans granted to members of Key Management Personnel of NOVO BANCO were as follows: (i) to members of the Executive Board of Directors and their immediate family members, was of Euro 101 thousand; and (ii) members of the General and Supervisory Board and their immediate family members, had no loans granted to them.

NOTE 44 – SECURITISATION OF ASSETS

As at 31 December 2018 and 2017, the outstanding securitisation transactions made by the Group were as follows:

(in thousands of Euro)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2018	31.12.2017	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	182 361	210 905	Mortgage loans (subsidized scheme)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	185 120	213 871	Mortgage loans (general scheme and subsidized scheme)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	291 087	328 966	Mortgage loans (general scheme)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	351 544	396 244	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	513 952	569 453	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	478 943	554 890	Mortgage loans (general scheme)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	8 371	9 300	Project Finance loan
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 199 264	1 352 403	Mortgage loans (general scheme)
Lusitano Finance No. 3	November 2011	657 981	-	50 049	Credit to individuals
Lusitano SME No.3	November 2016	630 385	197 985	353 038	Loans to small and medium-sized enterprises

The loans and advances to customers covered by the securitization operations Lusitano Finance No. 3 and Lusitano SME No. 3 were not derecognised from the balance sheet since the Group substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised as the Group substantially transferred all the risks and rewards of ownership. During the last quarter of 2018, the Group proceeded to the early redemption the of Lusitano Finance No. 3.

In accordance with the consolidation rules established in IFRS 10, 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.

Additionally, as at 31 December 2018 and 2017, the following synthetic securitization operations were in progress:

(in thousands of Euro)

Issue	Start date	Initial amount of securitised credit	Current amount of securitised credit		Asset securitized
			31.12.2018	31.12.2017	
Lusitano Synthetic Limited	December 2012	1 000 000	354 311	509 323	Financing M/L Term (SMEs)
Lusitano Synthetic II Ldt.	December 2013	2 000 000	-	1 453 640	Current Account

Lusitano Synthetic Limited and Lusitano Synthetic II Limited are synthetic loan securitization operations, involving the contracting by the Group of a credit default swap (CDS) for each operation as to eliminate the credit risk associated with a portfolio of loans granted to companies. The loans associated to this portfolio continue to be recognised in the Group’s balance sheet under the caption Loans and advances to customers. As at 31 December 2017, the fair value of the CDS of these transactions was positive in

Euro 103 779 thousand. During 2018, Lusitano Syntethic II Limited was early terminated and Lusitano Syntethic Limited became part of the consolidation perimeter of NOVO BANCO Group, in accordance with IFRS 10.

The main characteristics of these operations, as at 31 December 2018 and 2017, may be analysed as follows:

(in thousands of Euros)

31.12.2018															
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	87 504	-	-	December 2035	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	AA	Aa3	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Baa1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB+	B1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	99 505	-	-	December 2036	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	Aa3	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB-	Baa2	BBB-	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	B	B2	B	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	250 799	-	-	December 2047	AAA	Aaa	AAA	-	A	A1	A	-
	Class B	27 000	9 841	-	-	December 2047	AA	Aa2	AA	-	BBB+	Ba1	BB-	-
	Class C	18 600	6 780	-	-	December 2047	A	A2	A	-	BB+	Ba3	B	-
	Class D	14 400	5 249	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 400	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	272 930	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	A	-
	Class B	22 800	18 066	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BBB-	-
	Class C	19 200	15 214	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	19 017	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 529	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	406 872	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA-	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B1	BBB-	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa2	BB+	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC+	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	319 906	266 342	253 795	March 2060	AAA	Aaa	AAA	-	A-	Aa3	BBB+	-
	Class B	65 450	65 450	63 950	57 394	March 2060	AA	Aa3	AA	-	BB+	Baa1	BBB+	-
	Class C	41 800	41 800	41 800	31 497	March 2060	A	A3	A	-	B-	Ba3	BBB-	-
	Class D	17 600	17 600	17 600	11 945	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 511	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	8 833	8 833	8 789	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	749 529	749 529	681 379	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	294 500	264 702	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	180 500	152 195	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	-	-	-	December 2037	-	A3	-	AA	-	Aa3	-	AA
	Class B	62 700	31 058	31 058	30 782	December 2037	-	Baa3	-	BBB	-	Aa3	-	AAL
	Class C	62 700	62 700	62 700	61 061	December 2037	-	B1	-	B	-	A3	-	BBBH
	Class D	116 000	116 000	116 000	110 677	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	3 691	3 691	3 420	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	5 624	5 624	2 645	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	255 731	255 731	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	77 963	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-

(in thousands of Euros)

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			
31.12.2017							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	114 821	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	127 091	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A1	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Baa3	BB	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	285 314	-	-	December 2047	AAA	Aaa	AAA	-	A-	A1	A-	-
	Class B	27 000	11 196	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba1	BB-	-
	Class C	18 600	7 713	-	-	December 2047	A	A2	A	-	BB	Ba3	B	-
	Class D	14 400	5 971	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 583	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	308 280	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A	-
	Class B	22 800	20 406	-	-	December 2048	AA	Aa2	AA	-	BB	Baa2	BBB-	-
	Class C	19 200	17 184	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	21 480	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	8 490	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	465 410	-	-	December 2059	AAA	Aaa	AAA	-	BB	A2	BBB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B2	BB+	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	BB-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	371 205	149 589	140 174	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	35 235	March 2060	AA	Aa3	AA	-	BB-	Baa1	BBB-	-
	Class C	41 800	41 800	41 800	30 964	March 2060	A	A3	A	-	B-	Ba3	BB	-
	Class D	17 600	17 600	17 600	11 846	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	16 010	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	1 700	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	47 817	47 817	43 203	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	867 606	867 606	784 883	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	294 500	186 732	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	53 956	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance N.º 3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	48 913	48 913	45 541	November 2029	-	-	-	-	-	-	-	-
	Class C	20 000	10 000	10 000	9 134	November 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	129 276	-	-	December 2037	-	A3	-	AA	-	A1	-	AAL
	Class B	62 700	62 700	62 700	60 464	December 2037	-	Baa3	-	BBB	-	A3	-	BBBH
	Class C	62 700	62 700	62 700	59 432	December 2037	-	B1	-	B	-	Ba1	-	BH
	Class D	116 000	116 000	116 000	81 654	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	6 201	6 201	5 298	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	6 160	6 160	2 905	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	425 460	425 460	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	79 382	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ldt.	Senior	1 800 000	1 289 247	1 289 247	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	56 141	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

NOTE 45 – 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 establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

In accordance with the fair value valuation methodology of assets and liabilities followed, these are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding valuation method:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Group analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Group in favor of a specific price.

This category includes, amongst others, the following financial instruments:

(i) Derivatives traded on an organised market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with more than one provider and for which the instruments are 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 unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

(i) Debt securities valued using non-observable market inputs;

(ii) Unquoted shares;

(iii) Closed real estate funds;

(iv) Hedge funds;

(v) Private equities;

(vi) Restructuring funds; and

(vii) Over the counter (OTC) derivatives with prices provided by third parties.

The valuation models used by type of instrument are as follows:

<u>Money market operations and loans and advances to customers</u>: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

<u>Commercial paper</u>: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

<u>Debt instruments (bonds) with liquidity</u>: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Group's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

<u>Debt instruments (bonds) with reduced liquidity</u>: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is

impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga.
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads.
- Futures and Options: the Group trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily

through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

Investment properties: their fair value is determined based on periodic valuations realised by independent entities specializing in this type of service (see accounting policy in Note 2.23).

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 of the Group measured at fair value is as follows:

(in thousands of Euro)

	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 2018				
Financial assets held for trading	257 270	-	-	257 270
Bonds issued by public entities	*257 269*	-	-	257 269
Bonds issued by other entities	*1*	-	-	*1*
Derivatives held for trading	-	515 940	396	516 336
Exchange rate contracts	-	*11 695*	-	*11 695*
Interest rate contracts	-	*457 411*	*396*	*457 807*
Credit	-	*9*	-	*9*
Other	-	*46 825*	-	*46 825*
Other financial assets at fair value through profit or loss	480	-	-	480
Bonds issued by other entities	*480*	-	-	*480*
Other financial assets at a fair value through mandatory results	78 549	46	1 487 630	1 566 225
Bonds issued by other entities	*1*	*46*	-	*47*
Shares	*78 304*	-	*596 519*	*674 823*
Other variable income securities	*244*	-	*891 111*	*891 355*
Other financial assets at a fair value through equity	7 587 936	27 558	45 713	7 661 207
Bonds issued by public entities	*6 620 509*	-	-	*6 620 509*
Bonds issued by other entities	*951 085*	-	-	*951 085*
Shares	*16 342*	*27 558*	*45 710*	*89 610*
Other variable income securities	-	-	*3*	*3*
Derivatives held for risk management purposes	-	1 228	70 176	71 404
Interest rate contracts	-	*1 228*	*70 176*	*71 404*
Investment properties		-	1 098 071	1 098 071
Assets at fair value	**7 924 235**	**544 772**	**2 701 986**	**11 170 993**
Financial liabilities held for trading	-	490 229	2 724	492 953
Derivatives				
Exchange rate contracts	-	*11 719*	-	*11 719*
Interest rate contracts	-	*454 306*	*2 724*	*457 030*
Credit	-	*117*	-	*117*
Other	-	*24 087*	-	*24 087*
Liabilities represented by securities	-	96 762	-	96 762
Derivatives held for risk management purposes	-	36 150	-	36 150
Interest rate contracts	-	*36 150*	-	36 150
Financial Liabilities at fair value	**-**	**623 141**	**2 724**	**625 865**

(in thousands of Euro)

	At fair value			
	Quoted Market Prices (Level 1)	**Valuation models based on observable market information (Level 2)**	**Valuation models based on unobservable market information (Level 3)**	**Total Fair Value**
31 December 2017				
Financial assets held for trading	286	-	81	367
Bonds issued by other entities	-	-	*2*	*2*
Shares	-	-	*79*	*79*
Other variable income securities	*286*	-	-	*286*
Derivatives held for risk management purposes	-	576 705	448	577 153
Exchange rate contracts	-	*33 698*	-	*33 698*
Interest rate contracts	-	*496 800*	*448*	*497 248*
Credit	-	*15*	-	*15*
Other	-	*46 192*	-	*46 192*
Securities at fair value through profit or loss	620	-	29 563	30 183
Bonds issued by other entities	*620*	-	-	*620*
Shares	-	-	*3 676*	*3 676*
Other variable income securities	-	-	*25 887*	*25 887*
Available-for-sale financial assets	5 664 534	662 642	2 070 262	8 397 438
Bonds issued by government and public entities	*5 448 869*	*519 128*	-	*5 967 997*
Bonds issued by other entities	*134 072*	*143 514*	*683 526*	*961 112*
Shares	*81 593*	-	*570 497*	*652 090*
Other variable income securities	-	-	*816 239*	*816 239*
Derivatives held for risk management purposes	-	66 809	103 779	170 588
Interest rate contracts	-	*66 809*	-	*66 809*
Credit	-	-	*103 779*	*103 779*
Investment properties		-	1 144 432	1 144 432
Assets at fair value	**5 665 440**	**1 306 156**	**3 348 565**	**10 320 161**
Financial liabilities held for trading	-	557 325	2 440	559 765
Derivatives				
Exchange rate contracts	-	*33 335*	-	*33 335*
Interest rate contracts	-	*505 423*	*2 440*	*507 863*
Credit	-	*113*	-	*113*
Other	-	*18 454*	-	*18 454*
Debt securities issued	-	158 080	-	158 080
Derivatives held for risk management purposes	-	76 212	-	76 212
Interest rate contracts	-	*76 212*	-	*76 212*
Financial Liabilities	**-**	**791 617**	**2 440**	**794 057**

The changes occurred in financial assets valued based on non-observable market information (level 3 of the fair value hierarchy) during the year ended 31 December 2018 and 2017, may be analysed as follows:

(in thousands of Euro)

	31.12.2018								
	Financial assets held for trading - derivatives	**Financial assets held for trading - securities**	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Derivatives for risk management**	**Investment properties**	**Total assets**	**Financial liabilities held for trading - derivatives**	**Total liabilities**
Balance at 31 December 2017	**448**	**81**	**29 563**	**2 070 262**	**103 779**	**1 144 432**	**3 348 565**	**2 440**	**2 440**
Impact of transition to IFRS 9	-	(81)	1 352 143	(2 019 781)	-	-	**(667 719)**	-	-
Balance at 1 January 2018	**448**	**-**	**1 381 706**	**50 481**	**103 779**	**1 144 432**	**2 680 846**	**2 440**	**2 440**
Acquisitions	163	-	32 872	7 576	-	-	40 611	-	-
Maturity	-	-	(44 020)	(6 377)	-	-	(50 397)	-	-
Liquidation	-	-	(48 993)	(59)	-	(69 703)	(118 755)	-	-
Transfers in	-	-	-	-	70 176	37 121	107 297	-	-
Transfers out	-	-	-	-	(103 779)	2 726	(101 053)	-	-
Changes in value	(215)	-	166 065	(5 908)	-	(16 505)	143 437	284	284
Balance at the end of the period	**396**	**-**	**1 487 630**	**45 713**	**70 176**	**1 098 071**	**2 701 986**	**2 724**	**2 724**

(in thousands of Euro)

	31.12.2017								
	Financial assets held for trading - derivatives	**Financial assets held for trading - securities**	**Financial assets at fair value through profit or loss**	**Financial assets available forsale**	**Derivatives for risk management**	**Investment properties**	**Total assets**	**Financial liabilities held for trading - derivatives**	**Total liabilities**
Balance at the beginning of the perio	2 097	77	60 186	2 191 524	105 569	1 206 355	3 565 808	2 416	2 416
Acquisitions	-	-	3 477	5 201 259	-	-	5 204 736	-	-
Maturity	-	-	(27)	(189 575)	-	-	(189 602)	-	-
Liquidation	-	-	-	(5 017 331)	-	(21 472)	(5 038 803)	(1 156)	(1 156)
Transfers in	-	-	-	-	-	68 616	68 616	-	-
Transfers out	-	-	(33 968)	(2 617)	-	(53 271)	(89 856)	-	-
Changes in value	(1 649)	4	(105)	(112 998)	(1 790)	(55 796)	(172 334)	1 180	1 180
Balance at the end of the period	**448**	**81**	**29 563**	**2 070 262**	**103 779**	**1 144 432**	**3 348 565**	**2 440**	**2 440**

Unrealised gains and losses on financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in the income statement or revaluation reserves, in accordance with the respective assets' accounting policy. The following amounts were determined in financial years 2018 and 2017:

(in thousands of Euro)

	31.12.2018			31.12.2017		
	Recognised in Reserves	**Recognised in the Income statement**	**Total**	**Recognised in Reserves**	**Recognised in the Income statement**	**Total**
Financial assets held for trading - derivatives	-	(464)	(464)	-	(1 649)	(1 649)
Financial assets held for trading - securities	-	-	-	-	38	38
Financial assets at fair value through profit or loss	-	-	-	-	(41 419)	(41 419)
Financial assets at fair value through results mandatory	-	(55 312)	(55 312)	-	-	-
Financial assets at fair value through other comprehensive income	(106 848)	-	(106 848)	295 673	-	295 673
Derivatives for risk management purposes	-	24 724	24 724	-	(1 790)	(1 790)
Investment properties	-	(16 505)	(16 505)	-	(56 663)	(56 663)
	(106 848)	**(47 557)**	**(154 405)**	**295 673**	**(101 483)**	**194 190**

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 Euro)

Assets classified under Level 3	31.12.2018						
	Valuation model	**Variable analyzed**	**Carrying book value**	**Unfavorable scenario**		**Favorable scenario**	
				Change	**Impact**	**Change**	**Impact**
Financial assets held for trading			**0.4**		**-**		**-**
Derivatives	Other	(a)	0.4				
Securities at fair value through mandatory results			**1 487.6**		**(23.0)**		**30.1**
Shares			596.5		(23.0)		30.1
	Discounted cash flow model	Specific impairment	*83.5*	*-50%*	*(23.0)*	*+50%*	*30.1*
	Other	*(a)*	*2.8*		-		-
	Valuation of management company	*Net assets value (b)*	*510.3*		-		-
Other variable income securities			891.1		-		-
	Other	*(a)*	*0.2*		-		-
	Other		*27.4*		-		-
	Valuation of management company	*Net assets value (b)*	*863.5*		-		-
Securities at fair value through equity			**45.7**		**-**		**-**
Shares			45.7		-		-
	Other	*(a)*	*32.8*		-		-
	Other		*10.9*		-		-
	Valuation of management company	*Net assets value (b)*	*2.1*		-		-
Derivatives for risk management		***(c)***	**70.2**		**-**		**-**
Investment properties	Valuation of management company	Net assets value (b)	**1 098.1**		**-**		**-**
Total			**2 702.0**		**(23.0)**		**30.1**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value
(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity
(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euro)

Assets classified under Level 3	31.12.2017						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**0.5**		**-**		**-**
Bonds issued by other entities	Other	**(a)**	0.0		-		-
Shares	Other	**(a)**	0.1		-		-
Derivatives	Other	**(a)**	0.4		-		-
Financial assets at fair value through profit or			**29.6**		**-**		**-**
Shares and other variable income securities			29.6		-		-
	Valuation of management company	*Net assets value* **(b)**	*25.8*		-		-
	Other	***(a)***	*3.7*		-		-
Securities at fair value through equity			**2 070.3**		**(41.9)**		**42.0**
Bonds issued by other entities			683.5		(23.5)		12.8
	Discounted cash flow model	*Discount rate*	*51.7*	*(-) 100 bps*	*(1.8)*	*(+) 100 bps*	*1.8*
	Discounted cash flow model	*Probability of default*	*2.9*	*-50%*	*(1.4)*	*+50%*	*4.9*
	Discounted cash flow model	*Probability of default*	*618.5*	*2 levels*	*(22.3)*	*2 levels*	*8.1*
	Discounted cash flow model	*Probability of default*	*10.5*	*-25%*	*2.1*	*+25%*	*(2.1)*
Shares			570.5		(18.5)		29.2
	Discounted cash flow model	*Discount rate*	*91.2*	*-50%*	*(17.4)*	*+50%*	*28.1*
	Valuation of management company	*Net assets value (b)*	*447.9*		-		-
	Market multiples		*10.6*	*(-) outliers*	*(1.1)*	*(+) outliers*	*1.1*
	Other	***(a)***	*20.8*		-		-
Other variable income securities			816.2		-		-
	Valuation of management company	Net assets value **(b)**	816.2		-		-
Derivatives for risk management	***(c)***	***(c)***	**103.8**		**-**		**-**
Investment properties	Valuation of management company	Net assets value **(b)**	**1 144.4**		**-**		**-**
Total			**3 348.6**		**(41.9)**		**42.0**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value

(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used in the valuation models as at 31 December 2018 and 2017 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:

(%)

	31.12.2018			31.12.2017		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.4200	2.4000	0.7650	-0.4100	1.4500	0.6450
1 month	-0.3630	2.7000	0.9050	-0.3680	1.6500	0.5000
3 months	-0.3090	2.8700	0.9500	-0.3290	1.7600	0.7500
6 months	-0.2370	2.9500	1.0700	-0.2710	1.9100	0.8400
9 months	-0.2295	3.0300	1.1600	-0.2170	2.0600	0.7900
1 year	-0.2250	2.7440	0.9898	-0.2550	1.8790	0.6060
3 years	-0.0650	2.5800	1.2193	0.0110	2.1440	0.8837
5 years	0.2010	2.5780	1.3050	0.3150	2.2380	1.0325
7 years	0.4690	2.6210	1.3574	0.5660	2.3000	1.1430
10 years	0.8150	2.7110	1.4365	0.8860	2.3850	1.2735
15 years	1.1690	2.7890	1.5131	1.2480	2.4750	1.4052
20 years	1.3450	2.8190	1.5461	1.4180	2.5170	1.4530
25 years	1.3720	2.8190	1.5491	1.4950	2.5275	1.4447
30 years	1.4050	2.8110	1.5411	1.5010	2.5250	1.4250

Credit spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behavior in the market during the year, is presented as follows:

(base points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2018						
CDX USD Main	**30**	28.34	55.91	87.74	112.28	132.90
iTraxx Eur Main	**29**	-	54.76	88.08	111.06	131.23
iTraxx Eur Senior Financial	**29**	-	-	109.52	-	146.91
31 December 2017						
CDX USD Main	**29**	-	24.26	49.09	72.34	90.66
iTraxx Eur Main	**28**	-	21.51	45.12	65.34	84.28
iTraxx Eur Senior Financial	**28**	-	-	43.94	-	72.75

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2018			31.12.2017		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	16.48	11.25	33.95	12.26	15.31	52.35
3 years	32.17	22.87	-	31.32	22.10	-
5 years	48.20	27.29	58.01	46.25	28.62	58.67
7 years	57.42	28.35	61.25	54.61	30.07	63.27
10 years	63.34	30.20	-	61.27	28.18	-
15 years	64.69	-	-	64.25	-	-

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	**31.12.2018**	**31.12.2017**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1450	1.1993	7.26	7.31	7.48	7.60	7.68
EUR/GBP	0.8945	0.8872	10.87	11.20	10.87	10.76	10.32
EUR/CHF	1.1269	1.1702	5.49	5.79	6.05	6.15	6.34
EUR/NOK	9.9483	9.8403	8.06	7.75	7.60	7.60	7.54
EUR/PLN	4.3014	4.1770	4.85	5.13	5.45	5.73	5.91
EUR/RUB	79.7153	69.3920	13.39	13.69	13.86	14.10	14.21
USD/BRL [a)]	3.8812	3.3127	14.91	14.68	14.51	14.49	14.46
USD/TRY [b)]	5.2915	3.7909	19.53	19.75	20.15	20.53	20.88

[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

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implicit volatility
	31.12.2018	31.12.2017	% change	1 month	3 months	
DJ Euro Stoxx 50	3 001	3 504	16.74%	18.52	14.74	-
PSI 20	4 731	5 388	13.88%	16.51	13.28	-
IBEX 35	8 540	10 044	17.61%	18.62	14.72	-
FTSE 100	6 728	7 688	14.26%	18.44	14.05	20.75
DAX	10 559	12 918	22.34%	20.35	16.18	21.83
S&P 500	2 507	2 674	6.65%	27.31	20.65	22.39
BOVESPA	87 887	76 402	-13.07%	20.70	24.86	24.83

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 Euro)

	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 2018					
Cash and deposits with Central Banks	701 883	-	701 883	-	701 883
Deposits with banks	275 789	-	275 789	-	275 789
Securities at amortised cost	1 389 400	10 464	705 677	815 891	1 532 032
Loans and advances to banks	423 058	-	423 058	-	423 058
Loans and advances to customers	24 754 445	-	-	24 901 885	24 901 885
Financial assets	**27 544 575**	**10 464**	**2 106 407**	**25 717 776**	**27 834 647**
Deposits from Central Banks	6 410 461	-	6 410 461	-	6 410 461
Deposits from banks	1 945 099	-	1 949 917	-	1 949 917
Due to customers	28 695 268	-	-	28 695 268	28 695 268
Debt securities issued	592 490	721 378	-	53 710	775 088
Subordinated debt	414 903	-	415 934	-	415 934
Financial liabilities	**38 058 221**	**721 378**	**8 776 312**	**28 748 978**	**38 246 668**

(in thousands of Euro)

	Assets / Liabilities recorded at amortised cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2017					
Cash and deposits with Central Banks	3 788 027	-	3 788 027	-	3 788 027
Deposits with banks	380 601	-	380 601	-	380 601
Títulos ao custo amortizado	50 807	-	-	50 807	50 807
Loans and advances to banks	581 901	-	581 901	-	581 901
Loans and advances to customers	25 790 943	-	-	25 420 607	25 420 607
Financial assets	**30 592 279**	**-**	**4 750 529**	**25 471 414**	**30 221 943**
Deposits from Central Banks	6 410 123	-	6 410 123	-	6 410 123
Deposits from banks	2 015 044	-	1 960 388	-	1 960 388
Due to customers *	30 314 005	-	-	30 314 005	30 314 005
Debt securities issued	1 058 700	1 008 569	-	346 094	1 354 663
Financial liabilities	**39 797 872**	**1 008 569**	**8 370 511**	**30 660 099**	**40 039 179**

* 31 December 2017 restated to reflect the alteration of the initial register of liabilities related to the LMEoperation completed in the lastquarter of 2017.

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

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 principal 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 mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from 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 principal and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

NOTE 46 – RISK MANAGEMENT

The Group is exposed to a number of risks arising from the use of financial instruments, which are analysed below:

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honor its contractual obligation established with the Group in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and other contingent liabilities. In credit default swaps (CDS), the net exposure between selling and buying positions in relation to each reference entity, is also considered a credit risk to NOVO BANCO Group. CDSs are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the valuation methodologies and tools used to evaluate and control risk, as well as in the procedures and decision making processes.

The risk profile of the Group is analysed on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses. Regular analyzes also include compliance with the approved credit limits and the correct operation of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas.

NOVO BANCO Group's maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Deposits with and loans and advances to banks	698 847	962 502
Derivatives held for trading	516 336	577 153
Financial assets held for trading	257 270	2
Financial assets at fair value through profit / (losses)	480	620
Financial assets at fair value through profit / (losses) - mandatory	47	-
Financial assets at fair value through other comprehensive income	7 570 381	6 929 109
Financial assets at amortised cost	1 389 400	-
Loans and advances to customers	24 754 445	25 790 943
Derivatives held for risk management purposes	71 404	170 588
Other assets	189 525	366 102
Guarantees and standby letters provided	3 171 240	3 638 487
Documentary credits	664 905	760 797
Revocable and irrevocable commitments	5 608 070	5 979 426
Credit risk associated with the credit derivatives' reference entities	7 814	7 814
	44 900 164	**45 183 543**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Group would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Group calculates impairment, on a collective or individual basis in accordance with the accounting policy described in Note 2.5. Whenever the value of the collateral, net of haircuts (taking into account the type of collateral), 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 regarding their recoverability and the subsequent impairment recognition, when necessary.

The table below displays the assets impaired, or overdue by not impaired:

(in thousands of Euros)

	31.12.2018					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total Exposure	Impairment	Net Exposure
Deposits and loans and advances to banks	400 113	-	374 474	774 587	(75 740)	698 847
Financial assets held for trading - Securities	257 270	-	-	257 270	-	257 270
Bonds issued by government and other public entities	*257 269*	-	-	*257 269*	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*	-	*1*
Financial assets at fair value through profit/ loss	480	-	-	480	-	480
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	*480*	-	-	*480*	-	*480*
Financial assets at fair value through profit/ loss - mandatory	47	-	-	47	-	47
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	*47*	-	-	*47*	-	*47*
Financial assets at fair value through other comprehensive income	7 526 094	-	45 500	7 571 594	(1 213)	7 570 381
Bonds issued by government and other public entities	*6 620 509*	-	-	*6 620 509*	*(816)*	*6 619 693*
Bonds issued by other entities	*905 585*	-	*45 500*	*951 085*	*(397)*	*950 688*
Financial assets at amortised cost	1 437 167	-	147 019	1 584 186	(194 786)	1 389 400
Bonds issued by government and other public entities	*503 123*	-	-	*503 123*	*(771)*	*502 352*
Bonds issued by other entities	*934 044*	-	*147 019*	*1 081 063*	*(194 015)*	*887 048*
Loans and advances to customers	22 416 810	15 628	6 279 929	28 712 367	(3 957 922)	24 754 445

(in thousands of Euros)

	31.12.2017					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total Exposure	Impairment	Net Exposure
Deposits and loans and advances to banks	497 079	-	536 581	1 033 660	(71 158)	962 502
Financial assets held for trading - Securities	2	-	-	2	-	2
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	*2*	-	-	*2*	-	*2*
Financial assets at fair value through profit/ loss	620	-	-	620	-	620
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	*620*	-	-	*620*	-	*620*
Financial assets at fair value through other comprehensive income	6 868 755	-	272 872	7 141 627	(212 518)	6 929 109
Bonds issued by government and other public entities	*5 967 997*	-	-	*5 967 997*	-	*5 967 997*
Bonds issued by other entities	*900 758*	-	*272 872*	*1 173 630*	*(212 518)*	*961 112*
Loans and advances to customers	21 909 527	4 571	9 508 343	31 422 441	(5 631 498)	25 790 943

Impairment exposures correspond to (i) exposures with objective evidence of loss ("Exposure in *default*", according to the internal definition of *default* - which corresponds to stage 3); and (ii) exposures classified as having specific impairment after an individual assessment of impairment.

Exposures classified as non-impairing relate to (i) all exposures that do not show signs of significant deterioration of credit risk - exposures classified as stage 1; (ii) exposures that, with signs of a significant deterioration of credit risk, have no objective evidence of impairment or impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(in thousands of Euros)

	31.12.2018					
	Securities Portfolio - Debt Instruments		Deposits 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	-	-	-	-	12 947	59 280
3 months to 1 year	-	11 000	-	-	1 121	391 646
1 to 3 years	-	72 697	-	-	1 360	1 204 380
3 to 5 years	-	97 775	-	-	73	1 149 411
More than 5 years	-	219	-	74	127	718 323
	-	**181 691**	**-**	**74**	**15 628**	**3 523 040**
Due to mature						
Up to 3 months	-	3 880	-	-	-	231 491
3 months to 1 year	-	2 890	-	-	-	642 055
1 to 3 years	-	4 058	-	-	-	444 982
3 to 5 years	-	-	-	-	-	290 806
More than 5 years	-	-	-	374 400	-	1 147 555
	-	**10 828**	**-**	**374 400**	**-**	**2 756 889**
	-	**192 519**	**-**	**374 474**	**15 628**	**6 279 929**

(in thousands of Euro)

	31.12.2017					
	Securities Portfolio - Debt Instruments		Deposits and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	3 400	-	-	2 686	166 555
3 months to 1 year	-	68 559	-	-	740	316 584
1 to 3 years	-	171 847	-	-	548	2 258 876
3 to 5 years	-	15 251	-	-	359	1 450 610
More than 5 years	-	924	-	-	238	1 017 974
	-	**259 981**	**-**	**-**	**4 571**	**5 210 599**
Due to mature						
Up to 3 months	-	-	-	-	-	302 140
3 months to 1 year	-	2 797	-	-	-	706 772
1 to 3 years	-	-	-	-	-	659 937
3 to 5 years	-	2 845	-	-	-	594 688
More than 5 years	-	7 249	-	536 581	-	2 034 207
	-	**12 891**	**-**	**536 581**	**-**	**4 297 744**
	-	**272 872**	**-**	**536 581**	**4 571**	**9 508 343**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Deposits and loans and advances to banks	-	374 400	74	374 474
Securities at fair value through other comprehensive incor	-	-	45 500	45 500
Securities at amortised cost	-	-	147 019	147 019
Loans and advances to customers	6 015	157 208	6 132 334	6 295 557
	6 015	531 608	6 324 927	6 862 550

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)

	31.12.2018					
	Prime +High grade	*Upper Medium Grade*	*Lower Medium grade*	*Non Investment Grade Speculative + Highly speculative*	Other	Total
Deposits and loans and advances to banks	-	1 020	27 907	20 507	350 679	400 113
Financial assets held for trading - Securities	-	-	257 269	-	1	257 270
Bonds issued by government and other public entities	*-*	*-*	*257 269*	*-*	*-*	*257 269*
Bonds issued by other entities	*-*	*-*	*-*	*-*	*1*	*1*
Financial assets at fair value through profit / loss	-	-	-	-	480	480
Bonds issued by other entities	*-*	*-*	*-*	*-*	*480*	*480*
Financial assets at fair value through profit / loss - mandatory	-	-	-	-	47	47
Bonds issued by other entities	*-*	*-*	*-*	*-*	*47*	*47*
Financial assets at fair value through equity	1 081 656	2 088 725	3 977 041	-	378 672	7 526 094
Bonds issued by government and other public entities	*784 128*	*2 047 323*	*3 789 058*	*-*	*-*	*6 620 509*
Bonds issued by other entities	*297 528*	*41 402*	*187 983*	*-*	*378 672*	*905 585*
Financial assets at amortised cost	-	-	-	533 577	903 590	1 437 167
Bonds issued by government and other public entities	*-*	*-*	*-*	*503 123*	*-*	*503 123*
Bonds issued by other entities	*-*	*-*	*-*	*30 454*	*903 590*	*934 044*
Loans and advances to customers	2 672 018	8 591 766	2 767 289	6 455 751	1 929 986	22 416 810

(in thousands of Euros)

	31.12.2017					
	Prime +High grade	*Upper Medium Grade*	*Lower Medium grade*	*Non Investment Grade Speculative + Highly speculative*	Other	Total
Deposits and loans and advances to banks	-	63 610	974	42 140	390 355	497 079
Financial assets held for trading - Securities	-	-	-	-	2	2
Bonds issued by other entities	*-*	*-*	*-*	*-*	*2*	*2*
Financial assets at fair value through profit / loss	-	-	-	-	620	620
Bonds issued by other entities	*-*	*-*	*-*	*-*	*620*	*620*
Financial assets at fair value through equity	287 657	14 501	5 203 834	549 064	813 699	6 868 755
Bonds issued by government and other public entities	*284 867*	*-*	*5 164 002*	*519 128*	*-*	*5 967 997*
Bonds issued by other entities	*2 790*	*14 501*	*39 832*	*29 936*	*813 699*	*900 758*
Loans and advances to customers	2 282 858	8 091 439	2 978 805	6 357 410	2 199 015	21 909 527

As at 31 December 2018 and 2017, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euro)

Segment	31.12.2018													
	Perfoming						Non-Perfoming						Total Credit	
	Active or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	11 744 329	159 981	39 607	1 552	11 783 936	161 533	1 736 821	710 176	4 074 170	2 936 135	5 810 991	3 646 311	17 594 927	3 807 844
Residential mortgage loans	9 271 040	21 123	50 344	917	9 321 384	22 040	65 263	14 789	163 265	25 511	228 528	40 300	9 549 912	62 340
Other credit to individuals	1 233 946	400	8 697	528	1 242 643	928	180 376	5 895	144 509	80 915	324 885	86 810	1 567 528	87 738
Total	**22 249 315**	**181 504**	**98 648**	**2 997**	**22 347 963**	**184 501**	**1 982 460**	**730 860**	**4 381 944**	**3 042 561**	**6 364 404**	**3 773 421**	**28 712 367**	**3 957 922**

(in thousands of Euro)

Segment	31.12.2017													
	Perfoming						Non-Perfoming						Total Credit	
	Active or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	11 511 646	107 062	54 002	1 415	11 565 648	108 477	3 115 936	1 463 632	5 410 780	3 691 032	8 526 716	5 154 664	20 092 364	5 263 141
Residential mortgage loans	9 084 884	26 564	66 976	406	9 151 860	26 970	55 531	3 986	543 680	127 719	599 211	131 705	9 751 071	158 675
Other credit to individuals	1 103 026	6 026	6 859	242	1 109 885	6 268	188 855	71 637	280 266	131 777	469 121	203 414	1 579 006	209 682
Total	**21 699 556**	**139 652**	**127 837**	**2 063**	**21 827 393**	**141 715**	**3 360 322**	**1 539 255**	**6 234 726**	**3 950 528**	**9 595 048**	**5 489 783**	**31 422 441**	**5 631 498**

As at 31 December 2018 and 2017, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euro)

31.12.2018												
Year of production	Corporate			Residential mortgage loans			Other credit to individuals			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	7 076	404 672	66 265	50 570	1 312 848	30 914	758 229	151 181	11 404	815 875	1 868 701	108 583
2005	1 465	159 938	31 114	9 580	430 394	2 110	19 145	20 105	674	30 190	610 437	33 898
2006	1 733	343 884	47 133	16 077	793 843	3 707	23 831	25 794	1 600	41 641	1 163 521	52 440
2007	2 208	500 710	90 495	25 994	1 217 984	5 724	33 344	33 051	1 816	61 546	1 751 745	98 035
2008	1 980	827 619	104 564	17 494	909 991	3 918	27 187	33 973	1 355	46 661	1 771 583	109 837
2009	1 770	702 954	204 950	11 703	625 950	3 009	24 291	42 401	3 093	37 764	1 371 305	211 052
2010	2 116	749 019	298 113	10 581	626 045	3 126	29 119	57 909	2 294	41 816	1 432 973	303 533
2011	1 908	558 724	127 234	5 893	288 555	1 506	29 394	34 978	1 432	37 195	882 257	130 172
2012	2 381	1 594 847	994 506	3 467	136 581	1 162	36 517	42 463	3 355	42 365	1 773 891	999 023
2013	4 009	1 006 143	336 861	4 174	208 675	1 384	33 044	71 750	12 911	41 227	1 286 568	351 156
2014	4 925	1 227 192	428 132	2 858	162 234	709	30 284	51 008	1 786	38 067	1 440 434	430 627
2015	7 233	1 534 222	306 119	3 835	252 123	696	38 944	172 117	23 618	50 012	1 958 462	330 433
2016	8 713	1 974 241	480 954	7 478	540 541	1 241	58 254	171 062	14 068	74 445	2 685 844	496 263
2017	11 393	2 297 086	141 198	11 094	924 331	1 556	63 878	269 867	6 367	86 365	3 491 284	149 121
2018	21 760	3 713 676	150 206	11 716	1 119 817	1 578	66 707	389 869	1 965	100 183	5 223 362	153 749
Total	**80 670**	**17 594 927**	**3 807 844**	**192 514**	**9 549 912**	**62 340**	**1 272 168**	**1 567 528**	**87 738**	**1 545 352**	**28 712 367**	**3 957 922**

(in thousands of Euro)

31.12.2017												
Year of production	Corporate			Residential mortgage loans			Other credit to individuals			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	23 477	778 625	295 924	56 846	1 580 831	37 540	151 607	104 218	8 989	231 930	2 463 674	342 453
2005	3 835	197 906	57 576	10 817	513 765	12 411	28 664	30 611	2 897	43 316	742 282	72 884
2006	4 790	677 336	240 384	18 148	934 979	19 986	35 164	38 503	4 782	58 102	1 650 818	265 152
2007	12 744	665 127	168 712	28 891	1 405 361	27 753	46 724	49 297	9 952	88 359	2 119 785	206 417
2008	4 671	1 296 605	379 902	19 387	1 042 312	16 212	45 985	52 100	8 260	70 043	2 391 017	404 374
2009	3 792	953 028	266 619	13 199	718 131	13 405	34 175	66 280	16 440	51 166	1 737 439	296 464
2010	14 104	953 907	392 858	12 280	750 665	11 609	34 688	66 513	12 169	61 072	1 771 085	416 636
2011	6 128	997 986	257 683	7 160	346 301	7 894	31 796	80 975	21 940	45 084	1 425 262	287 517
2012	6 598	1 445 509	575 928	4 348	170 681	4 665	35 693	76 318	22 405	46 639	1 692 508	602 998
2013	25 912	1 930 811	638 393	4 946	242 948	3 562	33 633	121 266	43 710	64 491	2 295 025	685 665
2014	10 277	1 634 294	591 449	3 302	190 775	1 090	31 456	83 038	10 059	45 035	1 908 107	602 598
2015	31 120	2 402 226	433 833	4 344	278 876	951	38 752	142 857	17 594	74 216	2 823 959	452 378
2016	30 972	2 769 332	663 603	8 409	597 400	882	52 945	256 200	25 222	92 326	3 622 932	689 707
2017	35 477	3 389 672	300 277	11 680	978 046	715	55 510	410 830	5 263	102 667	4 778 548	306 255
Total	**213 897**	**20 092 364**	**5 263 141**	**203 757**	**9 751 071**	**158 675**	**656 792**	**1 579 006**	**209 682**	**1 074 446**	**31 422 441**	**5 631 498**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of NOVO BANCO.

As at 31 December 2018 and 2017, 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 Euro)

	31.12.2018					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	5 634 590	3 628 850	11 960 337	178 994	17 594 927	3 807 844
Residential mortgage loans	6 965	847	9 542 947	61 493	9 549 912	62 340
Other credit to individuals	270 710	57 088	1 296 818	30 650	1 567 528	87 738
Total	**5 912 265**	**3 686 785**	**22 800 102**	**271 137**	**28 712 367**	**3 957 922**

[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 in accordance w ith the calculation rules of the collective impairment model.

(in thousands of Euro)

	31.12.2017					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	8 453 487	4 967 087	11 638 877	296 054	20 092 364	5 263 141
Residential mortgage loans	94 335	36 494	9 656 736	122 181	9 751 071	158 675
Other credit to individuals	291 011	164 195	1 287 995	45 487	1 579 006	209 682
Total	**8 838 833**	**5 167 776**	**22 583 608**	**463 722**	**31 422 441**	**5 631 498**

[1] Loans and advances for 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 in accordance w ith the calculation rules of the collective impairment model.

The loans and advances analysed by the Impairment Committee, for which the impairment amount automatically determined by the model was not changed, are included and presented in the "Collective assessment".

As at 31 December 2018 and 2017, 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)

	31.12.2018					
	Individual Assessment *		Collective Assessment **		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	4 383 016	2 611 728	19 985 053	237 138	24 368 069	2 848 866
Luxembourg	13 000	13 000	53 952	240	66 952	13 240
United Kingdom	4 330	2 160	187 088	1 033	191 418	3 193
Spain	551 972	261 685	1 607 369	21 145	2 159 341	282 830
Ireland	346 245	334 473	15 300	88	361 545	334 561
Other	613 702	463 739	950 723	11 481	1 564 425	475 220
Total	**5 912 265**	**3 686 785**	**22 800 102**	**271 137**	**28 712 367**	**3 957 922**

* Loans and advances for w hich the final impairment w as determined and approved by the Impairment Committee
** Loans and advances for w hich the final impairment w as determined automatically by the Impairment Model

(in thousands of Euros)

	31.12.2017					
	Individual Assessment *		Collective Assessment **		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	6 535 373	3 987 973	18 879 099	388 738	25 414 472	4 376 711
Luxembourg	299 783	187 368	21 533	6 409	321 316	193 777
United Kingdom	763 298	649 109	403 818	3 321	1 167 116	652 430
Spain	813 851	233 470	1 375 278	37 995	2 189 129	271 465
Cayman Islands	172	-	650	5	822	5
Ireland	426 356	109 856	1 903 230	27 254	2 329 586	137 110
Total	**8 838 833**	**5 167 776**	**22 583 608**	**463 722**	**31 422 441**	**5 631 498**

* Loans and advances for which the final impairment was determined and approved by the Impairment Committee
** Loans and advances for which the final impairment was determined automatically by the Impairment Model

In order to mitigate credit risk, credit operations are secured, namely with mortgages or pledges. The fair value of those guarantees is determined on the date of the loan disbursement, being revalued periodically. The gross amount of the loans to customers and the respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euro)

	31.12.2018		31.12.2017	
	Credit amount	**Fair value of collateral**	**Credit amount**	**Fair value of collateral**
Residential Mortgage loans				
Mortgages	9 403 659	9 385 839	9 434 591	9 398 739
Pledges	60 033	59 648	57 840	57 521
Not collateralized	86 220	-	258 640	-
	9 549 912	9 445 487	9 751 071	9 456 260
Other credit to individuals				
Mortgages	280 404	268 346	306 879	284 102
Pledges	381 993	236 924	393 427	251 190
Not collateralized	905 131	-	878 700	-
	1 567 528	505 270	1 579 006	535 292
Corporate				
Mortgages	3 491 159	3 148 547	4 470 386	3 991 868
Pledges	6 394 421	2 820 883	5 102 764	2 429 229
Not collateralized	7 709 347	-	10 519 214	-
	17 594 927	5 969 430	20 092 364	6 421 097
Total	**28 712 367**	**15 920 187**	**31 422 441**	**16 412 649**

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. This value is not impacted by collaterals with a fair value in excess of the loan to which they are linked.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euro)

31.12.2018								
Colateral intervals [a]	Residential mortgage loans		Other credit to individuals		Corporate		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	185 611	9 216 814	5 136	220 736	8 681	438 147	199 428	9 875 697
>= 0.5M€ and <1.0M€	224	127 415	60	23 151	2 306	293 432	2 590	443 998
>= 1.0M€ and <5.0M€	36	41 610	25	24 459	3 352	831 329	3 413	897 398
>= 5.0M€ and <10.0M€	-	-	-	-	635	414 388	635	414 388
>= 10.0M€ and <20.0M€	-	-	-	-	1 260	379 255	1 260	379 255
>= 20.0M€ and <50.0M€	-	-	-	-	161	453 519	161	453 519
>=50M€	-	-	-	-	1 603	338 477	1 603	338 477
	185 871	**9 385 839**	**5 221**	**268 346**	**17 998**	**3 148 547**	**209 090**	**12 802 732**

[a] The interval allocation was developed on the basis of the total value of the colaterals for each credit contract

(in thousands of Euro)

31.12.2017								
Colateral intervals [a]	Residential mortgage loans		Other credit to individuals		Corporate		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	189 118	9 258 603	5 432	234 899	18 782	659 802	213 332	10 153 304
>= 0.5M€ and <1.0M€	184	108 142	67	24 427	2 869	341 057	3 120	473 626
>= 1.0M€ and <5.0M€	33	31 994	94	24 776	7 464	964 744	7 591	1 021 514
>= 5.0M€ and <10.0M€	-	-	-	-	2 339	536 044	2 339	536 044
>= 10.0M€ and <20.0M€	-	-	-	-	4 997	518 316	4 997	518 316
>= 20.0M€ and <50.0M€	-	-	-	-	3 078	685 888	3 078	685 888
>=50M€	-	-	-	-	1 582	286 017	1 582	286 017
	189 335	**9 398 739**	**5 593**	**284 102**	**41 111**	**3 991 868**	**236 039**	**13 674 709**

[a] The interval allocation was developed on the basis of the total value of the colaterals for each credit contract

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 considers the associated credit risk mitigation elements, according to the internal rules and procedures implemented.

Relevant collaterals are essentially the following:

- Real estate properties, where the value considered is that which corresponds to the latest available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the Group stipulated several procedures applicable to collateral (namely the financial and real estate properties collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the risks of liquidity and volatility."

The real estate properties revaluation process is conducted by valuation experts registered with the CMVM, and is based on the methodology described in Note 2.11.

The analysis of risk exposure by sector of activity, as at 31 December 2018 and 2017, is presented as follows:

(in thousands of Euro)

	31.12.2018													
	Loans and advances to customers		Securities held for trading	Derivatives held for trading	Securities at fair value through profit or loss	Securities at a fair value through mandatory results	Derivatives held for risk management purposes	Securities at a fair value through other comprehensive income		Securities at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	580 642	(212 154)	-	87	-	-	-	10 870	-	-	-	14 061	(6 706)
Mining	95 377	(3 508)	-	-	-	-	-	102	-	-	-	5 407	(111)
Food, Beverages and Tobacco	523 878	(27 172)	-	10 475	-	-	-	9 601	(2)	23 460	(2 516)	54 391	(381)
Textiles and Clothing	317 046	(18 593)	-	79	-	-	-	-	-	2 495	-	11 728	(1 035)
Leather and Shoes	62 486	(3 003)	-	23	-	-	-	-	-	1 000	-	1 731	(101)
Wood and Cork	106 487	(8 644)	-	284	-	-	-	-	-	7 497	(12)	7 950	(50)
Paper and Printing Industry	195 362	(19 274)	-	-	-	-	-	22 150	(14)	1 498	-	7 538	(44)
Refining of Petroleum	8 105	(111)	-	-	-	-	-	-	-	-	-	11 371	-
Chemicals and Rubber	339 091	(18 355)	-	1 917	-	-	-	25 323	(38)	3 980	(8)	39 651	(251)
Non-metallic Minerals	185 874	(40 089)	-	-	-	-	-	4 014	(3)	23 344	(26)	15 303	(261)
Metallurgical Industries and Metallic Products	355 218	(13 677)	-	211	-	-	-	9 572	(8)	6 248	(11)	44 489	(674)
Production of Machinery, Equipment and Electrical Devi	142 113	(10 096)	-	2 086	-	-	-	37 880	(19)	-	-	81 344	(341)
Production of Transport Material	84 671	(2 533)	-	-	-	-	-	13 225	(10)	-	-	10 915	(113)
Other Transforming Industries	162 832	(17 002)	-	6	-	-	-	-	-	1 006	(1)	25 527	(1 795)
Electricity, Gas and Water	530 551	(39 438)	-	35 853	-	-	-	28 893	(24)	162 804	(496)	93 868	(75)
Construction and Public Works	1 655 049	(398 173)	-	83 229	-	-	-	-	-	206 384	(36 559)	939 364	(73 309)
Wholesale and Retail Trade	1 569 335	(285 866)	-	1 237	-	-	-	30 803	(22)	24 857	(131)	289 946	(44 194)
Tourism	1 037 442	(37 643)	-	712	-	-	-	144	-	-	-	95 592	(5 915)
Transport and Communication	1 051 654	(95 377)	-	110 358	-	-	-	107 920	(75)	33 285	(53)	428 379	(9 773)
Financial Activities	567 125	(104 554)	1	239 762	480	1 479 900	71 404	613 325	(102)	34 308	(17 890)	324 127	(1 245)
Real Estate Activities	2 373 015	(505 201)	-	6 947	-	2 751	-	38 034	(21)	104 549	(18 010)	255 768	(20 548)
Services Provided to Companies	3 705 324	(1 415 862)	-	18 433	-	71 245	-	188 969	(39)	435 290	(114 345)	435 197	(11 370)
Public Administration and Services	820 696	(59 170)	257 269	1 562	-	-	-	6 378 929	(788)	503 123	(771)	21 882	(1 241)
Other activities of collective services	1 094 294	(472 254)	-	3 075	-	12 329	-	73 359	(40)	9 058	(3 957)	117 199	(1 480)
Residential mortgage Loans	9 549 912	(62 340)	-	-	-	-	-	-	-	-	-	68	-
Credit to individuals	1 567 528	(87 738)	-	-	-	-	-	-	-	-	-	6 423	(322)
Other	31 260	(95)	-	-	-	-	-	68 094	(8)	-	-	19 370	(6 014)
TOTAL	**28 712 367**	**(3 957 922)**	**257 270**	**516 336**	**480**	**1 566 225**	**71 404**	**7 661 207**	**(1 213)**	**1 584 186**	**(194 786)**	**3 358 589**	**(187 349)**

(in thousands of Euro)

	31.12.2017									
	Loans and advances to customers		Securities held for trading	Derivatives held for trading	Securities at fair value through profit or loss	Derivatives held for risk management purposes	Securities at a fair value through other comprehensive income		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	436 098	(206 483)	-	113	-	-	10 870	-	13 633	(7 265)
Mining	116 877	(14 990)	-	302	-	-	1 484	(1 378)	5 686	(91)
Food, Beverages and Tobacco	757 687	(61 161)	-	13 141	-	-	29 735	(2 636)	74 439	(683)
Textiles and Clothing	327 179	(47 490)	-	190	-	-	23 223	(3 606)	13 999	(2 365)
Leather and Shoes	76 986	(9 685)	-	16	-	-	499	(499)	1 521	(103)
Wood and Cork	124 331	(33 591)	-	497	-	-	2 754	(1 251)	5 451	(46)
Paper and Printing Industry	235 407	(55 976)	-	-	-	-	38 319	(35 319)	8 367	(47)
Refining of Petroleum	5 267	(874)	-	-	-	-	-	-	17 973	(1)
Chemicals and Rubber	371 612	(23 635)	-	2 684	-	-	6 990	(5)	50 820	(210)
Non-metallic Minerals	207 317	(54 696)	-	-	-	-	29 363	(3 522)	13 735	(525)
Metallurgical Industries and Metallic Products	455 558	(95 789)	-	325	-	-	3 864	(3 218)	38 583	(433)
Production of Machinery, Equipment and Electrical Devi	173 762	(21 706)	-	269	-	-	3 596	(603)	86 390	(356)
Production of Transport Material	68 747	(3 657)	-	-	-	-	9 015	(40)	13 944	(55)
Other Transforming Industries	204 436	(46 514)	-	-	-	-	-	-	33 884	(533)
Electricity, Gas and Water	464 654	(16 633)	-	49 753	-	-	194 602	-	112 165	(279)
Construction and Public Works	1 889 801	(601 426)	-	86 201	-	-	210 235	(1 889)	1 033 233	(61 970)
Wholesale and Retail Trade	1 844 395	(486 745)	-	3 605	-	-	59 582	(27 232)	314 807	(4 103)
Tourism	1 044 609	(78 071)	-	707	-	-	8 196	(8 015)	81 835	(4 940)
Transport and Communication	1 248 325	(153 309)	-	106 906	-	-	42 083	(5 693)	606 262	(1 957)
Financial Activities	1 307 030	(536 459)	288	277 121	26 734	170 588	1 828 962	(385 985)	159 915	(1 385)
Real Estate Activities	2 627 736	(691 617)	-	7 320	3 449	-	193 142	(84 579)	301 717	(4 938)
Services Provided to Companies	3 674 516	(1 358 613)	-	22 006	-	-	801 662	(539 118)	574 657	(7 342)
Public Administration and Services	818 249	(50 025)	-	1 822	-	-	5 967 241	-	24 467	(6 919)
Other activities of collective services	1 577 620	(613 437)	79	4 175	-	-	153 707	(66 291)	170 732	(37 536)
Residential mortgage Loans	9 751 071	(158 675)	-	-	-	-	-	-	64	-
Credit to individuals	1 579 006	(209 682)	-	-	-	-	-	-	4 326	(19)
Other	34 165	(559)	-	-	-	-	8 171	(8 171)	20 370	(387)
TOTAL	**31 422 441**	**(5 631 498)**	**367**	**577 153**	**30 183**	**170 588**	**9 627 295**	**(1 179 050)**	**3 782 975**	**(144 488)**

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 to a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favorable than those applied to other customers with the same risk profile.

The unmarking of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no principal or interest past due; and (iii) there was no new loan restructuring during that period.

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2018 and 2017, are as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Corporate	4 435 754	6 458 131
Residential mortgage loans	148 670	303 545
Other credit to individuals	248 350	337 081
Total	**4 832 774**	**7 098 757**

The details of the restructuring measures applied to loans restructured up to 31 December 2018 and 2017 are the following:

(in thousands of Euro)

Measure	31.12.2018								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	32	48 180	5 137	208	316 163	225 067	240	364 343	230 204
Assets received in partial settlement of loan	12	141	4	10	2 997	2 183	22	3 138	2 187
Capitalization of interest	19	5 449	111	227	566 141	466 469	246	571 590	466 580
New loan in total or partial payment of existing loan	1 864	145 490	4 264	801	833 633	524 928	2 665	979 123	529 192
Extension of repayment period	996	372 691	7 691	1 526	1 117 753	603 326	2 522	1 490 444	611 017
Introduction of grace period of principal or interest	674	91 015	2 567	264	392 730	250 854	938	483 745	253 421
Decrease in the interest rates	116	29 441	1 089	79	306 547	94 241	195	335 988	95 330
Changes of the lease payment plan	192	72 339	2 512	120	68 615	25 386	312	140 954	27 898
Changes in the interest payment periods	14	10 438	160	27	239 300	166 710	41	249 738	166 870
Other	2 885	99 339	1 884	1 418	114 372	61 041	4 303	213 711	62 925
Balance at the end of the period	**6 804**	**874 523**	**25 419**	**4 680**	**3 958 251**	**2 420 205**	**11 484**	**4 832 774**	**2 445 624**

(in thousands of Euro)

Measure	31.12.2017								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	34	11 425	260	323	505 060	330 477	357	516 485	330 737
Assets received in partial settlement of loan	17	205	9	5	2 888	2 167	22	3 093	2 176
Capitalization of interest	22	59 965	1 523	332	400 033	213 015	354	459 998	214 538
New loan in total or partial payment of existing loan	2 810	226 228	5 703	1 678	1 189 628	833 941	4 488	1 415 856	839 644
Extension of repayment period	5 987	721 287	22 183	2 257	1 520 115	767 527	8 244	2 241 402	789 710
Introduction of grace period of principal or interest	1 415	334 030	4 340	463	424 924	239 274	1 878	758 954	243 614
Decrease in the interest rates	185	94 544	2 453	145	673 350	230 687	330	767 894	233 140
Changes of the lease payment plan	217	135 016	1 399	137	47 396	17 877	354	182 412	19 276
Changes in the interest payment periods	19	6 195	39	30	252 805	147 858	49	259 000	147 897
Other	6 012	180 184	2 356	5 051	313 479	174 942	11 063	493 663	177 298
Balance at the end of the period	**16 718**	**1 769 079**	**40 265**	**10 421**	**5 329 678**	**2 957 765**	**27 139**	**7 098 757**	**2 998 030**

The changes occurred to the restructured loans during financial years 2018 and 2017 were as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	7 098 757	8 006 612
Loans and advances restructured during period	580 682	1 603 293
Loans and advances reclassified to performing	(908 706)	(74 537)
Loans and advances written off	(372 682)	(249 142)
Other	(1 565 277)	(2 187 469)
Balance at the end of the period	**4 832 774**	**7 098 757**

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, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

It is important to note that the values as at 31 December 2018 and 2017 presented below, do not include GNB Vida as a consequence of the reclassification of this entity as a discontinued operation. The information regarding GNB VIDA liquidity risk it’s presented separately in Note 49.

The main measurement of market risk is the assessment of unrealised losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO Group’s VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euro)

	31.12.2018				31.12.2017			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	599	2 257	3 096	4 168	1 657	3 874	5 071	3 709
Interest rate risk	9 870	10 525	18 566	6 163	5 243	2 194	5 831	548
Equity and commodities	199	324	414	305	867	1 045	638	491
Volatility	141	169	185	173	91	158	282	255
Credit spread	1 614	1 471	52	67	33	487	53	361
Diversification effect	(1 176)	(3 139)	(2 126)	(3 124)	(2 639)	(2 750)	(5 043)	(1 630)
Total	**11 246**	**11 607**	**20 186**	**7 753**	**5 251**	**5 008**	**6 832**	**3 734**

NOVO BANCO Group has a VaR of Euro 11 246 thousand (31 December 2017: Euro 5 251 thousand) in respect of its trading positions.

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2015/08, NOVO BANCO Group calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2018						
	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	1 470 977	215 462	858 477	15 360	6 153	4 468	371 057
Loans and advances to customers	28 730 239	33 835	15 297 966	5 125 759	2 501 480	4 766 197	1 005 002
Securities	11 822 116	2 937 419	825 026	913 541	482 866	4 000 518	2 662 746
Total			**16 981 469**	**6 054 660**	**2 990 499**	**8 771 183**	**4 038 805**
Deposits from banks	8 352 162	-	1 457 375	72 409	95 311	6 727 000	67
Due to customers	28 865 412	-	12 099 667	3 163 941	5 521 559	7 893 992	186 253
Debt securities issued	1 071 462	-	147 152	-	-	2 215	922 095
Total			**13 704 194**	**3 236 350**	**5 616 870**	**14 623 207**	**1 108 415**
Balance sheet GAP (Assets - Liabilities)	547 580		3 277 275	2 818 310	(2 626 371)	(5 852 024)	2 930 390
Off-Balance sheet	-		1 629 988	741 001	(36 513)	(1 112 953)	(1 221 523)
Structural GAP	**547 580**		**4 907 263**	**3 559 311**	**(2 662 884)**	**(6 964 977)**	**1 708 867**
Accumulated GAP			**4 907 263**	**8 466 574**	**5 803 690**	**(1 161 287)**	**547 580**

(in thousands of Euros)

	31.12.2017						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	4 865 274	237 376	4 016 682	48 976	203 515	4 468	354 257
Loans and advances to customers	32 285 993	73 214	17 474 228	5 346 320	2 219 773	6 022 908	1 149 550
Securities	9 636 138	2 769 561	769 780	961 189	797 467	3 519 318	818 823
Total			**22 260 690**	**6 356 485**	**3 220 755**	**9 546 694**	**2 322 630**
Deposits from banks	8 461 476	-	1 506 080	46 373	116 815	6 792 208	-
Due to customers	31 165 946	-	10 856 772	4 006 323	5 951 922	10 112 868	238 061
Debt securities issued	1 205 880	-	504 634	-	-	16 657	684 589
Total			**12 867 486**	**4 052 696**	**6 068 737**	**16 921 733**	**922 650**
Balance sheet GAP (Assets - Liabilities)	2 873 952		9 393 204	2 303 789	(2 847 982)	(7 375 039)	1 399 980
Off-Balance sheet	1		491 214	362 589	2 000	(229 688)	(626 114)
Structural GAP	**2 873 953**		**9 884 418**	**2 666 378**	**(2 845 982)**	**(7 604 727)**	**773 866**
Accumulated GAP			**9 884 418**	**12 550 796**	**9 704 814**	**2 100 087**	**2 873 953**

The Bank performs sensitivity analyses of the interest rate risk of the banking portfolio, based on the current difference of the discounted interest rate mismatch at current rates and the discounted value of the same cash flows simulating the following changes in the yield curve shifts:

(in thousands of Euros)

	31.12.2018				31.12.2017			
	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	(87 844)	87 844	(43 397)	43 397	(1 897)	1 897	(1 117)	1 117

The following table presents the average interest rates for the Group's major financial asset and liability categories, as at 31 December 2018 and 2017, as well as the respective average balances and interest for the period:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	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	2 609 680	22 087	0,85%	2 650 165	28 706	1,08%
Loans and advances to customers	30 722 342	629 475	2,05%	32 474 245	752 121	2,32%
Securities and other	8 952 481	86 545	0,97%	9 222 880	80 994	0,88%
Non-interest earning assets	-	-	-	-	-	-
Financial assets and differentials	**42 284 503**	**738 107**	**1,75%**	**44 347 290**	**861 821**	**1,94%**
Monetary Liabilities	8 470 062	21 621	0,26%	9 466 196	32 580	0,36%
Due to customers	28 835 937	194 327	0,67%	25 327 452	226 420	0,86%
Covered liabilities and other	1 097 747	63 803	5,81%	6 875 132	208 251	3,61%
Non-interest earning assets	3 880 757	4 014	-	3 216 901	-	-
Financial liabilities and differentials	**42 284 503**	**283 765**	**0,67%**	**44 885 681**	**467 251**	**1,05%**
Net interest income		**454 342**	**1,06%**		**394 570**	**0,89%**

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2018 and 31 December 2017, is analysed as follows:

(in thousands of Euros)

		31.12.2018				31.12.2017			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(1 683 634)	1 677 510	(5 933)	(12 057)	(1 242 323)	1 201 842	9 115	(31 366)
GBP	GREAT BRITISH POUND	26 131	(21 867)	-	4 264	33 130	(29 233)	(1 215)	2 682
BRL	BRAZILIAN REAL	822	3 528	(4 287)	63	899	-	-	899
MOP	MACAO PATACA	4 360	-	-	4 360	5 145	(5 402)	-	(257)
JPY	JAPANESE YEN	(3 308)	3 359	5 947	5 998	178	56	(998)	(764)
CHF	SWISS FRANC	(8 801)	11 381	-	2 580	(8 368)	12 167	-	3 799
SEK	SWEDISH KRONE	(11 826)	11 624	(1 080)	(1 282)	199	(239)	(760)	(800)
NOK	NORWEGIAN KRONE	(12 193)	12 635	2 260	2 702	(27 019)	27 519	919	1 419
CAD	CANADIAN DOLLAR	(41 516)	42 967	984	2 435	(59 262)	61 111	(2 294)	(445)
ZAR	SOUTH AFRICAN RAND	(1 066)	1 167	-	101	(562)	419	-	(143)
AUD	AUSTRALIAN DOLLAR	(8 463)	8 724	-	261	(10 836)	11 078	-	242
VEB	VENEZUELAN BOLIVAR	5	-	-	5	12 217	-	-	12 217
PLN	POLISH ZLOTY	(8 216)	8 741	-	525	4 415	(8 092)	3 731	54
MAD	MOROCCAN DIRHAN	(3 196)	2 656	-	(540)	(2 726)	2 938	-	212
MXN	MEXICAN PESO	393	(261)	-	132	1 011	(590)	-	421
AOA	ANGOLAN KWANZA	19 828	-	-	19 828	30 200	-	-	30 200
CVE	CAPE VERDEAN ESCUDO	(99)	-	-	(99)	11 149	-	-	11 149
HKD	HONG-KONG DOLLAR	(3 082)	3 390	-	308	(969)	982	-	13
	OTHER	(864)	7 376	3 977	10 489	11 281	(1 840)	(728)	8 713
		(1 734 725)	**1 772 930**	**1 868**	**40 073**	**(1 242 241)**	**1 272 716**	**7 770**	**38 245**

Note: asset / (liability)

Exposure to sovereign debt of "peripheral" Eurozone countries

As at 31 December 2018 and 2017, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euro)

	31.12.2018						
	Loans and advances to customers	Securities at amortised cost	Securities at fair value through profit / loss	Derivative instruments [(1)]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	766 306	257 269	-	(109)	3 674 410	502 352	5 200 228
Spain	54 243	-	-	-	1 980 394	-	2 034 637
Greece	-	-	-	-	-	-	-
Ireland	-	-	-	-	60 398	-	60 398
Italy	-	-	-	-	83 037	-	83 037
	820 549	**257 269**	**-**	**(109)**	**5 798 239**	**502 352**	**7 378 300**

[(1)] Net values: receivable / (payable)

(in thousands of Euro)

	31.12.2017						
	Loans and advances to customers	Securities at amortised cost	Securities at fair value through profit / loss	Derivative instruments [(1)]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	769 731	-	-	(98)	3 855 377	-	4 625 010
Spain	44 335	-	-	-	1 491 633	-	1 535 968
Italy	-	-	-	-	336 120	-	336 120
	814 066	**-**	**-**	**(98)**	**5 683 130**	**-**	**6 497 098**

[(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, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities is as follows:

(in thousands of Euro)

31.12.2018	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**3 231 229**	**3 629 157**	**45 253**	**3 674 410**	**-**	**27 425**
Maturity up to 1 year	610 644	614 224	2 793	617 017	-	377
Maturity exceeding 1 year	2 620 585	3 014 933	42 460	3 057 393	-	27 048
Spain	**1 832 372**	**1 950 455**	**29 939**	**1 980 394**	**-**	**16 930**
Maturity up to 1 year	30 027	30 895	583	31 478	-	282
Maturity exceeding 1 year	1 802 345	1 919 560	29 356	1 948 916	-	16 648
Ireland	**60 000**	**59 845**	**553**	**60 398**	**-**	**(7)**
Maturity exceeding 1 year	60 000	59 845	553	60 398	-	(7)
Italy	**80 000**	**82 644**	**393**	**83 037**	**-**	**2 011**
Maturity exceeding 1 year	80 000	82 644	393	83 037	-	2 011
	5 203 601	**5 722 101**	**76 138**	**5 798 239**	**-**	**46 359**
Securities held for trading						
Portugal	233 000	254 161	3 108	257 269	-	-
	233 000	**254 161**	**3 108**	**257 269**	**-**	**-**
Securities at amortised cost						
Portugal	**501 022**	**570 587**	**2 085**	**502 352**	**771**	**-**
Maturity up to 1 year	501 022	570 587	2 085	502 352	771	-
	501 022	**570 587**	**2 085**	**502 352**	**771**	**-**

(in thousands of Euro)

31.12.2017	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**3 489 874**	**3 809 812**	**45 565**	**3 855 377**	**-**	**111 943**
Maturity up to 1 year	1 179 320	1 181 619	82	1 181 701	-	2
Maturity exceeding 1 year	2 310 554	2 628 193	45 483	2 673 676	-	111 941
Spain	**1 350 122**	**1 465 829**	**25 804**	**1 491 633**	**-**	**5 733**
Maturity exceeding 1 year	1 350 122	1 465 829	25 804	1 491 633	-	5 733
Italy	**330 000**	**335 937**	**183**	**336 120**	**-**	**2 577**
Maturity exceeding 1 year	330 000	335 937	183	336 120	-	2 577
	5 169 996	**5 611 578**	**71 552**	**5 683 130**	**-**	**120 253**

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 tenors and currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk as an inherent consequence of the business of transforming maturities (long-term lenders and short-term deposit takers), with the prudent management of liquidity risk being therefore crucial.

Noting that the values as at 31 December 2018 and 2017 presented below do not include GNB Vida since this entity was classified as a discontinued operation, the data related to the liquidity risk of GNB Vida are presented separately in Note 49.

As at 31 December 2018, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 14.1 billion (31 December 2017: Euro 12.7 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 4.1 billion (of which Euro 0.8 billion with a maturity under 1 year).

During the financial year 2018, gross financing with the ECB remained stable at Euro 6.4 billion.

The liquidity of NOVO BANCO Group is managed in a centralised manner, at the Headoffice, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. Following the withdrawal by the regulator of Instruction No. 13/2009 and its replacement by the ITS (Implementing Technical Standards) reports, the position as at 31 December 2018 is already calculated according to current rules, namely by calculating the liquid contractual deficit and the counterbalancing capacity:

(in thousands of Euro)

	31.12.2018						
	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
Output							
Liabilities from transferable securities issued (if they're not treated as retail deposits)	306 941	2 247	4 593	-	-	-	300 101
Liabilities from guaranteed lending operations and operations associated to capital markets	6 740 104	961	237 143	-	-	40 000	6 462 000
Behavioral output from deposits	31 085 656	330 138	241 827	300 477	402 236	714 964	29 096 014
Exchange swaps and derivatives	1 209 865	55 912	156 064	401 248	65 847	89 050	441 744
Other output	398 229	-	-	-	-	-	398 229
Total Output	**39 740 795**	**389 258**	**639 627**	**701 725**	**468 083**	**844 014**	**36 698 088**
Input							
Secured lending operations and operations associated to capital markets	11 760	2 010	9 750	-	-	-	-
Behavioral inputs from loans and advances	25 999 835	159 719	64 096	144 379	220 770	430 989	24 979 882
Swaps cambiais e Derivados	1 190 062	57 034	151 022	389 962	67 239	77 087	447 718
Own portfolio securities maturing and other entries	9 967 029	-	55 492	28 692	990 752	509 914	8 382 179
Total Input	**37 168 686**	**218 763**	**280 360**	**563 033**	**1 278 761**	**1 017 990**	**33 809 779**
Net contractual deficit	(2 572 110)	(170 495)	(359 267)	(138 693)	810 678	173 976	(2 888 309)
Accumulated net contractual deficit	**-**	**(170 495)**	**(529 762)**	**(668 455)**	**142 223**	**316 199**	**(2 572 110)**

Capacity to adjustment	Initial Stock	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
Cash	155 859						
Deployable reserves from the central bank	279 178	(279 178)					
Negotiable and non-negotiable assets eligible for the central bank	8 942 827	(36 510)	36 521	(263 447)	(430 452)	(612 820)	(7 541 496)
received authorized facilities and not utilised	-	-	-	-	-	-	-
Net variation of counterbalancing capacity	-	(315 688)	36 521	(263 447)	(430 452)	(612 820)	(7 541 496)
Accumulated counterbalancing capacity	**9 377 864**	**9 062 176**	**9 098 697**	**8 835 250**	**8 404 798**	**7 791 978**	**250 482**

(in millions of Euro)

	31.12.2017						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash (except Central Banks)	237	237	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	4 628	4 010	6	-	49	198	365
Loans and advances to customers **(1)**	23 950	211	256	477	601	854	21 552
Securities **(2)**	16 780	36	82	402	476	1 986	13 797
Other net assets	706	97	8	1	1	1	598
Off-balance sheet (Commitments and Derivatives) **(4)**	103	2	2	15	44	40	-
Total		**4 593**	**354**	**895**	**1 171**	**3 079**	**36 312**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	8 461	944	91	83	46	202	7 094
Due to customers	31 166	937	1 087	385	213	313	28 231
Debt securities issued **(3)**	1 206	-	-	-	-	-	1 206
Other short-term liabilities	1 212	1 117	2	13	-	-	80
Off-balance sheet (Commitments and Derivatives) **(4)**	888	37	24	37	76	91	622
Total		**3 035**	**1 204**	**518**	**335**	**606**	**37 233**
GAP (Assets - Liabilities)		**1 559**	**(851)**	**375**	**836**	**2 472**	
Accumulated GAP		**1 559**	**708**	**1 084**	**1 919**	**4 391**	
Net Assets Buffer > 12 months							**3 657**

(1) This caption does not include the loans capable of being used for the obtaining of liquidity from the ECB

(2) This caption includes the securities and loans capable of being used for the obtaining of liquidity from the ECB. The securities capable of being used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book value for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

The one-year cumulative liquidity gap moved from Euro 4 391 million on 31 December 2017 to Euro 316 million on 31 December 2018, being the counterbalancing capacity as at 31 December 2018 of Euro 7 792 million, with the net assets buffer as at 31 December 2017 of Euro 3 657 million.

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 market scenarios.

The Group continues to follow all legislative changes 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 they hold enough high-quality liquid assets to survive a severe stress scenario over a 30-day period, whilst the NSFR aims to ensure banks maintain a stable funding for their assets and off-balance sheet operations, for one year. These ratios were adopted by the European Union, and the LCR has a limit of 100% since 1 January 2018.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of Banco de Portugal (note that this information is prepared from a prudential perspective, where the consolidation perimeter differs from that used in the financial statements presented) is shown in the table below:

(in thousands of Euros)

Assets	31.12.2018			
	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	**11 368 163**	**n/a**	**32 793 333**	**n/a**
Equity instruments	-	-	2 711 237	2 711 237
Debt securities	872 238	872 238	8 356 522	8 356 522
Other assets	10 495 925	n/a	21 725 574	n/a

(in thousands of Euros)

Assets	31.12.2017			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**12 435 911**	**n/a**	**35 368 958**	**n/a**
Equity instruments	-	-	2 774 133	2 774 133
Debt securities	959 506	959 506	5 979 990	5 979 990
Other assets	11 476 406	n/a	26 614 834	n/a

(in thousands of Euros)

Colateral recebido	31.12.2018		31.12.2017	
	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	**-**	**10 870**	**32 633**	**-**
Equity instruments	-	-	-	-
Debt securities	-	10 870	32 633	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**-**	**-**

(in thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2018		31.12.2017	
	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS
Carrying book value of the selected financial liabilities	7 334 369	11 368 164	7 825 436	12 468 544

The encumbered assets are represented mainly by loans and securities used in funding operations with the ECB, in repo operations, in coverage 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 net income or equity, resulting from inadequacies or weaknesses in procedures and in information systems, staff behavior or external events, including legal risks. Operational risk is, therefore, understood to be the sum of the following risks: operational, information systems, compliance and reputational.

To manage operational risk, a system was developed that standardizes, systematizes and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organizational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Group’s capital management is to ensure compliance with the Group’s strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) - the entity directly responsible for the supervision of the NOVO BANCO Group - and by the Banco de Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the NOVO BANCO Group objectives.

The capital ratios of NOVO BANCO Group are calculated based on the rules defined in Directive 2013/36/EU and Regulation (EU) no. 575/2013 (CRR) that define the criteria for the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities, in particular to the calculation of the ratios mentioned above.

The NOVO BANCO Group is authorised to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of NOVO BANCO Group Portugal. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of the NOVO BANCO Group entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (common equity Tier I or CET I), additional own funds of level 1 (additional Tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or Tier II) which added to the Tier I represent the total own funds.

The total own funds of NOVO BANCO Group are composed by elements of CET I and Tier II.

The summary of own funds, risk weighted assets and capital ratios capital of NOVO BANCO Group as at 31 December 2018 and 2017 are presented in the following table:

(in millions of Euro)

		31.12.2018	31.12.2017
Realized ordinary capital		5 900	5 900
Reserves and Retained earnings		(569)	266
Net income / (loss) for the period ttributable to the shareholders		(1 428)	(1 389)
Non-controlling interests		16	52
A - Accounting Equity		**3 919**	**4 830**
Non-controlling interests		(10)	(29)
Additional assessment adjustments		(12)	(12)
Transitional period to IFRS 9		251	-
Goodwill and other intangibles		(14)	(26)
Insufficient provisions comparing with expected losses		(34)	(45)
Deferred taxes		(226)	(651)
Other		(68)	(21)
B - Prudential adjustments to Own Funds		**(111)**	**(783)**
C - Level 1 main own funds - CET I (A+B)		**3 808**	**4 047**
Other elements elegible for additional Tier I		1	3
Regulatory adjustments for additional Tier I		-	(3)
D - Additional Level 1 own funds - Additional Tier 1		**1**	**(0)**
E - Level 1 own funds - Tier I (C+D)		**3 809**	**4 047**
Subordinated liabilities elegible for Tier II		398	-
Other elements elegible for Tier II		131	139
Regulatory adjustments for Tier II		(10)	(69)
F - Level 2 own funds - Tier II		**519**	**70**
G - Eligible own funds (E+F)		**4 328**	**4 117**
Credit risk		27 473	29 844
Market risk		895	418
Operational risk		1 506	1 477
H - Risk Weighted Assets		**29 874**	**31 740**
Solvency ratio			
CET I ratio	**(C/H)**	**12.8%**	**12.8%**
Tier I ratio	**(E/H)**	**12.8%**	**12.8%**
Solvability ratio	**(G/H)**	**14.5%**	**13.0%**
Leverage ratio[(1)]		**8.2%**	**8.2%**

[(1)] The leverage ratio results from dividing Tier 1 for the exposure measure in accordance to the terms of the CRR

As at 31 December 2018 the Bank complied with the minimum capital requirements for every capital typology.

NOTE 47 – CONTRACTUAL COMMITMENTS

Credit Support Annex (CSA)

NOVO BANCO has several contracts negotiated with counterparts with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 48 – ASSET TRANSFERS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds which, 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 the share capital of certain subsidiaries (subsidiaries of those parent companies) to acquire certain real estate bank loans.

Several 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 the financial assets assigned under these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor banks, appointed on the date of their incorporation and have the following main responsibilities:

- 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 entities 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 capital of parent companies in which the cash flow that will enable the company to be recovered come from a wide range of assets provided by the various banks. These securities are recognised in the assets portfolio at fair value through mandatory results being valued to market, with valuation released regularly by the mentioned companies whose accounts are audited at the end of each year.
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred.

The instruments subscribed by NOVO BANCO Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the NOVO BANCO Group, in accordance with IFRS 9 3.2.7, 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 IFRS 9 3.2.6c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euro)

	Amounts at transfer date							
	Amounts related to the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
Up to 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
Up to 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
Up to 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
Up to 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
Up to 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
Up to 31 December 2017								
Fundo Aquarius	555	470	(86)	624	-	624	-	624
FLIT SICAV	3 261	3 298	37	-	-	-	-	-
Up to 31 December 2018								
Fundo Aquarius	839	644	(194)	644	-	644	-	644
FLIT SICAV				3 348	-	3 348	-	3 348
	1 364 966	**1 361 248**	**(3 716)**	**1 296 721**	**119 515**	**1 416 237**	**(106 333)**	**1 309 903**

As at 31 December 2018, the Group's total exposure to securities associated with operations relating to the assignment of loans and advances to customers amounted to Euro 1 086.0 million (31 December 2017: a gross amount of Euro 1 327.1 million and the impairment of Euro 288.8 million). With the adoption of IFRS 9 these securities were transferred from the portfolio of fair value through other comprehensive income to the portfolio of fair value through mandatory results. Therefore, the balance sheet amount presented below corresponds to the respective fair value and there is no need to register impairment. The detail is as follows:

(in thousands of Euro)

	31.12.2018						31.12.2017							
	Securities		Shareholder loans or supplementary capital contributions			Subscribed capital not realized	Securities				Shareholder loans or supplementary capital contributions			Subscribed capital not realized
	Participation units subscribed (n.)	Book value	Gross amount	Impairment	Net amount		Participation units subscribed (n.)	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount	
Fundo Recuperação Turismo, FCR	270 627	225 478	34 824	(34 824)	-	14 807	270 627	272 457	(43 528)	228 929	34 906	(34 906)	-	14 807
FLIT SICAV	280 131	253 055	16 131	(16 131)	-	16 634	271 179	213 877	(11 896)	201 981	1 231	(1 231)	-	17 306
Discovery Portugal Real Estate Fund	253 423	255 224	-	-	-	11 262	247 363	251 017	(7 959)	243 058	-	-	-	18 104
Fundo Vallis Construction Sector	122 108 249	-	-	-	-	190	122 060 231	128 662	(128 016)	646	-	-	-	353
Fundo Recuperação, FCR	213 635	116 140	-	-	-	19 906	220 192	199 324	(78 742)	120 582	-	-	-	20 868
Fundo Reestruturação Empresarial	150 061	89 179	-	-	-	17 747	150 061	100 727	(7 146)	93 581	-	-	-	19 168
Fundo Aquarius	158 769	146 909	-	-	-	22 332	156 850	161 044	(11 513)	149 531	-	-	-	23 879
	123 434 895	**1 085 985**	**50 955**	**(50 955)**	**-**	**102 878**	**123 376 503**	**1 327 108**	**(288 800)**	**1 038 308**	**36 137**	**(36 137)**	**-**	**114 485**

The Group also 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 Euro 60 million remains recognised in the Group’s balance sheet under Loans and advances to customers.

NOTE 49 – NON-CURRENT ASSETS HELD FOR SALE - DISCONTINUED OPERATIONS

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinuation if their balance sheet value is recoverable through a sale transaction, with same having to be ready for immediate sale.

Thus, during financial years 2016 and 2017, the Bank transferred to this category some subsidiaries and associated companies that integrate the Group's consolidation perimeter, which the Bank intends to sell and is actively in the process of selling.

These entities are presented in the consolidated financial statements as discontinued units, in specific lines of assets and liabilities, valued according to the applicable IAS / IFRS. The net value of assets and liabilities is measured at the lowest between the book value and the fair value net of sale costs.

The breakdown of Non-current assets and liabilities held for sale – discontinued operations as at 31 December 2018 and 2017, net of consolidation adjustments, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Assets of discontinued operations		
Banco Internacional de Cabo Verde	1 299	28 440
BES Vénétie	-	1 077 178
Banco Well Link (previous NB Ásia)	4 013	4 785
Quinta dos Cónegos	-	471
NB Venezuela Branch	-	6 427
GNB Vida	4 286 538	4 397 108
Banco Delle Tre Venezie	9 633	9 633
Económico FI	3 060	3 060
Greendraive	3 374	-
	4 307 917	**5 527 102**
Impairment losses		
BES Vénétie	-	(103 454)
GNB Vida	(210 576)	(287 438)
Banco Delle Tre Venezie	(3 608)	(3 608)
NB Venezuela	(1)	(1 646)
Greendraive	(3 374)	-
	(217 559)	**(396 146)**
	4 090 358	**5 130 956**
Liabilities of discontinued operations		
Banco Internacional de Cabo Verde	-	75 902
BES Vénétie	-	908 226
Quinta dos Cónegos	-	432
NB Venezuela Branch	-	3 673
GNB Vida	4 434 528	4 537 729
Greendraive	3 473	-
	4 438 001	**5 525 962**

The impairment, determined as at 31 December 2018 and 2017, of GNB Vida and BES Vénétie is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017	
	GNB Vida	**GNB Vida**	**BES Vénétie**
Fair value net of selling costs	175 000	200 000	48 000
Net equity at the date of the discontinuation	385 576	487 438	151 454
Impairment	**(210 576)**	**(287 438)**	**(103 454)**

The movement in the impairment of discontinued operations is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Opening balance	396 146	-
Allocation/ reversals for the period	(72 092)	396 146
Utilizations	(106 496)	-
Exchange differences and others	1	-
Closing balance	**217 559**	**396 146**

The profits / (losses) from the discontinued operations for the financial years 2018 and 2017 are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Profit / (loss) generated by discontinued operation		
Banco Internacional de Cabo Verde	(2 207)	(33)
BES Vénétie	1 268	2 179
Banco Well Link (previous NB Ásia)	-	66 043
Quinta dos Cónegos	2	21
OBLOG	-	3 530
NB Venezuela Branch	-	(510)
GNB Vida	(38 540)	3 672
Banco Delle Tre Venezie	-	(123)
Greendraive	(342)	-
	(39 819)	**74 779**

Banco Well Link (previously NB Ásia)

As a result of the commitments assumed between the Portuguese State and the European Commission Competition Authority, the shareholding held in NB Ásia was considered as non-strategic. The Bank classified this shareholding as a discontinued operation in financial year 2016, given the advanced state of the negotiation sale process in that year. The closing of the sale operation of 75% of NB Ásia occurred on May 2017 and the Group recorded a gain in the Net profit / (loss) of discontinued operations of Euro 66 million. The remaining equity registered on the balance sheet, that initially represented 25%, was subsequently diluted through share capital increases of Well Link Bank, already foreseen in the share purchase agreements. The last share capital increase was approved by the regulator on 14 December 2017. Consequently, NOVO BANCO's (which does not participate in the share capital increases) shareholding decreased to 10%. The shareholding of NOVO BANCO will be sold through crossed call and put options to be exercised on 1, 3 and 5 years. The Group no longer has significant influence over NB Ásia, which is why it ceased to be consolidated as a discontinued operation, and the equity participation owned is registered on Balance Sheet.

GNB Vida

As consequence of the commitments made between the Portuguese State and European Commission Competition Authority communicated to the Group by the end of 2017, after the completion of Bank's sale process, the group launched in 2017 an organized sale process of 100% of the share capital of GNB Vida. Therefore, this entity was considered as a discontinued operation on 31 December 2017.

The fair value of Euro 200 million presented in 2017, net of impairment losses of Euro 287 million, was based on a set of indicative purchase proposals. As at 12 September 2018, the group has entered into a sale and purchase agreement with Bankers Insurance Holdings, S.A., an entity of the Global Bankers Insurance Group, LLC, in respect of the entire share capital of GNB – Companhia de Seguros de Vida, S.A. ("GNB Vida"), The execution of the sale of GNB Vida is conditioned to the verification of certain condition, including the obtaining of the required regulatory approvals (see Note 52). As at 31 December 2018, in accordance with the terms of the agreement, the balance sheet value was revised and updated to Euro 175 million.

BES Vénétie

As a result of the commitments assumed between the Portuguese State and the European Commission Competition Authority, the shareholding held in BES Vénétie was considered as non-strategic. The Bank classified this shareholding as a discontinued operation in 2016, given the advanced state of the negotiation sale process in that financial year. The fair value presented of Euro 48 million, resulting from an impairment loss of Euro 103 million registered in 2017, was based on a proposal received for the acquisition of this entity. During May 2018, NOVO BANCO, S.A. Group celebrated with Promontoria MMB SAS, a company incorporated in France and subsidiary of Cerberus Capital Management, L.P. a sale and purchase agreement for the share capital of Banque Espírito Santo et de la Vénétie, S.A. and related assets. The conclusion of the transaction was dependent on the required approvals, a condition that occurred on 28 December 2018 (date of closing of the transaction).

Banco Internacional de Cabo Verde

On 2 August, 2017, NOVO BANCO informed the market it had signed with IIBG Holdings B.S.C., an enterprise from Bahrein, a sale and purchase agreement for 90% of the share capital of Banco Internacional de Cabo Verde. This transaction was concluded at the end of July 2018 with the necessary approvals, namely from Banco de Cabo Verde.

The financial statements as at 31 December 2018 and 2017 of the discontinued units, when applicable, are as follows:

BALANCE SHEET AS AT 31 DECEMBER OF 2018 AND 2017

(in thousands of Euros)

	BICV	BES Vénétie	Quinta dos Cónegos	GNB Vida		Greendraive
	31.12.2017	31.12.2017	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Assets						
Cash and deposits with Central Banks	5 674	38 616	-	-	-	-
Deposits with banks	1 146	18 346	2 520	142 709	210 205	22
Derivatives held for trading	-	-	-	1 696	1 567	-
Loans and advances to credit institutions	60 228	40 000	-	100 926	89 672	-
Loans and advances to customers	17 172	982 916	-	-	-	-
Securities Portfolio	1 849	800	-	4 446 203	4 573 210	-
Non-current assets held for sale	-	14 196	-	-	-	-
Investment properties	-	-	-	49 649	49 666	-
Other tangible assets	1 677	7 302	-	295	333	325
Intangible assets	573	2 185	-	72	190	10
Current tax assets	113	382	-	14 377	13 191	-
Deferred tax assets	-	4 849	-	29 041	32 084	-
Technical reserves of reinsurance ceded	-	-	-	6 900	7 320	-
Other assets	1 187	7 765	9	52 131	56 285	474
Total Assets	**89 619**	**1 117 357**	**2 529**	**4 843 999**	**5 033 723**	**831**
Liabilities						
Deposits from Central Banks	45	40 000	-	-	-	-
Financial liabilities held for trading	-	255	-	539	800	-
Deposits from banks	1	128	-	-	-	-
Due to customers	75 374	842 018	-	-	-	-
Investment contracts	-	-	-	2 945 805	3 124 453	-
Provisions	17	3 824	167	28 841	28 123	-
Technical reserves	-	-	-	1 357 103	1 257 533	-
Current tax liabilities	-	427	-	-	-	-
Subordinated debt	-	43 365	-	59 389	57 252	-
Other liabilities	465	11 391	265	66 746	78 124	3 568
Total Liabilities	**75 902**	**941 408**	**432**	**4 458 423**	**4 546 285**	**3 568**
Equity						
Share Capital	12 996	75 117	3 700	50 000	50 000	60
Share premiums	-	27 014	-	-	-	-
Other capital instruments	-	-	-	-	-	1 200
Reserves, Retained earnings and Other comprehensive income	710	68 628	(1 672)	393 857	433 766	(3 605)
Profit / (loss) for the period	11	2 331	69	(58 281)	3 672	(392)
Total Equity attributable to shareholders of the Bank	**13 717**	**173 090**	**2 097**	**385 576**	**487 438**	**(2 737)**
Non-controlling interests	-	2 859	-	-	-	-
Total Equity	**13 717**	**175 949**	**2 097**	**385 576**	**487 438**	**(2 737)**
Total Liabilities and Equity	**89 619**	**1 117 357**	**2 529**	**4 843 999**	**5 033 723**	**831**

INCOME STATEMENT
FOR THE PERIOD ENDING IN 31 DECEMBER OF 2018 AND 2017

(in thousands of Euro)

	BICV	BES Vénétie	Quinta dos Cónegos	GNB Vida		Greendraive
	31.12.2017	31.12.2017	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Interest and similar income	1 895	31 845	-	55 344	78 544	-
Interest expense and similar charges	(191)	(9 861)	(36)	(76 484)	(79 534)	-
Net interest income	**1 704**	**21 984**	**(36)**	**(21 140)**	**(990)**	**-**
Dividend income	-	4	-	4 447	6 006	-
Fee and commission income	298	13 676	-	11 995	15 315	-
Fee and commission expenses	(15)	(2 332)	-	(24 801)	(23 769)	-
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	-	(93)	-	(24 383)	12 898	-
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss - mandatory	-	-		-	-	
Net gains / (losses) from financial assets and liabilities at fair value through othercomprehensive income	-	300	-	87 240	62 868	-
Net gains / (losses) from foreign exchange revaluation	1	140	-	3 867	(23 304)	-
Net gains/ (losses) from the sale of other assets	-	(5 096)	247	(32)	(1 373)	-
Insurance earned premiums, net of reinsurance	-	-	-	244 468	52 962	-
Claims incurred, net of reinsurance	-	-	-	(157 315)	(188 655)	-
Change in technical reserves, net of reinsurance	-	-	-	(128 385)	116 072	-
Other operating income and expenses	(12)	360	285	2 508	1 503	3 165
Operating income	**1 976**	**28 943**	**496**	**(1 531)**	**29 533**	**3 165**
Staff costs	(793)	(16 291)	(95)	(2 762)	(3 107)	(1 659)
General and administrative expenses	(768)	(8 513)	(161)	(4 397)	(4 890)	(1 729)
Depreciation and amortization	(400)	(471)	(25)	(79)	(71)	(88)
Provisions, net of reversals	-	212	(167)	(629)	(498)	-
Impairment losses on loans and advances, net of reversals and recoveries	37	(1 102)	-	-	-	-
Impairment losses on other financial assets, net of reversals and recoveries	(32)	557	-	(32 884)	(15 059)	-
Impairment losses on other assets, net of reversals and recoveries	-	-	-	-	-	-
Operating expenses	**(1 956)**	**(25 608)**	**(448)**	**(40 751)**	**(23 625)**	**(3 476)**
Results from associated companies	-	(158)	-	-	-	-
Profit / (loss) before income tax	**20**	**3 177**	**48**	**(42 282)**	**5 908**	**(311)**
Corporate income tax						
Current	(9)	382	21	(43)	(635)	(81)
Deferred	-	(1 069)	-	(15 956)	(1 601)	-
	(9)	**(687)**	**21**	**(15 999)**	**(2 236)**	**(81)**
Net profit / (loss) for the period	**11**	**2 490**	**69**	**(58 281)**	**3 672**	**(392)**
Attributable to the shareholders of the Bank	**11**	**2 331**	**69**	**(58 281)**	**3 672**	**(392)**
Attributable to non-controlling interests	-	159	-	-	-	-
	11	**2 490**	**69**	**(58 281)**	**3 672**	**(392)**

CASH FLOW STATEMENT
FOR THE PERIOD ENDING IN 31 DECEMBER OF 2018 AND 2017

(in thousands of Euro)

	BICV	BES Vénetie	Quinta dos Cónegos	Greendraive
	31.12.2017	31.12.2017	31.12.2017	31.12.2018
Cash flows from operating activities				
Interest and similar income received	2 085	34 843	-	-
Interest expense and similar charges paid	(219)	(8 990)	(36)	(81)
Fees and commissions received	-	8 733	-	3 882
Fees and commissions paid	-	(912)	-	-
Credit Recoveries	-			-
Cash payments to staff and suppliers	(1 860)	(23 985)	(256)	(3 953)
	6	**9 689**	**(292)**	**(152)**
Changes in operating assets and liabilities:				
Deposits with Central Banks	-	(52 000)	-	-
Deposits from Central Banks	(6)	-	-	-
Acquisition of financial assets at fair value through equity	136	(2 677)	-	-
Loans and advances to banks	-	(38 723)	-	-
Deposits from banks	-	(454 703)	(737)	-
Loans and advances to customers	542	28 312	-	-
Due to customers and other loans	(7 673)	505 927	-	-
Other operating assets and liabilities	(26)	25 549	518	12
Net cash from operating activities before corporate income tax	**(7 021)**	**21 374**	**(511)**	**(140)**
Corporate income taxes paid	-	382	-	(116)
	(7 021)	**21 756**	**(511)**	**(256)**
Cash flows from investing activities				
Acquisition of fixed assets	(7)	-	-	(37)
Disposal of fixed assets	-	232	3 300	-
	(7)	**232**	**3 300**	**(37)**
Cash flows from financing activities				
Loans obtained	-	-	-	281
Issue of bonds and other debt securities	-	637	-	-
Reimbursement of shareholder loans and supplementary capital contribution	-	-	(269)	-
Cash flows from financing activities	**-**	**637**	**(269)**	**281**
Effect of exchange rate changes on cash and cash equivalents	1	-	-	-
Net changes in cash and cash equivalents	**(7 027)**	**22 625**	**2 520**	**(12)**
Cash and cash equivalents at the beginning of the period	74 075	34 336	-	34
Cash and cash equivalents at the end of the period	67 048	56 961	2 520	22
	(7 027)	**22 625**	**2 520**	**(12)**
Cash and cash equivalents include:				
Cash	1 030	124	-	16
Deposits with banks	66 018	56 837	2 520	6
Total	**67 048**	**56 961**	**2 520**	**22**

CASH FLOW STATEMENT
FOR THE PERIOD ENDING IN 31 DECEMBER OF 2018 AND 2017

(in thousands of Euros)

	GNB Vida	
	31.12.2018	**31.12.2017**
Cash flows from operating activities		
Receipts		
Insurance transactions	244 534	98 415
Reinsurance transactions	142	1 668
Investment contract transactions	87 569	55 387
Other operating activities	6	6
	332 251	**155 476**
Payments		
Insurance transactions	(155 843)	(200 939)
Reinsurance transactions	(41 807)	(48 183)
Investment contract transactions	(266 184)	(440 018)
Commissions	(16 757)	(14 717)
Participation in results	(620)	(925)
Other operating activities	(101)	(127)
	(481 312)	**(704 909)**
Payments to staff	(1 596)	(2 026)
Payments to suppliers	(8 682)	(9 405)
Other payments and receipts	443	1 741
Net cash from operating activities before income tax	**(158 896)**	**(559 123)**
Taxes and rates	(9 830)	(17 625)
Corporate income tax	(1 460)	(528)
Cash flows from operating activities	**(170 186)**	**(577 276)**
Cash flows from investing activities		
Receipts		
Disposal of investments	27 420 326	22 081 816
Dividends	4 447	6 006
Interest	54 293	78 102
Other revenue	8 116	6 758
	27 487 182	**22 172 682**
Payments		
Acquisition of investments	(27 355 710)	(21 501 249)
Acquisition of fixed assets	(94)	(285)
Management, maintenance and other expenses	(1 912)	(1 973)
	(27 357 716)	(21 503 507)
Cash flows from investing activities	**129 466**	**669 175**
Cash flows from financing activities		
Payments		
Interest on loans	(2 309)	(2 307)
Cash flow from financing activities	**(2 309)**	**(2 307)**
Net changes in cash and equivalents	(43 029)	89 592
Cash and equivalents at the beginning of the period	206 800	117 208
Cash and equivalents at the end of the period	163 771	206 800
	(43 029)	**89 592**

NOTE 50 –RELEVANT TRANSACTIONS WHICH OCCURRED DURING 2018

Sale of Non Performing Loans portfolio (Project Nata)

During 2018, NOVO BANCO and BEST, entered into a sale and purchase contract of a non-performing loans portfolio and related assets, named Project Nata, with a consortium of funds managed by KKR Credit Advisors (US) L.L.C and LX Investment Partners II S.À.R.L.

This operation impacted the balance sheet with a decrease on the loans and advances to customers in the amount of Euro 543.9 million (Euro 1,529.9 million of gross amount and Euro 986.1 million of impairment), a decreased in the securities portfolio in the amount of Euro 1.8 million (Euro 76.5 million of gross amount and Euro 74.7 million of impairment), and an increase on Other Assets in the amount of Euro 435.5 million. The operation had the following impacts on the Group's income statement:

(millions of euro)

Impact on Income Statement	**31.12.2018**
Net Interest Income	5.7
Results from the sale of other assets	-208.3
Credit impairment net of reversals	-92.5
Impact on Net Income	**-110.1**

Sale of Real Estate portfolio (Project Viriato)

The Group entered into a promissory sale and purchase agreement with several entities indirectly held by investment funds managed by Anchorage Capital Group L.L.C, to sell a real estate portfolio composed by approximately 9 thousand real estate properties, named Project Viriato, with the following impacts in the Income Statement:

(millions of euros)

Impact on Income Statement	**31.12.2018**
Other operating results	10.0
Credit impairment net of reversals	169.8
Impact on Net Income	**-159.9**

NOTE 51 – TRANSITION ADJUSTMENTS FOR THE IFRS 9

On 24 July 2014, in response to the challenge proposed by the G20 following the global financial crisis, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 - Financial Instruments ("IFRS 9"). This new standard is effective for years beginning on or after 1 January 2018, which replaced IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). As permitted by the transitional provisions of IFRS 9, the Group did not restate the comparative values in its financial statements arising from the application of IFRS 9. The impacts on the consolidated financial statements of the Group were recognised in retained earnings and, therefore, in the regulatory capital reported.

IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Group and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with entities' risk management practices.

The impacts on the Group's consolidated financial statements resulting from the adoption of this new standard are estimated by reference as at 1 January 2018, having the available information to that date, and the assumption of a bundle of assumptions. Bearing in mind these estimates, the IFRS 9 adoption resulted in a decrease of the total equity of the Group as at 1 January 2018, of approximately -Euro 347.7 million, as follows:

(thousand of euro)

	IAS 39		Reclassification	Remeasurement	Impairment	Tax	IFRS 9	
	Asset Class	Amount					Asset Class	Amount
FINANCIAL ASSETS								
Cash and deposits with central banks	Loans and receivables	3 788 027	-	-	-	-	Amortised cost	3 788 027
Deposits with banks	Loans and receivables	380 601	-	-	-	-	Amortised cost	380 601
Financial assets held for trading	At fair value through profit or loss	577 520	-	-	-	-		
Securities held for trading			*(1)*	-	-	-	*At fair value through profit or loss*	*(1)*
Derivatives held for trading			*(577 153)*	-	-	-	*At fair value through profit or loss*	*(577 153)*
Securities at fair value through profit or loss			*(286)*	-	-	-	*At fair value through profit or loss*	*(286)*
Securities at fair value through profit or loss mandatory			*(80)*	-	-	-	*At fair value through profit or loss mandatory*	*(80)*
Other financial assets at fair value through profit or loss	At fair value through profit or loss	30 183	-	-	-	-		
Securities at fair value through profit or loss			*(30 183)*	-	-	-	*At fair value through profit or loss*	*(30 183)*
Financial assets available for sale	Available for sale	8 448 245	(449 823)	(8 725)	(6 021)	-		
Securities at fair value through profit or loss			*(12)*	*(8 725)*	-	-	*At fair value through profit or loss*	*(8 737)*
Securities at fair value through profit or loss mandatory			*(1 407 686)*	-	-	-	*At fair value through profit or loss mandatory*	*(1 407 686)*
Securities at fair value through other comprehensive income			*(5 693 352)*	-	*(607)*	-	*At fair value through othercomprehensive income*	*(5 693 959)*
Securities at amortised cost			*(1 347 195)*	-	*(5 414)*	-	*Amortised cost*	*(1 352 609)*
Loans and advances to banks	Loans and receivables	581 901	-	-	(8 927)	-	Amortised cost	572 974
Loans and advances to customers	Loans and receivables	25 790 943	-	-	(244 614)	-	Amortised cost	25 546 329
Derivatives held for risk management purposes	At fair value through profit or loss	170 588	-	-	-	-	At fair value through profit or loss	170 588
NON FINANCIAL ASSETS								
Deferred tax assets		1 964 017	-	-	-	(47 993)		1 916 024
LIABILITIES								
Provision		416 670	-	-	4 450	-		421 120
EQUITY								
Other reserves and retained earnings *		1 040 105	(448 722)	(84 315)	607	56 691		564 366
Non-controlling interests		79 212	(1 101)	-	-	-		78 111
Total impact from adopting IFRS 9			**-**	**(93 040)**	**(263 405)**	**8 698**		

* Restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement.

There is no transitional regime establishing the tax treatment to be given to the transition adjustments for this standard. Consequently, the tax treatment of these adjustments resulted from the Bank's interpretation of the application of the general rules of the IRC Code.

During 2018, the Group continued to review, improve and to validate the methodologies developed to comply with the new requirements of IFRS 9 and to follow any guidelines from national and international regulators regarding the application of said standard.

a) Classification and measurement of financial assets and liabilities

The criteria for the classification of financial assets will depend both on the business management model of the Group and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortised cost, at fair value with changes recognised in other comprehensive income (revaluation reserves) or in the income statement for the year (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognised in the income statement for the period. The Group considers the following criteria for their debt financial assets' classification:

- Amortised cost: a debt financial instrument that (i) is managed under a business model whose goal is the keep financial assets in the portfolio, and receive all their contractual cash flows and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;
- Fair value of recognised variations in other comprehensive income: a debt financial instrument that (i) is managed under a business model whose goal is achieved either by receiving all the contractual cash flows or by selling the financial assets and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;
- Fair value of recognised variations in the income statement: all other debt financial instruments must be measured at their fair value through profit or loss.

Regarding other financial instruments, namely equity and derivative instruments, these are, by definition, classified at fair value through profit or loss. For equity instruments, there is an irrevocable option to designate that all fair value changes be recognised in other comprehensive income. This irrevocable classification will imply that, upon the disinvestment / realisation of these financial assets, the amounts recognised in equity are not recycled to the income statement for the period.

With the entry into force of IFRS 9, in terms of measurement and classification of financial instruments, we must highlight:

(i) most of the loans and balances receivable from banks and customers will continue to be measured at amortised cost. There was no impact from the reclassification of loans and advances to fair value through profit or loss or other comprehensive income;

(ii) debt instruments classified as available-for-sale were mostly measured at fair value with changes recognised in other comprehensive income, with some of these instruments having been reclassified to amortised cost. The classification of these financial asset had an impact of around Euro -97 million in the equity of the Group.

(iii) equity instruments are classified and measured at fair value through profit or loss, unless the Group irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognised in other comprehensive income. The reclassification of available-for-sale equity instruments to fair value through profit or loss had an impact in equity of the Group of Euro -7.0 million, while the fair value classification with recognised variations in other comprehensive income had an impact of approximately Euro 8.0 million in equity of the Group, including the determination of the fair value of certain equity instruments previously valued at amortised cost.

In summary, by reference to 1 January 2018, the impacts on the consolidated Group's equity of the new IFRS 9 requirements for the classification and measurement of financial assets amount to Euro -96.0 million, including impairments.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, are recognised in equity (other comprehensive income) instead of in the income statement as required by IAS 39, unless this accounting treatment generates accounting mismatch. Subsequent reclassifications of these changes to the income statement are not permitted, not even on the repurchase of these liabilities.

b) Expected Credit Impairment Loss Model

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortised cost, to financial assets equivalent to debt instruments valued at fair value with changes recognised in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not valued at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Group's 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 3": assets classified in this *stage* present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss.

In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognised in the income statement for the year. Interest is calculated on the net book value of the assets;

“Stage 2”: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in *stage* 2. For these financial assets, expected credit impairment losses are recognised over the assets’ lifetime. However, interest will continue to be calculated on the gross amount of the asset; and

“Stage 1”: financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from the probability of occurrence of events of default during the 12 months subsequent to the reporting date, or until the estimated residual maturity, if it is less than 12 months after the reporting date, should be recognised in the income statement for the year.

Measurement

Despite the changes promoted to the model of impairment, in particular, the extension of criteria that determine the existence of a significant increase in credit risk, generally, impairment losses of assets classified in stages 1 and 2 largely replace the impairment recognised from a collective assessment perspective of financial assets as foreseen in IAS 39. In turn, the impairment losses determined of assets classified in stage 3, to a certain extent replace the impairment recognised from a collective assessment perspective of financial assets already impaired as provided for in IAS 39.

The impairment for expected credit losses in accordance with IFRS 9 is affected by several risk factors, such as, amongst others, the probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), as well as the expected life of the financial asset.

PD represents the probability that a loan will not be repaid and will default, within the 12-month horizon for *stage* 1 or during its expected lifetime, in the case it is less than 12 months and during its expected lifetime, for *stage* 2. The PD models are based on historical information incorporating information on current market conditions and reasonable and supportable information on future economic conditions.

LGD is the estimated value to be recovered in the event of default and is also modeled on historical data and reasonable and supportable information on future and current economic conditions, where appropriate. LGD methodologies consider the value of the collateral received.

The EAD represents an estimate of the amount of credit at the time the event of default might occur. For off-balance sheet exposures and undrawn commitments, the EAD includes an estimate of additional amounts to be used up to the moment of default.

Transition between *stages*

The transition of financial assets from *stage* 1 to *stage* 2 occurs at the moment their credit risk increases significantly when compared to their credit risk on the date of their initial recognition. The determination of a significant increase in credit risk is based on the analysis of quantitative and/or qualitative internal and external indicators used by the Group in the normal credit risk management, thereby imposing a greater linkage of the accounting requirements with the credit risk management policies established by the Group.

Specifically, the Group established thresholds for significant increases in credit risk of an absolute and relative nature in the PD for the remaining life compared with at the initial recognition.

Generally, the transitions of financial assets from *stage* 2 to *stage* 3 occur when these assets default, that is, if: (i) there is a material default for more than 90 consecutive days; and / or (ii) there are indicators that show that the contractual obligations associated with such assets are unlikely to be met - "unlikeliness to pay". This definition of default is consistent with the definition used in the Bank's current credit risk management policies.

Forward looking information

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including trends and future scenarios, namely macroeconomic data. In this context, estimates of expected impairment credit losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends.

For the more material portfolios, the Group adopted sophisticated credit risk modeling approaches to measure expected credit losses, leveraging, where possible, existing AIRB (Advanced Internal Rating Based) models. For the remaining portfolios, and according to the materiality of each one, the Group will develop new models or use simplified approaches.

In summary, by reference to 1 January 2018, the impact on consolidated Group's equity of the new requirements of IFRS 9 of impairment amount to Euro -263.4 million.

Impacts on the control system and on the internal governance structure

In order to ensure that appropriate controls and validations are carried out in measurement the Impairment, the Group promoted changes on the existing governance framework. As part of this process, new controls are being developed and implemented in the main areas impacted by IFRS 9, such as the development and weighting of macroeconomic scenarios, the determination of a significant increase in credit risk, and data and credit risk systems.

c) Hedge accounting

The new hedge accounting model of IFRS 9 aims not only to simplify the process of creating and maintaining hedge relationships, but also to align the accounting of these relationships with the risk management activities of each institution, to extend the eligibility of a larger number hedged instruments and hedging, but also types of risk. IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity's risk management.

Estimated impacts on equity

The adoption of IFRS 9 had an impact at the Bank capital level particularly because of the anticipated increase in the stock of impairment provisions under the new expected credit losses model in comparison with the approach of losses incurred of IAS 39 and consequent accounting referential.

On 12 December 2017, the European Union, through Regulation (EU) no. 2017/2395 of the European Parliament, that amended Regulation (EU) no. 575/2013, introduced a transitory regime with the aim of reducing the impact of the adoption of IFRS 9 on the own funds of financial institutions. The above-mentioned Regulation allows financial institutions to differ the impact resulting from the adoption of IFRS 9, with the Bank deciding on implementing the referred transitional regime.

The Group estimated a CET 1 ratio impact of approximately -43 bp.

Group Implementation Strategy

The Group defined a global work structure aimed at adapting its internal processes to the rules contained in IFRS 9, making sure that these are, simultaneously, uniformly applied in all the Group's subsidiaries and adapted to their individual characteristics.

Regarding the governance structure of the IFRS 9 implementation project, the Group has created a Committee responsible for seeing this project through, as well as assuring that all areas relevant to this project are involved for the success of the same. This Committee had the involvement of, the Accounting, Consolidation and Tax Department, the Treasury and Finance Department, the Global Risk Department, and the Information Systems Department. Whenever found necessary, other departments of the Bank were involved in the project.

NOTE 52 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

I – Applicable to 2018

The standards and interpretations that became effective as of 1 January 1 2018. There was no materially relevant impact in the Group accounts regarding these standards which were taken into consideration in the Group accounts with reference to 31 December 2018:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all previous revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16, once effective). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 must be applied using a five-step model: (1) Identify the contract(s) with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; (5) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Clarifications to IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues. As such, the amendments are:

- Clarify when a promised good or service is distinct within the context of the contract;
- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators;
- Clarify when an entity’s activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time;

- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract;
- Add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial

statements of the reporting period in which the entity first applies the interpretation.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

<u>The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction</u>

- The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.

<u>The classification of a share-based payment transaction with net settlement features for withholding tax obligations.</u>

- This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment.

- This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature').
- Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.

<u>The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled</u>

- The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification.
- Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Annual improvements for the cycle 2014-2016

In the annual improvements for the 2014-2016 cycle, the IASB has introduced the following improvements that should be applied retrospectively and effective as of January 1, 2018 (a further improvement related to IFRS 12 was effective as of January 1 of 2017).

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement eliminated the short-term exemptions for first-time adopters in paragraphs E3-E7 of IFRS 1 because they have now served their intended purpose (which related to exemptions from certain disclosures of financial instruments under IFRS 7, exemptions at the level of employee benefits and exemptions at the level of investment entities).

IAS 28 Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

II - Applicable to 2018 only if early adopted and the early adoption is disclosed and the remaining required conditions are met

IFRS 16 – Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

This standard was endorsed on 31 October 2017 and must be applied from annual periods beginning on or after 1 January 2019.

The Group assessed the impact estimated of the initial application of IFRS 16, as described below. The impacts arising from the adoption of IFRS 16, at 1 January 2019 may change due to:

- the Group has not yet finalized the set of tests and evaluation of controls on new IT systems; and

- the new accounting policies are subject to changes until the Group presents its first financial statements including the date of initial application.

i. Leases in which the Group acts as lessee:

The Group will recognize the new assets and liabilities as operating leases of their branches and facilities (central services). The nature of the costs related to these operating leases is changed, since IFRS 16 replaces linear operating leases expense for depreciation of the assets under right of use and interest charges relating to leasing liabilities.

Previously, the Group recognized the costs of operating leases linearly during the term of the lease, and recognized assets and liabilities only to the extent that he was observing a difference in the length of time between the lease payments and the recognition of the expense.

ii. Leases in which the Group acts as lessor:

No significant impacts are expected to lease agreements where the Group acts as lessor. However, next year will be required a set of additional disclosures.

iii. Transition

The Group intends to apply IFRS 16 initially at the date of 1 January 2019, using the simplified retrospective approach, without the restatement of comparative information. The transitional approach used allows to elect a set of practical expedients for the non-application of IFRS 16, namely: i) leasing of short term lease contracts with a period of less than 12 months (including renewal options); and ii) low-value Lease, lease contracts whose asset value corresponding to ≤ EUR 5,000.

The Group intends to apply the practical expedient concerning the definition of the lease at the date of transition, i.e. will apply IFRS 16 to all contracts concluded before 1 January 2019 and identified as leasing according to IAS 17 and IFRIC 4. In this way, to the locations previously classified as operating leases under IAS 17, the active right of use is measured by an amount equal to the lease liabilities, adjusted by the amount of any previous lease payments or plus this related lease, recognized in the statement of financial position immediately before the date of the initial application. Thus, on the date of 1 January 2019 the impact on retained earnings will be null.

The Group made an initial assessment of the potential impact on its financial statements but it is consolidating this assessment to determine the amount of the impact to be incorporated in the financial statements. The real impact of applying IFRS financial statements 16 in the period of initial application will depend on future economic conditions, development of the portfolio of the Group's leasing contracts of your evaluation, including, if this will exercise any renewal options, the range that the Group choses in terms of use of the options available and the practical recognition of exceptions.

IFRIC 23 - Uncertainty over Income Tax different treatments

In June 2017, the IASB issued IFRIC Interpretation 23 which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The interpretation was endorsed on 23 October 2018 and is applicable from annual periods beginning on or after 1 January 2019.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Modification or exchange of a financial liability that does not result in derecognition

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

The amendments were endorsed on 22 March 2018 and is effective from annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

IFRS 10 and IAS 28: Sale or Contribution of Assets by an Investor to its Associate or Joint Venture

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted. The changes should be applied retrospectively.

III – Not applicable to 2018

<u>Not yet endorsed by EU:</u>

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.

Effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Annual improvements for the cycle 2015-2017

In the annual improvements for the 2015-2017 cycle, the IASB has introduced improvements in four standards summarized below:

IFRS 3 Business Combinations - Previously held Interests in a joint operation

- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.
- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IFRS 11 Joint Arrangement - Previously held Interests in a joint operation s

- A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
- An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity instruments

- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Definition of a Business - Amendments to IFRS 3

The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if:

(a) it is critical to the ability to develop or convert acquired inputs into outputs; and

(b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs.

In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if:

(a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or

(b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)).

Definition of Material - Amendments to IAS 1 and IAS 8

The purpose of this amendment was to to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ’Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.’

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold ‘could influence’, which suggests that any potential influence of users must be considered, with ‘could reasonably be expected to influence’ in the definition of ‘material’. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to ‘users’ but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term ‘users’ may be interpreted too widely.

This amendment is effective for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Note: This amendment also impacts IFRS Practice Statement 2: Making Materiality Judgements, which was disclosed in the IFRS Update paper issued with reference to 31 December 2017.

IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

Determining the current service cost and net interest

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using:
    - the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
    - the discount rate used to remeasure that net defined benefit liability (asset)

A plan amendment, curtailment or settlement may reduce or eliminate a surplus in a defined benefit plan, which may cause the effect of the asset ceiling to change.

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

The Conceptual Framework for Financial Reporting

The conceptual framework sets out a comprehensive set of concepts for:

- Financial reporting;
- Standard setting;
- Guidance for preparers in developing consistent accounting policies; and
- Assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes:

- some new concepts,
- provides updated definitions and recognition criteria for assets and liabilities; and
- clarifies some important concepts.

I tis organized as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The amended conceptual framework for the financial reporting is not a standard and none of its concepts prevails on the concepts set out in other standards or requirements of any standard. It is applicable to entities that develop their accounting principles based on the conceptual framework applicable to annual reporting periods beginning on or after 1 January 2020.

IFRS 14 Regulatory Deferral Accounts

This standard allows an entity whose activities are subject to regulated rates to continue to apply most of its previous accounting policies for deferred accounts related to regulated activities when adopting IFRS for the first time.

This standard cannot be applied by: (i) entities that already prepare financial statements under IFRS; (ii) entities whose current accounting standards do not permit the recognition of regulatory assets and liabilities and (iii) entities whose current accounting standards permit the recognition of regulatory assets and liabilities but have not adopted such policy in their accounts prior to the adoption of the IFRS.

Deferral accounts related to regulated activities should be presented in a separate line of the statement of financial position and the movements in these accounts should be presented in separate lines in the income statement and in the statement of comprehensive income. The nature and risks associated with the entity's regulated rate and the effects of such regulation on its financial statements should be disclosed.

The amendments are applicable prospectively for annual periods beginning on or after 1 January 2016. Early application is permitted and should be disclosed.

The European Union (EU) has decided not to launch the endorsement of this intermediate standard and wait for the final standard.

Already endorsed by EU:

There are no standards already endorsed that enter into force only after 2018 and whose early application is not allowed.

NOTE 53 – SUBSEQUENT EVENTS

- On 31 January 2019 and 28 February 2019, the branches of NOVO BANCO in London and in Venezuela, respectively, were closed;

ANNEX

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations on Transparency of Information and Valuation of Assets

(Bank of Portugal's Circular Letters no. 97/2008/DSB of 3 December and no. 58/2009/DSB of 5 August)

In its Circular Letter no. 58/2009/DSB of 5 August 2009, the Bank of 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. 46/2008/DSBDR of 15 July 2008 and no. 97/2008/DSB of 3 December 2008.

The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations.

This chapter aims to ensure compliance with the Bank of 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 fiscal years 2018 and 2017.

I. BUSINESS MODEL

1. Description of the business model

A description of the Group's business model is provided in point 5 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note 4[1].

2. Strategy and objectives

A description of the Group's strategy and objectives is provided in point 3 of the Management Report. The securitisation transactions are detailed in Note 44.

3., 4. and 5. Activities developed and contribution to the business

Point 5 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

Point 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 46 contains diverse information that together enables 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

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the NOVO BANCO sale process was concluded, following the acquisition of the majority (75%) of the Bank's share capital by Nani Holdings, SGPS, S.A., a company owned by the North-American Group Lone Star, through two share capital increases in the amount of 750 million euro and Euro 250 million euro, in October and December, respectively. This sale was preceded by the completion of a Liability Management Exercise (LME) over bonds with a book value of approximately 3 billion euro.

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, assets and liabilities at fair value through profit or loss mandatory, and assets and liabilities at fair value through comprehensive income are detailed by financial instrument in Notes 8 and 9. In addition, unrealised gains and losses on securities at fair value through other comprehensive income are detailed in Notes 23 and 40, while the most significant positions are broken down in Note 23.

13. Financial turmoil and the share price

NOVO BANCO does not have listed shares.

14. Maximum loss risk

Point 7 of the Management Report and Note 46 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 45 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 FINANCIAL TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

As at 31 December 2018 exposure to Portuguese sovereign debt totalled 4 434 million euro (2017: 3 855 million euro), exposure to Spanish sovereign debt totalled 3 855 million euro (2017: 1 492 million euro), exposure to Italian sovereign debt totalled 83 million euro (2017: 336 million euro) and exposure to Irish sovereign debt totalled 60 million euro (in 2017 there was no exposure to Irish sovereign debt).

The information about the Group's exposures is provided in Note 46.

19. Movement in exposures between periods

Note 46 contains diverse information comparing the exposures and results in 2018 and 2017. 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 44. 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 has no exposure 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 44.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Annex. Notes 2 and 45 refer to 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 Bank 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 Bank's shareholders, clients, employees, supervisory entities and the public in general, the Management Report, the Financial Statements and the respective Notes, the information on Corporate Governance and the Sustainability Accounts deserve a note.

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 point 10 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.

SEPARATE FINANCIAL STATEMENTS OF NOVO BANCO AS AT 31 DECEMBER 2018

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT
FOR THE YEARS ENDED ON 31 DECEMBER 2018 AND 2017

(in thousand of Euros)

	Notes	31.12.2018	31.12.2017 *
Interest and similar income	4	762 633	792 947
Interest expense and similar charges	4	(316 392)	(502 694)
Net interest income		446 241	290 253
Dividend income	5	17 864	23 550
Fee and commission income	6	329 201	349 293
Fee and commission expenses	6	(49 395)	(63 352)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(69 535)	(61 550)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss - mandatory	7	(10 094)	-
Net gains / (losses) from financial assets and liabilities at fair value through other comprehensive income	8	33 674	56 225
Net gains / (losses) from foreign exchange differences	9	42 759	30 449
Net gains/ (losses) from the sale of other assets	10	(187 135)	53 274
Other operating income and expenses	11	(41 457)	21 413
Operating income		512 123	699 555
Staff costs	12	(244 104)	(249 112)
General and administrative expenses	14	(196 154)	(216 903)
Depreciações e amortizações	25 and 26	(21 314)	(56 286)
Depreciation and amortization	33	(239 973)	(188 852)
Impairment losses of loans and advances, net of reversals	21	(295 072)	(1 141 563)
Impairment losses of other financial assets, net of reversals	20 and 22	(3 720)	(193 623)
Impairment losses of other assets, net of reversals	24, 27 and 28	(284 065)	(370 288)
Operating expenses		(1 284 402)	(2 416 627)
Profit / (loss) before income tax		**(772 279)**	**(1 717 072)**
Income tax			
Current tax	34	(2 714)	(9 154)
Deferred tax	34	(657 882)	(429 422)
Net profit / (loss) for the period		**(1 432 875)**	**(2 155 648)**
Basic earnings per share (in Euros)		(0.15)	(0.36)
Diluted earnings per share (in Euros)		(0.15)	(0.36)

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

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

NOVO BANCO, S.A.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED ON 31 DECEMBER 2018 AND 2017

(in thousand of Euros)

	Notes	31.12.2018	31.12.2017 *
Net profit / (loss) for the period		**(1 432 875)**	**(2 155 648)**
Other comprehensive income / (loss) for the period			
Items that will not be reclassified to profit and loss			
Remeasurement of defined benefit plans	13	(69 951)	(23 715)
Taxes on remeasurement of defined benefit plans	a)	-	-
Variation in the credit risk of liabilities at fair value through other comprehensive income		1 202	-
Variation in impairment reserve of equity instruments at fair value through other comprehensive income		605	-
Reserve of sales of equity instruments at fair value through other comprehensive income		(3 557)	-
		(71 701)	(23 715)
Items that may be reclassified to profit and loss			
Foreign exchange differences	a)	(2 549)	2 883
Taxes on foreign exchange differences	a)	-	(15 572)
		(2 549)	(12 689)
Available-for-sale assets			
Potential gains and losses in the period	38	(10 995)	218 600
Gains and losses included in profit and loss for the period	38	(23 243)	(83 463)
Corporate income taxes	38	12 346	(43 119)
		(21 892)	92 018
Total other comprehensive income/(loss) for the period		**(96 142)**	**55 614**
Total comprehensive income/(loss) for the period		**(1 529 017)**	**(2 100 034)**

[a] See Statement of Changes in Equity

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

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

NOVO BANCO, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2018 AND 2017

(in thousand of Euros)

	Notes	31.12.2018	31.12.2017 *
Assets			
Cash and deposits with Central Banks	16	695 289	3 782 902
Deposits with banks	17	107 041	189 725
Securities held for trading	18	257 270	81
Derivatives held for trading	19	520 135	582 873
Loans and advances to banks	20	558 652	752 892
(of which: Operations with reverse repurchase agreements)	20	*9 774*	*21 463*
Loans and advances to customers	21	22 821 556	23 492 905
Securities Portfolio	22	12 819 652	10 906 260
Derivatives held for risk management purposes	23	149 860	171 085
Non-current assets held for sale	24	186 508	245 817
Other tangible assets	25	135 731	151 698
Intangible assets	26	4 781	7 860
Investments in associated companies	27	645 871	693 477
Current tax assets	34	3 209	4 445
Deferred tax assets	34	1 179 272	1 947 425
Other assets	28	3 745 772	3 547 696
Total Assets		**43 830 599**	**46 477 141**
Liabilities			
Deposits from Central Banks	29	6 410 461	6 410 123
Financial liabilities held for trading	19	493 403	560 646
Deposits from banks	30	2 708 678	2 887 106
(of which: Operations with reverse repurchase agreements)	*30*	*237 178*	*79 737*
Due to customers	31	28 439 075	30 067 747
(of which: Operations with reverse repurchase agreements)	*31*	-	*227 964*
Debt securities issued	32	477 787	617 861
Financial liabilities associated with reclassified assets	41	242 438	447 548
Derivatives held for risk management purposes	23	36 150	76 210
Non-current liabilities held for sale		-	3 673
Provisions	33	423 883	413 996
Current tax liabilities	34	9 112	10 776
Subordinated debt	35	414 903	-
Other liabilities	36	575 430	632 550
Total Liabilities		**40 231 320**	**42 128 236**
Equity			
Share capital	37	5 900 000	5 900 000
Reserves, Retained earnings and Other comprehensive income	38	(867 846)	604 553
Net profit / (loss) for the period		(1 432 875)	(2 155 648)
Total Equity		**3 599 279**	**4 348 905**
Total Liabilities and Equity		**43 830 599**	**46 477 141**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

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

NOVO BANCO, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED ON 31 DECEMBER 2018 AND 2017

(in thousand of Euros)

	Notes	Share capital	Reserves, Retained earnings and Other comprehensive income			Net profit / (loss) for the period	Total Equity
			Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total		
Balance as at 31 December 2016		**4 900 000**	**43 086**	**476 364**	**519 450**	**(744 744)**	**4 674 706**
Other comprehensive income							
Changes in fair value, net of tax	38	-	92 018	-	92 018	-	92 018
Remeasurement of defined benefit plans, net of tax	38	-	-	(23 715)	(23 715)	-	(23 715)
Foreign exchange differences, net of tax **(a)**		-	-	(12 689)	(12 689)	-	(12 689)
Net profit / (loss) for the period		-	-	-	-	(2 155 648)	(2 155 648)
Total comprehensive income for the period		**-**	**92 018**	**(36 404)**	**55 614**	**(2 155 648)**	**(2 100 034)**
Share capital increase		1 000 000	-	-	-	-	1 000 000
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(744 744)	(744 744)	744 744	-
Reserve of Contingent Capital Agreement *		-	-	791 695	791 695	-	791 695
Other movements		-	-	(17 462)	(17 462)	-	(17 462)
Balance as at 31 December 2017		**5 900 000**	**135 104**	**469 449**	**604 553**	**(2 155 648)**	**4 348 905**
Impact transition IFRS 9		-	(385 707)	16 048	(369 659)	-	(369 659)
Balance as at 1 January 2018		**5 900 000**	**(250 603)**	**485 497**	**234 894**	**(2 155 648)**	**3 979 246**
Other comprehensive income							
Changes in fair value, net of tax	38	-	(21 892)	-	(21 892)	-	(21 892)
Remeasurement of defined benefit plans, net of tax	38	-	-	(69 951)	(69 951)	-	(69 951)
Foreign exchange differences, net of tax **(a)**		-	-	(2 549)	(2 549)	-	(2 549)
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	-	1 202	1 202	-	1 202
Reserves of impairment of securities at fair value through other comprehensive income		-	-	605	605	-	605
Reserves of sales of securities at fair value through other comprehensive income		-	-	(3 557)	(3 557)	-	(3 557)
Net profit / (loss) for the period		-	-	-	-	(1 432 875)	(1 432 875)
Total comprehensive income for the period		**-**	**(21 892)**	**(74 250)**	**(96 142)**	**(1 432 875)**	**(1 529 017)**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	(2 155 648)	(2 155 648)	2 155 648	-
Reserve of Contingent Capital Agreement *		-	-	1 149 295	1 149 295	-	1 149 295
Other movements		-	-	(245)	(245)	-	(245)
Balance as at 31 December 2018		**5 900 000**	**(272 495)**	**(595 351)**	**(867 846)**	**(1 432 875)**	**3 599 279**

(a) Includes foreign currency conversion differences of hyperinflationary economies

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

NOVO BANCO, S.A.

CASH FLOW STATEMENT
FOR THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2018 AND 2017

(in thousand of Euros)

	Notes	31.12.2018	31.12.2017
Cash flows from operating activities			
Interest and similar income received		776 272	756 190
Interest expense and similar charges paid		(320 307)	(600 231)
Fees and commissions received		329 767	349 890
Fees and commissions paid		(50 841)	(67 088)
Recoveries on loans previously written off		41 971	34 924
Contributions for pension fund		(92 863)	(62 680)
Cash payments to employees and suppliers		(387 908)	(430 610)
		296 091	**(19 605)**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		4 742	(8 979)
Financial assets at fair value through profit or loss		(331 227)	(62 035)
Financial assets at fair value through profit or loss - mandatory		124 074	-
Financial assets at fair value through other comprehensive income		(11 840 500)	(18 954 565)
Sale of financial assets at fair value through other comprehensive income		9 800 707	18 039 451
Acquisition of financial assets at amortised cost		(7 083 849)	-
Sale of financial assets at amortised cost		6 961 728	-
Loans and advances to banks		198 083	571 420
Deposits from banks		(169 638)	(1 790 691)
Loans and advances to customers		(106 102)	996 631
Due to customers and other loans		(1 616 389)	2 603 723
Derivatives held for risk management purposes		13 121	48 088
Other operating assets and liabilities		(243 033)	152 560
Net cash from operating activities before corporate income tax		**(3 992 192)**	**1 575 998**
Corporate income taxes paid		(30 262)	(40 179)
Net cash from operating activities		**(4 022 454)**	**1 535 819**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies	1	-	(22 477)
Sale of investments in subsidiaries and associated companies	1	-	29 205
Dividends received		17 864	23 550
Acquisition of tangible fixed assets		(14 543)	(5 463)
Sale of tangible fixed assets		315	2 349
Acquisition of intangible assets		(5 202)	(8 766)
Sale of intangible assets		-	52
Net cash from investing activities		**(1 566)**	**18 450**
Cash flows from financing activities			
Share capital increase		-	1 000 000
Contingent Capital Mechanism		791 695	-
Issue of bonds and other debt securities		-	50 000
Reimbursement of bonds and other debt securities		(74 768)	(221 888)
Issue of subordinated debt		141 200	-
Net cash from financing activities		**858 127**	**828 112**
Net changes in cash and cash equivalents		**(3 165 893)**	**2 382 381**
Cash and cash equivalents at the beginning of the period		**3 710 092**	**1 327 710**
Net changes in cash and cash equivalents		(3 165 893)	2 382 382
Cash and cash equivalents at the end of the period		**544 199**	**3 710 092**
Cash and cash equivalents include:			
Cash	16	149 266	163 096
Deposits with Central Banks	16	546 023	3 619 806
(of which, Restricted balances)		(258 131)	(262 535)
Deposits with banks	17	107 041	189 725
Total		**544 199**	**3 710 092**

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

NOVO BANCO, S.A.

Notes to the Separate Financial Statements as at 31 December de 2018

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

NOTE 1 – ACTIVITY

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

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

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively. Thus, as at 31 December 2017, the share capital of NOVO BANCO amounted to Euro 5 900 million, represented by 9 799 999 997 nominative shares, with no nominal value.

Within the sale process, a Contingent Capital Agreement was created with the sale process, which in case its capital ratios decrease below the regulatory requirements defined for NOVO BANCO, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euro 3 890 million.

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

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon.

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

NOVO BANCO has a retail network comprising 383 branches in Portugal and abroad (31 December 2017: 454 branches), including branches in London, Spain, Cayman Islands and Luxembourg and 5 representative offices overseas (31 December 2017: 5 representative offices).

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 of the European Council and the Parliament and Notices 5/2015 of the Banco de Portugal, the separate financial statements from NOVO BANCO, S.A. (the Bank or NOVO BANCO) were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2018.

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 Standing Interpretations Committee (“SIC”).

The separate financial statements of NOVO BANCO are presented as at 31 December 2018. The accounting policies used by the Bank in their preparation are consistent with those used in the preparation of the financial statements as at 31 December 2017, except in what concerns with the new standards issued, the change in the accounting treatment of the triggering of the Contingent Capital Agreement and the change of the initial recognition of the liabilities related with the LME operation concluded in the last quarter of 2017. These changes are presented below.

Accounting Policies, Changes in Accounting Estimates and Errors

Changes in accounting policies – adoption of IFRS 9

New and amended standards

As described in Note 47, in the preparation of its separate financial statements as at 31 December 2018, the Bank adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory effect as from 1 January 2018. The accounting policies used by the Bank in preparing the separate financial statements, described in this note, were adopted accordingly.

The new standards with material impact at the time of their adoption for the first time are described below.

In these financial statements the Bank first applied IFRS 9 and IFRS 7, which are mandatory for periods beginning on or after 1 January 2018. The Bank has not early adopted any other standard or interpretation. The Bank also changed the accounting policy for the recognition of the Contingent Capital Agreement as from 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 is mandatory and replaces IAS 39 for periods beginning on or after 1 January 2018. The Bank has not restated comparative information for 2017, thus using a possibility provided for in IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018.

Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 47.

Changes to classification and measurement

To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (i) fair value through profit or loss; (ii) available for sale; (iii) held-to-maturity and (iv) amortised cost have been replaced by:

- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income;
- Financial assets at fair value through profit or loss;
- Financial assets at fair value through profit or loss - mandatory.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains and losses arising from the entity's own credit risk related to financial liabilities measured at fair value through profit or loss, which are presented in other comprehensive income with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from the host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed in relation to IAS 39. The Bank's accounting policy for embedded derivatives is described in Note 2.3.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward looking expected credit loss approach recommended in IFRS 9.

IFRS 9 requires the entity to record an allowance for expected credit losses on financial assets such as loans to customers, other debt instruments not held at fair value through profit or loss, loan commitments and financial guarantee contracts. The allowance should be recorded for an amount equivalent to expected credit losses within the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated in impaired credit, the allowance for losses is based on the change in the expected credit loss over the life of the asset.

The Bank's impairment methodology is described in Note 2.4.

The impact of the application of IFRS 9 as of 1 January 2018 is disclosed in Note 47.

IFRS 7

The Bank adopted IFRS 7 Financial Instruments: Disclosures, which was amended to reflect the changes between IFRS 9 and IAS 39.

Changes include transition disclosures as shown in Note 46, qualitative and quantitative information about the expected credit losses, such as the main estimates and assumptions considered by the management in the transition.

Other changes – Contingent Capital Agreement and LME

Contingent Capital Agreement

The Bank changed the accounting treatment of the triggering of the Contingent Capital Agreement, that in 2018 which was accounted for in Other Reserves and Retained earnings in 2018 exercise, considering that this option is the one that currently best reflects the substance of said agreement. In 2017, this amount was recorded as a result of the year. As such, for the purpose of preparing the financial statements as at 31

December 2018, the comparative information with reference to 31 December 2017 has been restated to reflect this change, in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8). As a result, the separate balance sheet as at 31 December 2017 and the separate statement of changes in equity for the year ended 31 December 2017 presented for comparison purposes have been restated in accordance with IAS 8. This change did not cause any change in the separate statement of cash flows.

Change in the initial recognition of certain liabilities related to the LME Operation

With reference to 31 December 2017, the Bank changed the recognition of certain liabilities resulting from the debt exchange operation (performed in the last quarter of 2017), in order to reflect its fair value at the time of the initial recognition of these liabilities.

The impacts on the Bank's Balance Sheet and Income Statement as at 31 December 2017, resulting from the change in the accounting treatment of the triggering of the Contingent Capital Agreement and the change of the initial recognition of the liabilities related with the LME operation are presented as follows:

in thousands of euros

Balance Sheet	Notes	Balance as at 31.12.2017	Contingent Capital Agreement	Liabilities related with LME	Balance as at 31.12.2017 restated
Liabilities					
Due to customers	31	29 961 813	-	105 934	30 067 747
Other liabilities	36	627 577	-	4 973	632 550
Equity					
Other reserves and retained earnings	38	(187 142)	791 695	-	604 553
Net income attributable to the shareholders of the Bank		(1 253 046)	(791 695)	(110 907)	(2 155 648)

in thousands of euros

Income Statement	Notes	Balance as at 31.12.2017	Contingent Capital Agreement	Liabilities related with LME	Balance as at 31.12.2017 restated
Interest and similar charges	4	(511 788)	-	9 094	(502 694)
Other operating income and expenses	11	933 109	(791 695)	(120 001)	21 413

The remaining accounting policies used by the Bank in the preparation of these separate financial statements are consistent with those used in the preparation of the financial statements as at 31 December 2017.

The accounting standards and interpretations recently issued, but not yet effective and which the Bank has not yet applied in the preparation of its financial statements, can be analyzed in Note 48.

The separate financial statements are expressed in thousands of Euro, rounded to the nearest thousand. They have been prepared under the assumption of continuity of operations from the accounting records and following 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, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

Changes in accounting estimates

The preparation of financial statements in accordance with IFRS requires the Bank to make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences when compared to the reality may impact the current estimates and judgements. The areas involving a higher level of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements are analyzed in Note 3.

The separate financial statements and the Management Report of 31 December 2018 were approved at the Executive Board of Directors' meeting held on 27 March 2019, and will be submitted for approval in the Annual Assembly which has the power to modify them. However, it is the conviction of the Executive Board of Directors that these will be approved without significant modifications.

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 Euro 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 Euro 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 financial assets at fair value through other comprehensive income, which are recorded in equity reserves.

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

2.3. Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 28 and 36) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) Hedging instruments and hedged items are eligible for the hedge relationship;

(ii) 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;

(iii) There is an economic relationship between the hedged item and the hedging instrument;

(iv) The effect of credit risk does not dominate the changes in value that result from this economic relationship;

(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

The use of derivatives is framed in the Bank's risk management strategy and objectives.

- 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. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognised in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Bank may adjust the hedging operation in order to meet the eligibility (rebalancing) criteria.

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), 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 2018 and 2017, the Bank had no hedging operations classified as cash flow hedges.

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 2.4.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:
a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
b) a separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and
c) The hybrid contract is not measured at fair value and changes in fair value are recognised in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

These embedded derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

2.4. Other financial assets: placements with credit institutions, customer loans and securities

From 1 January 2018, the Bank initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - *solely payments of principal and interest*) on the principal amount outstanding;
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognised in equity;
- Measured at fair value through mandatory results: all cases not within the scope of SPPI.
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets were acquired with the objective of being traded in the short term, they are classified as held for trading.

Until 1 January 2018, the Bank classified its financial assets as financial assets at amortised cost, at fair value through profit or loss, available for sale and held to maturity.

In accordance with its documented strategy for risk management, the Bank contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without, however, resorting to hedge accounting as described in Note 2.3. In these situations, the initial recognition of the loan is made through its measurement at fair value through profit or loss. In this manner, measurement consistency is achieved between the loans and the derivatives for risk management purposes (accounting mismatch).

Initial recognition and measurement and derecognition

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

Financial assets are derecognised when (i) the Bank's contractual rights to its cash flows have expired, (ii) the Bank has transferred substantially all the risks and rewards associated with its holding, or (iii) retained part, but not substantially all the risks and rewards associated with their detention, control over the assets has been transferred. When a financial asset measured at fair value through OCI is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. In the specific case of equity instruments, the cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss and is transferred between equity captions.

Deposits and loans and advances to banks and loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterparty. Acquisitions and disposals of securities are recognised on the trade date, that is, on the date on which the Bank undertakes to acquire or dispose of the asset.

Financial assets at amortised cost or at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

(i) The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

(ii) The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Bank determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Bank's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Bank determines whether it is part of an existing business model or if it reflects a new business model. The Bank reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IAS 17 - Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently measured at fair value with changes in the fair value recognised in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognised in reserves are reclassified to profit or losses. In the specific case of equity instruments, the cumulative gains/ (losses) previously recognised in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognised in profit or loss.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest, calculated at the effective interest rate, and dividends are recognised in profit or loss.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss present the following characteristics:

- contractual cash flows are not SPPI (fair value through mandatory results); and/or,
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or,

- it is designated at fair value through profit or loss as a result of applying the *fair value option*.

These assets are measured at fair value and the respective revaluation gains or losses are recognised in the income statement.

The fair value of listed financial assets is based on bid-prices, the bid price of the last transaction or on the bid known. In the absence of a price an active market, the Bank estimates fair value using (i) valuation techniques, including the use of recent similar arm's length transactions, discounted cash flow techniques and option pricing models customized to reflect the specificities and circumstances of the instrument and (ii) valuation assumptions based on market information.

Reclassifications

If the Bank changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment

The Bank records impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Documentary credits;
- Irrevocable documentary credits;
- Loan commitments;
- Money market exposures;
- Securities portfolio.

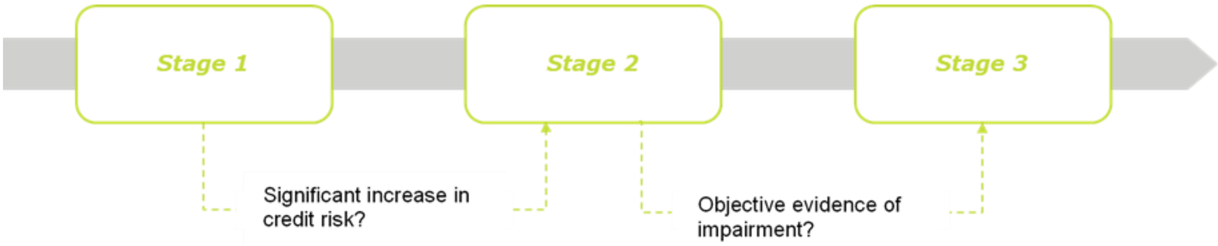
Debt instruments at amortised cost or at fair value through equity are in the scope of the impairment calculation.

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 impairment losses decreases.

The impairment calculation approach distinguishes between the 12 months' expected credit losses - *Stage 1* - and the lifetime expected credit losses. To determine expected lifetime losses, the approach considers the projection of contractual cash flows - *Stage 2* - or the present value of the expected recoveries - *Stage 3*. Thus, the model of impairment calculation by *Stage* is summarized as follows:

- expected credit loss resulting from a potential loss event occurring within the next 12 months after the calculation date (*Stage 1*); or
- expected credit loss, resulting from all potential loss events expected over the lifetime, applied to the projection of contractual cash flows (*Stage 2*); or
- expected credit loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure [2] (*Stage 3*).

Therefore, for the determination of impairment, the classification by Stage for all exposures according to their level of credit risk, as summarized in the figure below, is made beforehand:



- <u>*Stage* 3</u>

  The process of assigning Stage to an exposure starts by checking if the *Stage 3* criteria applies. If the exposure is classified as Default - according to the current internal definition[3] - this exposure is classified as *Stage 3*.

  Thus, the classification of exposures in *Stage 3* is based on the occurrence of a default event, with objective evidence of loss occurring at the time from which a significant change occurs in the creditor-debtor relationship, being the creditor exposed to a monetary loss.

- <u>*Stage* 2</u>

  Exposures are classified as *Stage 2* whenever there is a significant increase in credit risk. If there is no objective evidence of loss associated with the exposure, criteria are analysed to determine whether exposure has significantly increased its credit risk.

  The significant increase in credit risk is assessed through qualitative and quantitative evidence. Once it is verified that - at least - one of these triggers is active, the exposure is classified in *Stage 2.*

[2] Parameters used to determine recoveries vary, essentially depending on the risk profile / nature of the exposure.
[3] The internal definition of Default is aligned with article 178 of CRD IV, providing criteria of material past due for more than 90 days and for unlikely to pay.

As explained in IFRS 9, the assessment of the significant increase in credit risk also involves comparing the current risk level of an exposure against the level of risk at origination.

The Bank assigns an internal credit risk grade to the exposure / borrower, depending on its quality and associated with the probability of default. In assessing whether the exposure credit risk has increased significantly since initial recognition, the Bank compares, at the reporting date, the lifetime probability of default with the probability of default at origination of the exposure. Depending on whether the observed variation falls above a defined threshold - relative and / or absolute - the exposure is classified in *Stage 2*.

In addition to this event, the Bank considers other events, that if verified imply the classification in *Stage 2* (e.g.: material default for more than 30 days, risk events in the financial system, internal credit risk grade above a certain threshold, among others).

- *Stage* 1

  The classification of exposures in *Stage 1* depends on:

  (i) absence of active events that qualify for *Stage 3* and *Stage 2, which were* mentioned and described above; or,

  (ii) the framing of these exposures under the low-credit risk exemption. These exposures, if not in *Stage 3*, are automatically classified in *Stage 1*.

The Bank assesses collective and individual impairment, for the basis of incidence through an initial classification of the respective credit risk level - Stage 1, 2 or 3 in the collective assessment model and going concern or gone concern approach in the individual analysis model.

If for a particular loan there is no objective evidence of impairment in an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio), and assessed collectively through the application of estimated risk factors for exposure segment - collective assessment of impairment. If an impairment loss is identified on an individual basis, the amount of the impairment loss determined prevails over the collective impairment.

Individual assessment is carried out for the following exposures:

- All borrowers classified as defaulted (stage 3), or classified in stage 2 and with no internal grade assigned, with exposure above Euro 1 million;
- All borrowers classified in stage 2, with exposure above Euro 5 million;

- All borrowers classified in stage 1 and with no internal grade assigned, with credit exposure above Euro 5 million;
- All real estate entities and financial holdings with credit exposure above Euro 5 million;
- All other low-risk borrowers (stage 1) with exposure above Euro 25 million;
- Additionally, the following borrowers are selected for individual analysis:
  - identified by the Committee based on other justified criteria (e.g.: sector of activity);
  - exposures that in the past were subject to an individual impairment recognition;
  - exposures that based on new events which may impact the impairment calculation, might be elected for analysis by one of the Impairment Committee members or by another body/committee.

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. For each of these homogeneous risk groups, risk factors are estimated and then applied for impairment assessment purposes.

Scenarios

As required by IFRS 9, the impairment assessment should reflect different expectations of macroeconomic developments, i.e., it should incorporate multiple scenarios. In order to incorporate the effects of future macroeconomic behavior on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios must consider the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Bank (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Bank uses in internal and / or regulatory planning exercises. As a result, the Bank has developed macroeconomic regressions for the main credit portfolios, through which risk parameters are projected, taking into account the macroeconomic variables (GDP growth, unemployment rate, inflation, interest rate, price variation of real estate, among other variables) assumed for a given time horizon of projection. These models are subject to regular statistical monitoring and have been used in the Bank for several years. Thus, we understand that there is a significant Use Test, which, together with the statistical robustness evidenced by the tests performed and the obvious advantage of using a methodology consistent with the Bank's practice in other processes, was the basis for our option.

- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

The macroeconomic scenarios and projections available also have a probability of occurrence. So when reviewing / updating the scenarios – at least once a year – the respective probabilities of execution are also reviewed. Once updated the scenarios, the values of the risk parameters are also updated for subsequent consideration on impairment calculation. The final impairment assessment will result from the addition of the impairment in each scenario weighted by the respective probability of execution.

It is still relevant to mention the existence of specific portfolios where the internal credit risk grades incorporate, by its attribution process, *forward-looking* information. We refer to the commonly referred known Low Default Portfolios for which the attribution of an internal credit risk grade is based on a medium and long-term perspective and incorporating all the forward-looking information available.

Therefore, for this universe of portfolios the incorporation of the forward-looking information is guaranteed.

Write-offs

Write-off is defined as the derecognition of a financial asset from the Bank's balance sheet, which should only occur when cumulatively:

(i) The total amount of the credit has been demanded, that is, the credit must be fully recognized as overdue credit. Exemptions from this requirement are extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial/ extra-judicial decision;

(ii) All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered) and additional efforts to recover the asset will not be considered economically viable.

(iii) The credit recovery expectations are very low, leading to an extreme scenario of total impairment. This rule is only applicable for contracts without real estate collateral and if the whole contract is classified as overdue. In all other cases, it is necessary to ensure that the amount to be written off is fully impaired (at least in the month prior to the month of the write-off);

(iv) A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered;

(v) If it is considered more beneficial to sell the credit to a third party. At the time of sale, the difference between the sale amount and the balance sheet amount must be fully impaired, and at the time of sale the credit will be derecognized in exchange of the funds/assets received.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries.

2.5. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.4. 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.

2.6. 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:

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Bank's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

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

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

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognised in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Bank accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognises of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognised in the income statement.

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

2.7. Financial and performance guarantees

Financial guarantees

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

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

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

Performance guarantees

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

2.8. 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.

2.9. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of the NOVO BANCO, as well as in the event of default, bankruptcy or insolvency of the Bank or the counterpart.

2.10. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

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

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the “Regime Geral das Instituições de Crédito e Sociedades Financeiras” (RGICSF), banks are prevented, unless authorised by Banco de Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Bank changed the classification of this real estate properties from Non-current assets held for sale to Other assets, due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognised at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. Unrealised losses on these assets, so determined, are recorded in the income statement.

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

(i) Market Method

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

(ii) Income Method

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

(iii) Cost Method

This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analyzed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

2.11. Other tangible assets

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

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

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

	Number of years
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
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 its recoverable amount to be estimated and an impairment loss 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 lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

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

2.12. 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.

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

2.13. Leases

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

Operating leases

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

Finance leases

- As lessee

Finance lease contracts are recorded at the inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value.

Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.14. Employee benefits

Pensions

Pursuant to the signature of the Collective Labor Agreement ("Acordo Colectivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 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, for most of the Bank companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans of the Bank are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semiannually, in 31 December and 30 June of each year, 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 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 Bank recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Bank assesses the recoverability of any excess in a fund regarding he 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, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Until 1 February 2017, the Bank's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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

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

Long-term service bonus and Career bonus

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

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

The long-term service bonuses were accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits. The Bank’s liability with these long-term service bonuses were periodically estimated by the Bank using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Bank paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

Under the new ACT, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Bank, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

The amount of the Bank's 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 under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans

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

- Obligations with holidays, holiday subsidy and Christmas subsidy

In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment.

In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.15. Corporate Income tax

NOVO BANCO is subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC code).

Corporate income tax comprises current tax and deferred tax. Corporate income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised under deferred tax reserves (other comprehensive income). Corporate income tax recognised directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognised in the income statement when the gains or losses giving rise to said income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognised in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

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

Deferred tax liabilities are recognised for all taxable timing differences except for goodwill, non-deductible for tax purposes, differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit, and that do not result from a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

Taxable income or tax loss reported by the Bank may be corrected by the Portuguese Tax Authorities within a period of four years, except when any deduction was made or a tax credit was used, in which case this period corresponds to the period during which this right may be exercised (5 or 12 years in the case of tax losses, depending on the financial year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in interpretation of tax legislation, will not have a material effect on the financial statements.

The Bank, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

2.16. Provisions and Contingent liabilities

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

Provisions related to legal cases opposing the Bank to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors.

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

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

A provision for onerous contracts 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.

2.17. 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 financial assets at fair value through other comprehensive income, 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 and similar income includes interest from financial assets for which were recognised impairment. The interest from financial assets classified as *Stage 3* are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as *Stage 3*, the interest is calculated based on the gross book value.

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.

2.18. 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.

2.19. Recognition of dividend income

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

2.20. Report by Segment

In accordance with the paragraph 4 of IFRS 8 – Operational Segments, the Bank is waived to present the report by segment on an individual basis, since the separated financial statements are presented together with the consolidated financial statements.

2.21. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.22. 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 months 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.

2.23. Provision of insurance or reinsurance mediation services

NOVO BANCO is an entity authorized by the Instituto de Seguros de Portugal for the practice of insurance mediation activity in the category of Mediator of Linked Insurance, in accordance with Article 8, a), i), of Decree-Law no. 144/2006, of July 31, developing the activity of insurance intermediation through sale of life and non-life insurance contracts. As remuneration for the rendered services of insurance mediation, the Bank receives commissions that are defined in agreements / protocols established between the Bank and the Insurers.

The commissions received by the services of insurance mediation cover the following modalities:

- Commissions that include a fixed and variable component. The fixed component is calculated by applying a predetermined rate on the value of the subscriptions made through the Bank and the variable component is calculated monthly according to pre-established criteria, with the total annual commission equal to the sum of the commissions calculated monthly;
- The other variable commissions, which are calculated and paid annually by insurer in the beginning of the following year.

The commissions received by the insurance mediation services are recognized in accordance with the principle of accruals accrual, so that commissions paid at a different time than the period to which they relate are registered as an amount receivable under Other Assets.

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

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying 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 financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognised impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes.
- Significant increase on the credit risk: as mentioned on the Note 2.4 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from *stage 1* to *stage 2* with the purpose of determining the respective impairment is made based on the significant increase of its credit risk, though IFRS 9 does not objectively define what constitutes a significant increase on credit risk.
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by NOVO BANCO and which result in performing judgements when assessing the high probability that the borrower does not fulfill its obligations within the conditions agreed with NOVO BANCO.
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Bank monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics.
- Models and assumptions: the Bank uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

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

Fair value is based on listed market prices when available; otherwise fair value is determined based on 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, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Bank uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

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 42 and 43.

3.3. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognised in the period and evidenced in Note 34.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.4. 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 the NOVO BANCO for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan. The sensitivity analysis of the above assumptions is presented in Note 13.

Changes in these assumptions could materially affect the amounts determined.

3.5. Provisions

The Bank recognises provisions intended to cover for losses arising from commercial offers approved by the Executive Board of Directors of the Bank, when these are not opposed by Banco de Portugal. The amount of the provisions reflects 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 (i) due to variations in the assumptions used (ii) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (iii) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 33.

3.6. Foreclosed properties and non-current assets held for sale

Foreclosed properties and non-current assets held for sale are measured at the lower of net book value and fair value less selling costs.

The fair value of these assets is determined based on valuations carried out by independent entities specializing in this type of service, using the market, income or cost methods defined in Note 2.10. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties in order to maintain the valuation parameters and processes aligned with the market evolution.

The use of alternative methodologies and different assumptions could result in a different level of fair value with an impact on the respective balance sheet amount recognised.

NOTE 4 – NET INTEREST INCOME

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018			31.12.2017 *		
	From assets / liabilities at amortized cost and fair value through other comprehensive income	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortized cost and fair value through other comprehensive income	From assets / liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances	571 840	38 711	610 551	617 444	24 073	641 517
Interest from financial assets at fair value through profit or loss	13 919	-	13 919	75	-	75
Interest from deposits with and loans and advances to banks	28 974	-	28 974	36 351	-	36 351
Interest from securities	96 358	-	96 358	91 680	-	91 680
Interest from derivatives held for risk management purposes	-	10 363	10 363	-	19 739	19 739
Other interest and similar income	2 468	-	2 468	3 585	-	3 585
	713 559	**49 074**	**762 633**	**749 135**	**43 812**	**792 947**
Interest expense and similar charges						
Interest on debt securities	44 620	-	44 620	201 233	128	201 361
Interest on amounts due to customers	191 127	-	191 127	208 862	1 895	210 757
Interest on deposits from Central Banks and other banks	37 902	6 734	44 636	43 434	11 197	54 631
Interest on subordinated liabilities	16 742		16 742	-		-
Interest on derivatives held for risk management purposes	-	14 753	14 753	-	25 404	25 404
Other interest and similar charges	4 514	-	4 514	10 541	-	10 541
	294 905	**21 487**	**316 392**	**464 070**	**38 624**	**502 694**
	418 654	**27 587**	**446 241**	**285 065**	**5 188**	**290 253**

*Data as at 31 December 2017 restated in order to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The interest from deposits and loans and advances to banks, on amounts due to customers and on deposits from Central Banks and other banks include, as at 31 December 2018, respectively, the amounts of Euro 756 thousand, Euro 576 thousand and Euro 1 850 thousand of operations with repurchase agreements (31 December 2017: Euro 523 thousand of interest from loans and advances to banks, Euro 3 555 thousand of interest on amounts due to customers and Euro 5 842 thousand of interest on deposits from Central Banks and other banks).

The Interest income and Interest expenses captions relating to interest from derivatives held for risk management purposes include, 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 2.3 and 2.6.

NOTE 5 – INCOME FROM EQUITY INSTRUMENTS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Dividends from subsidiaries and associates	9 366	18 495
Dividendos from securities portfolio	8 498	5 055
	17 864	**23 550**

During 2018, Euro 17 864 thousand were recorded in Income from equity instruments which includes Euro 2 765 thousand of dividends from Unicre, Euro 2 712 thousand of dividends from BEST, Euro 3 027 thousand of dividends from Explorer III (FIQ), Euro 1 727 thousand of dividends from Locarent, Euro 1 422 thousand of dividends from GNB Seguros, Euro 1 514 thousand from Euronext and Euro 1 251 thousand from Haitong FCR (31 December 2017: Euro 23 550 thousand, which includes Euro 10 500 thousand of dividends from GNB Gestão de Ativos, Euro 3 396 thousand of dividends from Unicre, Euro 2 471 thousand of dividends from BEST and Euro 2 128 thousand of dividends from GNB Seguros).

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Fee and commission income		
From banking services	223 130	231 447
From guarantees provided	52 529	64 569
From transactions of securities	5 327	4 665
From commitments to third parties	11 462	10 198
Other fee and commission income	36 753	38 414
	329 201	**349 293**
Fee and commission expense		
With banking services rendered by third parties	37 281	48 749
With guarantees received	1 567	2 914
With transactions of securities	5 698	5 264
Other fee and commission expenses	4 849	6 425
	49 395	**63 352**
	279 806	**285 941**

In 31 December 2017, the caption Fee and commission expense with guarantees received includes an amount of Euro 2.0 million, relating to fees with a guarantee from the Portuguese State for the issuing of debt securities which were fully reimbursed in the beginning of 2017 exercise.

NOTE 7 – NET GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND NET GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - MANDATORY

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018			31.12.2017		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by the government and public entities	6 032	1 100	4 932	8	7	1
Issued by other entities	2	119	(117)	486	163	323
Shares	-	-	-	161	3	158
	6 034	**1 219**	**4 815**	**655**	**173**	**482**
Derivative financial instruments						
Foreign exchange rate contracts	36 542	36 947	(405)	39 128	43 009	(3 881)
Interest rate contracts	569 467	614 754	(45 287)	801 024	800 886	138
Equity / Index contracts	65 570	63 000	2 570	61 288	20 085	41 203
Credit default contracts	47 055	52 180	(5 125)	71 017	87 497	(16 480)
Other	15 850	1 695	14 155	7 020	55 542	(48 522)
	734 484	**768 576**	**(34 092)**	**979 477**	**1 007 019**	**(27 542)**
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	-	-	484	7 364	(6 880)
Shares	-	-	-	514	3	511
	-	**-**	**-**	**998**	**7 367**	**(6 369)**
Other financial assets [(1)]						
Loans and advances to customers	**20 406**	**59 538**	**(39 132)**	**8 867**	**41 476**	**(32 609)**
Financial liabilities [(1)]						
Deposit from banks	-	1 126	(1 126)	2 339	-	2 339
Due to customers	-	-	-	2 067	-	2 067
Debt securities issued	-	-	-	82	-	82
	-	**1 126**	**(1 126)**	**4 488**	**-**	**4 488**
Profit/ (loss) of assets and liabilities at a fair value through profit or loss	**760 924**	**830 459**	**(69 535)**	**994 485**	**1 056 035**	**(61 550)**
Other financial assets and liabilities at fair value through profit or loss - mandatory						
Bonds and other fixed income securities						
Issued by other entities	58 758	6 037	52 721	-	-	-
Shares	31 239	4 148	27 091	-	-	-
Other variable income securities	30 235	147 443	(117 208)	-	-	-
	120 232	**157 628**	**(37 396)**	**-**	**-**	**-**
Other financial assets [(1)]						
Loans and advances to banks	27 302	-	27 302	-	-	-
Profit/ (loss) of assets and liabilities at a fair value through profit or loss mandatory	**147 534**	**157 628**	**(10 094)**	**-**	**-**	**-**
	908 458	**988 087**	**(79 629)**	**994 485**	**1 056 035**	**(61 550)**

(1) Includes the fair value change of hedged assets / liabilities or at fair value option, as presented in Note 23

As at 31 December 2017, this caption includes a negative effect of Euro 63.7 million relating to the change in fair value of financial liabilities designated at fair value through profit or loss, attributable to the Bank's own credit risk. Since 1 January 2018, this component is reflected in changes in other comprehensive income.

In accordance with the accounting policies followed by the Bank, financial instruments are initially recorded 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 recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Bank's access to the wholesale market.

As at 31 December 2018, the gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign currency transactions, amounted to approximately Euro 6 914 thousand (31 December 2017: Euro 6 137 thousand).

NOTE 8 – NET GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT A FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018			31.12.2017		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	52 153	18 411	33 742	46 944	6 459	40 485
Issued by other entities	644	712	(68)	894	28	866
Shares	-	-	-	7 329	165	7 164
Other variable income securities	-	-	-	8 141	431	7 710
	52 797	**19 123**	**33 674**	**63 308**	**7 083**	**56 225**

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

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018			31.12.2017		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	935 986	893 227	42 759	1 031 745	1 001 296	30 449
	935 986	**893 227**	**42 759**	**1 031 745**	**1 001 296**	**30 449**

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 thousand of Euros)

	31.12.2018	31.12.2017
Loans and advances to customers	(213 076)	(35 123)
Real estate properties	15 880	1 123
Equipment	1 600	(376)
Financial shareholdings	263	85 580
Securities at amortised cost	4 220	-
Others	3 978	2 070
	(187 135)	**53 274**

The caption Net gains / (losses) from the sale of other assets – loans to customers includes a loss of Euro 202.8 million related to the results of the operation of the sale of loans and related assets, denominated Project *Nata*. The impact of this operation pertaining to securities sold, which were registered to at amortised cost, was of Euro -1.2 million.

As at 31 December 2017, the gain recorded in financial shareholdings includes the gain on the sale of 75% of NB Ásia.

NOTE 11 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017 *
Other operating income		
IT services	566	597
Gains / (losses) on recoveries of loans	41 971	34 924
Non-recurring advisory services	814	436
Gains on the acquisition of debt issued by the Group (see Note 32)	-	176 220
Other income	79 164	52 032
	122 515	**264 209**
Other operating expenses		
Losses on the acquisition of debt issued by the Group (see Note 32)	(69 405)	-
Direct and indirect taxes	(8 264)	(8 903)
Contributions to the Deposit Guarantee Fund	(43)	(19)
Contributions to the Resolution Fund	(10 803)	(7 673)
Contributions to the Single Resolution Fund	(20 621)	(19 602)
Banking levy	(26 800)	(30 256)
Membership subscriptions and donations	(1 290)	(1 868)
Charges of Supervisory entities	(2 360)	(1 670)
Contractual indemnities (SPE)	(4 844)	(3 307)
Other expenses	(19 540)	(169 498)
	(163 970)	**(242 796)**
Other operating income / (expenses)	**(41 455)**	**21 413**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

As at 31 December 2018 caption Other income includes the amount of Euro 46.7 million, received as part of the early repayment of a fixed rate financing agreement corresponding to the amount of the early settlement of the respective interest rate risk hedging agreement, having the loss been recorded under the caption Gains/ (Losses) on financial assets and liabilities at fair value through profit or loss.

As at 31 December 2017, the caption other expenses include the impact of the change of the initial recognition of liabilities related to operation LME realised in the last quarter of 2017.

NOTE 12 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Wages and salaries	178 231	185 819
Remuneration	177 713	184 368
Long-term service / Career bonuses (see Note 13)	518	1 451
Mandatory social charges	56 524	57 187
Costs with post-employment benefits (see Note 13)	734	1 919
Other costs	8 615	4 187
	244 104	**249 112**

The cost with remuneration and other benefits attributed to key management personnel of NOVO BANCO, is presented in Note 40.

The provisions and costs related to the restructuring process are presented in Note 33.

As at 31 December 2018 and 2017, the breakdown by professional category of the number of employees of the NOVO BANCO is as follows:

	31.12.2018	31.12.2017
Senior management functions	466	426
Middle management positions	489	592
Specific positions	1 997	2 163
Administrative and other functions	1 626	1 789
	4 578	**4 970**

NOTE 13 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labor Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the 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, having the Bank made (until 1 February 2017) annual contributions 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 Labor Agreement (ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

For employees hired until 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 who 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 2nd 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 considers 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 on the behalf of CAFEB, abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Banco de Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, is based on the recommendation of the ASF transmitted to Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, up to the present date, the formalization of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund, currently designated Fundo de Pensões NB.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans.

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

	31.12.2018		31.12.2017	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	2.10%	-1.57%	2.10%	9.04%
Discount rate	2.10%	-	2.10%	-
Pension increase rate	0.50%	0.06%	0.50%	-3.04%
Salary increase rate	0.75%	1.00%	0.75%	1.63%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-2 years		TV 88/90-2 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2018 and 2017 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:

	31.12.2018	31.12.2017
Employees	4 507	3 983
Pensioners and survivors	6 709	6 533
TOTAL	**11 216**	**10 516**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2018 and 2017 is presented as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 641 964)**	**(1 629 305)**
Pensioners	(1 122 761)	(1 043 483)
Employees	(519 203)	(585 822)
Coverage		
Fair value of plan assets	**1 615 249**	**1 614 543**
Net assets / (liabilities) in the balance sheet (See Notes 28 and 36)	**(26 715)**	**(14 762)**
Accumulated actuarial deviations recognized in other comprehensive income	477 370	407 419

According to the policy defined in Note 2.14. Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

As at 31 December 2018 and 2017, 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 ithousand of Euros)

Assumptions	Change in the amount of liabilities due to the change:			
	31.12.2018		31.12.2017	
	of +0,25% in the rate used	of -0,25% in the rate used	of +0,25% in the rate used	of -0,25% in the rate used
Discount rate	(60 769)	59 795	(61 308)	60 218
Salary increase rate	19 489	(23 828)	20 982	(24 784)
Pension increase rate	46 296	(46 124)	44 086	(43 927)
	of +1 years	of -1 years	of +1 years	of -1 years
Mortality table	(54 690)	51 631	(53 037)	49 193

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Retirement pension liabilities at the beginning of the period	**1 629 305**	**1 542 016**
Current service cost	550	381
Interest expense	33 126	32 350
Plan participants' contribution	2 639	2 732
Contributions from other entities	198	237
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	(427)	100 316
- Experience adjustments (gains) / losses	18 400	14 859
Pensions paid by the fund / transfers and once-off bonuses	(63 250)	(61 751)
Amount of the responsibilities transferred to defined contribution plans	-	(26 066)
Early retirement	28 688	30 047
Foreign exchange differences and other	(7 265)	(5 816)
Retirement pension liabilities at the end of the period	**1 641 964**	**1 629 305**

The evolution of the value of the pension funds during 2018 and 2017 can be analysed as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Fair value of fund assets at the beginning of the period	**1 614 543**	**1 523 694**
Net return from the fund	(21 037)	122 866
- Share of the net interest on the assets	31 138	31 861
- Return on assets excluding net interest	(52 175)	91 005
Bank contributions	92 863	62 680
Plan participants' contributions	2 639	2 732
Pensions paid by the fund	(63 250)	(61 751)
Amount of the assets transferred to defined contribution plans	-	(26 066)
Foreign exchange differences and other	(10 509)	(9 612)
Fair value of fund assets at the end of the period	**1 615 249**	**1 614 543**

The assets of the pension funds can be analysed as follows:

(in thousand of Euros)

	31.12.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	131 613	56 732	188 345	137 162	89 444	226 606
Debt instruments	859 101	-	859 101	843 652	-	843 652
Investment funds	214 115	50 953	265 068	194 009	52 983	246 992
Structured debt	9 183	9 518	18 701	9 868	-	9 868
Real estate properties	-	103 942	103 942	-	114 537	114 537
Cash and cash equivalents	-	180 092	180 092	-	172 888	172 888
Total	**1 214 012**	**401 237**	**1 615 249**	**1 184 691**	**429 852**	**1 614 543**

The assets of the pension funds used by the Group or representative of securities issued by the Bank's entities are detailed as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Real estate properties	58 083	63 405
Total	**58 083**	**63 405**

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**407 419**	**383 704**
Actuarial (gains) / losses in the period:		
- Changes in assumptions	(427)	100 316
- Experience adjustments (gains) / losses	70 575	(76 146)
Other	(197)	(455)
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**477 370**	**407 419**

The cost with retirement pensions and health-care benefits during 2018 and 2017, can be analysed as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Current service cost	550	381
Interest expense / (income)	1 988	2 723
Other	184	1 538
Cost with post-employment benefits	**2 722**	**4 642**

During 2018, the value of early retirements amounted to Euro 28.7 million (31 December 2017: Euro 30.0 million), which are related to the Bank's restructuring process, and as such, were recognised against the use of the restructuring provision (see Note 33).

The evolution of net assets/ (liabilities) on balance sheet may be analysed, during 2018 and 2017 as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
At the beginning of the period	**(14 762)**	**(18 322)**
Cost for period	(2 722)	(4 642)
Actuarial gains / (losses) recognized in other comprehensive income	(69 951)	(23 715)
Contributions made in the period	92 863	62 680
Other	(32 143)	(30 763)
At the end of the period	**(26 715)**	**(14 762)**

The summary of the liabilities and balance of the funds, as well as the experience gains and losses is analysed as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Retirement pension liabilities	(1 641 964)	(1 629 305)	(1 542 016)	(1 513 154)	(1 470 481)
Fair value of plan assets	1 615 249	1 614 543	1 523 694	1 481 484	1 410 335
(Under) / overfunding of liabilities	**(26 715)**	**(14 762)**	**(18 322)**	**(31 670)**	**(60 146)**
(Gains) / losses on experience adjustments in retirement pension liabilities	18 400	14 859	11 667	(2 835)	13 005
(Gains) / losses on experience adjustments in plan assets	52 175	(91 005)	42 118	16 161	118 921

The weighted average maturity of the liabilities of the defined benefit plans is approximately 16 years (31 December 2017: approximately 16 years). The table below presents the temporal breakdown of the estimated benefits payable:

(in thousand 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	58 458	59 222	181 355	1 849 694

Career bonuses

As at 31 December 2018, the liabilities assumed by the Bank amounted to Euro 6 376 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.14 – Employee benefits (31 December 2017: Euro 6 261 thousand) (see Note 36).

In the year 2018, the costs recognised with career bonuses were Euro 518 thousand (31 December 2017: Euro 1 451 thousand) (see Note 12).

NOTE 14 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousand of Euros)

	31.12.2018	31.12.2017
Rentals	28 649	31 699
Advertising	8 130	8 708
Communication	11 316	12 519
Maintenance and repairs	8 114	8 493
Travelling and representation	3 128	2 781
Transportation of valuables	4 048	4 010
Insurance	3 478	5 347
IT services	45 365	52 368
Independent work	4 418	7 757
Temporary work	1 429	1 770
Electronic payment systems	9 326	9 867
Legal costs	14 341	15 715
Consultancy and audit fees	17 620	17 410
Water, energy and fuel	4 901	5 491
Consumables	2 066	2 019
Cleaning	1 074	3 399
Safety and surveillance	1 392	1 511
Other costs	27 359	26 039
	196 154	**216 903**

The caption Rentals includes Euro 4 409 thousand (31 December 2017: Euro 4 973 thousand) related to costs with operating leases of vehicles, having the Bank the possibility to, at any moment, cancel future payments.

The caption Other costs includes, amongst others, training and costs with services rendered by Joint Ventures (Agrupamentos Complementares de Empresas (ACE)) in which NOVO BANCO has a stake.

The fees invoiced during financial year 2018 and 2017 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code, have the following breakdown:

(in thousand of Euros)

	31.12.2018	31.12.2017
Annual statutory audit	500	1 558
Other assurance services	497	1 016
Other services	-	86
Amount of total services billed	**997**	**2 660**

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 financial year.

(in thousands of euros)

	31.12.2018	31.12.2017 *
Net income attributable to the Bank's shareholders	**(1 432 875)**	**(2 155 648)**
Weighted average number of ordinary shares outstanding (thousands)	9 800 000	5 906 849
Earnings per basic share attributable to the Bank's shareholders (in Euros)	**(0.15)**	**(0.36)**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

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 there are no dilutive effects.

NOTE 16 – CASH AND DEPOSITS WITH CENTRAL BANKS

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Cash	149 266	163 096
Demand deposits with Central Banks		
Banco de Portugal	531 664	3 584 409
Other Central Banks	14 359	35 397
	546 023	3 619 806
	695 289	**3 782 902**

The caption Demand Deposits with Banco de Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 243.8 million (31 December 2017: Euro 224.1 million). According to the 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 2018, the average interest rate on these deposits was 0.00% (31 December 2017: 0.00%).

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 account with Banco de Portugal as at 31 December 2018 was included in the observation period running from 19 December 2018 to 29 January 2019.

NOTE 17 – DEPOSITS WITH OTHER BANKS

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of euros)

	31.12.2018	31.12.2017
Deposits in other credit institutions in the country		
Repayable on demand	7 495	9 775
Uncollected checks	59 055	67 170
	66 550	**76 945**
Deposits with banks abroad		
Repayable on demand	40 491	112 780
	107 041	**189 725**

The uncollected checks in Portugal and abroad were sent for collection during the first business days after the balance sheet dates.

NOTE 18 – SECURITIES HELD FOR TRADING

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of euros)

	31.12.2018	31.12.2017
Bonds and other fixed income securities		
Issued by Public Entities	257 269	-
Issued by Other Entities	1	2
Shares	-	79
	257 270	**81**

As at 31 December 2018 and 2017, the analysis of the securities held for trading, by maturity, is as follows:

(In thousands of euros)

	31.12.2018	31.12.2017
Up to 3 months	50 029	2
From 3 months to 1 year	2 007	-
From 1 to 5 years	157 434	-
More than 5 years	47 800	-
Undetermined	-	79
	257 270	**81**

In accordance with the accounting policy described in Note 2.4, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 42.

NOTE 19 – DERIVATIVES HELD FOR TRADING

As at 31 December 2018 and 2017, the breakdown of this caption is as follows:

(in thousands of euros)

	31.12.2018	31.12.2017
Derivative Financial Instruments with positive fair value	520 135	582 873
Derivative Financial Instruments with negative fair value	493 403	560 646

As at 31 December 2018 and 2017, derivative financial instruments are analysed as follows:

(in thousands of euros)

	31.12.2018			31.12.2017		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	517 448	4 920	6 297	507 855	3 840	4 779
- sell	517 243			507 865		
Currency Swaps						
- buy	1 743 604	2 586	991	1 422 121	1 715	690
- sell	1 747 500			1 429 390		
Currency Interest Rate Swaps						
- buy	23 417	21 036	21 029	24 507	21 657	21 886
- sell	23 413			24 508		
Currency Options						
- buy	256 052	5 235	5 279	394 388	6 783	7 041
- sell	156 257			399 717		
		33 777	**33 596**		**33 995**	**34 396**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 033 268	439 070	435 363	6 715 247	502 287	507 260
- sell	7 076 925			6 750 068		
Interest Rate Caps & Floors						
- buy	54 352	583	600	43 734	501	539
- sell	57 105			47 623		
Interest Rate Futures [a)]						
- sell	50 000	-	-	185 000	-	-
Interest Rate Options						
- buy	-	-	-	1 650 963	-	-
		439 653	**435 963**		**502 788**	**507 799**
Equity / Index contracts						
Equity / Index Swaps						
- buy	116 752	13 058	13 061	26 625	561	557
- sell	116 752			26 625		
Equity / Index Options						
- buy	1 018 950	33 638	10 666	957 486	45 514	17 781
- sell	1 130 016			1 083 744		
Equity / Index Futures [a)]						
- buy	1 330	-	-	12 968	-	-
- sell	-			-		
Future Options [a)]						
- buy	-	-	-	6	-	-
- sell	-			-		
		46 696	**23 727**		**46 075**	**18 338**
Credit default contracts						
Credit Default Swaps						
- buy	7 814	9	117	7 814	15	113
- sell	7 814			7 814		
		9	**117**		**15**	**113**
Total		**520 135**	**493 403**		**582 873**	**560 646**

(a) Derivatives traded on organized markets, whose market value is settled daily in results against the margin account (see Note 28)

The Bank calculates the Credit Valuation 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 recovery rate, 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 calculated exposure.

During 2018, the Bank recognised an income of Euro 13.9 million related with the CVA of derivative instruments (2017: loss of Euro 5.9 million).

As at 31 December 2018 and 2017, the analysis of the derivatives held for trading by maturity period is as follows:

(thousands of euros)

	31.12.2018			31.12.2017		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 651 657	2 603 006	(495)	2 079 219	2 258 547	(15 748)
3 months to 1 year	1 465 725	1 542 860	(4 321)	2 589 198	958 105	7 851
1 to 5 years	1 697 248	1 706 734	14 310	2 339 702	2 423 743	(12 237)
More than 5 years	4 958 357	5 030 425	17 238	4 755 595	4 821 959	42 361
	10 772 987	**10 883 025**	**26 732**	**11 763 714**	**10 462 354**	**22 227**

NOTE 20 – LOANS AND ADVANCES TO BANKS

As at 31 December 2018 and 2017, this caption is analysed as follows:

(in thousands of Euro)

	31.12.2018	31.12.2017
Loans and advances to banks in Portugal		
Deposits in other credit institutions	135 870	146 890
Loans	20 051	9 552
Very short-term deposits	64 517	-
Operations with reverse repurchase agreements	-	11 713
Other loans and advances	3	4
	220 441	**168 159**
Loans and advances to banks abroad		
Deposits with banks	28 075	72 584
Very short-term deposits	-	166
Loans	1 700	182 975
Operations with reverse repurchase agreements	9 774	9 750
Other loans and advances	374 332	390 415
	413 881	**655 890**
Overdue loans and advances	74	-
	634 396	**824 049**
Impairment losses	(75 744)	(71 157)
	558 652	**752 892**

All the loans and advances to banks are registered in the amortised cost portfolio.

The operations with repurchasing agreement, as at 31 December 2018 and 2017, relate entirely to operations with a maturity of up to 1 year.

As at 31 December 2018 and 2017, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of euros)

	31.12.2018	31.12.2017
Up to 3 months	132 820	70 437
3 months to 1 year	106 613	352 415
1 to 5 years	14 471	4 724
More than 5 years	380 418	396 473
Undetermined (overdue loans)	74	-
	634 396	**824 049**

The changes occurred in the impairment losses of loans and advances to banks are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2017				**71 157**
Impact of transition to IFRS 9				8 009
Balance as at 1 January 2018	**285**	**78 563**	**318**	**79 166**
Increases due to changes in credit risk	316	3 389	426	4 131
Decreases due to changes in credit risk	(727)	(10 183)	(119)	(11 029)
Uses	-	-	(13)	(13)
Other movements	303	3 374	(188)	3 489
Balance at the end of the period	**177**	**75 143**	**424**	**75 744**

(in thousands of euros)

	31.12.2017
Initial Balance	472 414
Uses	(341 496)
Transfers	(50 000)
Exchange and other differences	(9 761)
Final Balance	**71 157**

NOTE 21 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2018 e 2017, this caption is analysed as follows:

(thousands of euros)

	31.12.2018	31.12.2017
Domestic loans and advances		
Corporate		
Current account loans	1 415 825	1 477 498
Loans	8 438 929	8 842 693
Discounted bills	140 197	82 337
Factoring	865 656	857 995
Overdrafts	36 064	5 267
Finance leases	1 547 978	1 499 863
Other loans and advances	30 432	35 443
Individuals		
Mortgage loans	6 655 696	6 669 308
Consumer credit and other loans	975 335	873 490
	20 106 112	**20 343 894**
Foreign loans and advances		
Corporate		
Current account loans	395 474	339 713
Loans	1 355 859	1 938 271
Discounted bills	39 086	82 327
Factoring	101 980	105 199
Overdrafts	30 894	73 572
Finance leases	42 765	51 965
Other loans and advances	1	4 804
Individuals		
Mortgage loans	955 902	847 452
Consumer credit and other loans	336 203	331 506
	3 258 164	**3 774 809**
Overdue loans and advances and interest		
Up to 3 months	63 116	56 329
3 months to 1 year	353 848	364 576
1 to 3 years	1 212 896	2 188 967
More than 3 years	1 899 263	2 458 188
	3 529 123	**5 068 060**
	26 893 399	**29 186 763**
Impairment losses	**(4 071 843)**	**(5 693 858)**
	22 821 556	**23 492 905**

During 2018, a sale of a non-performing loans portfolio was carried out and the impact of this transaction on the balance sheet resulted in a reduction of Euro 496.6 million in loans and advances to customers (Euro 1 462.2 million of gross amount and Euro 965.6 million of impairment), and a loss of Euro 104.8 million was recognized on the income statement.

All the operations related to loans and advances to customers are registered in the amortised cost portfolio.

As at 31 December 2018 the caption Loans and advances to customers includes Euro 4 617.4 million in residential mortgage loans that collateralise the issue of covered bonds (31 December 2017: Euro 4 684.8 million) (see Note 32).

The caption Loans and advances to customers includes a positive fair value of Euro 31 571 thousand related to the fair value adjustment of interest rate hedges (31 December 2017: positive fair value of Euro 70 663 thousand) (see Note 23).

This caption includes, as at 31 December 2018, Euro 1 451 898 thousand of loans to clients hedged by risk management derivatives (31 December 2017: Euro 1 195 823 thousand).

As at 31 December 2018, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations totals Euro 28 222 thousand (31 December 2017: Euro 52 742 thousand).

As at 31 December 2018 and 2017, the analysis of loans and advances to banks, by residual maturity period is as follows:

(thousands of euros)

	31.12.2018	31.12.2017
Up to 3 months	2 401 060	2 772 627
3 months to 1 year	1 886 779	2 061 031
1 to 5 years	4 539 776	4 239 123
More than 5 years	14 536 661	15 045 922
Undetermined (overdue loans)	3 529 123	5 068 060
	26 893 399	**29 186 763**

The changes occurred during the 2018 in impairment for loans and advances to customers are presented as follows:

(thousands of euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2017				**5 693 858**
Impact of transition to IFRS 9				212 292
Balance as at 1 January 2018	**401 610**	**224 083**	**5 280 457**	**5 906 150**
Financial assets originated or acquired	2 359	-	-	2 359
Financial assets derecognised	(572)	(1 573)	(979 597)	(981 742)
Increases due to changes in credit risk	139 316	61 262	783 153	983 731
Decreases due to changes in credit risk	(128 370)	(64 948)	(495 341)	(688 659)
Uses	(94 287)	(2 189)	(1 008 607)	(1 105 083)
Other movements	74 063	(110 557)	(8 419)	(44 913)
Final Balance	**394 119**	**106 078**	**3 571 646**	**4 071 843**

(thousands of euros)

	31.12.2017
Balance at the beginning of the period	5 508 133
Appropriations / (reversals)	1 141 563
Utilisation	(1 097 974)
Transfers	50 000
Exchange and other differences	92 136
Balance at the end of the period	**5 693 858**

The increase of impairment for loans of Euro 1 141.6 million recorded in 2017 was mainly related to a series of events occurred during 2017 in some of the main economic groups to which the Bank was exposed and which led, through the normal application of the credit impairment policy described in Note 2.4., to an increase in impairment losses in that year as a result of the individual impairment analysis. To this increase has also contributed the main exposures to certain sectors or to certain economic groups that have a high concentration of their activity in geographies that continue to present macroeconomic difficulties.

Loans and advances to customers by interest rate type are as follows:

(thousands of euros)

	31.12.2018	31.12.2017
Fixed rate	3 151 631	3 032 876
Variable rate	23 741 768	26 153 887
	26 893 399	**29 186 763**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Gross investment in finance leases receivable		
Up to 1 year	275 621	271 967
1 to 5 years	819 974	784 883
More than 5 years	720 998	738 420
	1 816 593	1 795 270
Unrealized finance income in finance leases		
Up to 1 year	37 344	39 237
1 to 5 years	97 615	104 945
More than 5 years	46 048	57 577
	181 007	201 759
Present value of minimum lease payments receivable		
Up to 1 year	238 277	232 730
1 to 5 years	722 359	679 938
More than 5 years	674 870	680 843
	1 635 506	1 593 511
Impairment	(289 405)	(259 388)
	1 346 101	**1 334 123**

NOTE 22 – SECURITIES PORTFOLIO

This caption as at 31 December 2018 and 2017 is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Fair value through profit/ loss	-	3 973
Fair value through profit/ loss - mandatory	2 949 597	-
Fair value through other comprehensive income	7 567 290	10 902 287
Amortized cost	2 302 765	-
Total portfolio of securities	**12 819 652**	**10 906 260**

The detail of the securities portfolio is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Securities at fair value through other comprehensive income		
Other securities with variable income	-	3 973
	-	**3 973**
Securities at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	329 948	-
Shares	673 299	-
Other securities with variable income	1 946 350	-
	2 949 597	**-**
Securities at fair value through profit or loss - mandatory		
Bonds and other fixed income securities		
From public issuers	6 537 547	5 889 738
From other issuers	951 085	2 214 696
Shares	78 655	736 313
Other securities with variable income	3	2 061 540
	7 567 290	**10 902 287**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	503 123	-
From other issuers	1 991 967	-
Impairment	(192 325)	-
	2 302 765	**-**
	12 819 652	**10 906 260**

The shares owned by the Bank in Restructuring Funds are registered according to the accounting policy described in Note 2.4, based to the net book value published by their respective management companies. The Group is currently developing an internal model to value the assets owned by these Funds as to substantiate the net book value disclosed by the management companies.

As at 31 December 2018 and 2017, the detail of the securities at fair value through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance Sheet Value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 483 327**	**56 067**	**(1 847)**	**6 537 547**	**(807)**
Residents	3 566 419	25 641	(612)	3 591 448	(381)
Non residents	2 916 908	30 426	(1 235)	2 946 099	(426)
From other issuers	**934 722**	**24 490**	**(8 127)**	**951 085**	**(397)**
Residents	28 613	20 600	(54)	49 159	(22)
Non residents	906 109	3 890	(8 073)	901 926	(375)
Shares	**429 667**	**13 969**	**(364 981)**	**78 655**	**-**
Residents	353 683	12 197	(304 500)	61 380	-
Non residents	75 984	1 772	(60 481)	17 275	-
Other securities with variable income	**2**	**1**	**-**	**3**	**-**
Residents	2	-	-	2	-
Non residents	-	1	-	1	-
Balance at 31 December 2018	**7 847 718**	**94 527**	**(374 955)**	**7 567 290**	**(1 204)**

[1] Acquisition cost with respect to shares and other equity instruments and amortized cost for debt securities, including accrued interest.

(in thousands of Euros)

	Cost [1]	Fair value reserve		Losses due to impairments	Balance Sheet Value
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**5 773 413**	**117 616**	**(1 291)**	**-**	**5 889 738**
Residents	3 668 112	109 304	(298)	-	3 777 118
Non residents	2 105 301	8 312	(993)	-	2 112 620
From other issuers	**2 433 793**	**61 937**	**(66 284)**	**(214 750)**	**2 214 696**
Residents	1 316 894	51 811	(52 163)	(197 130)	1 119 412
Non residents	1 116 899	10 126	(14 121)	(17 620)	1 095 284
Shares	**1 411 626**	**56 955**	**(19 094)**	**(713 174)**	**736 313**
Residents	669 243	16 662	(2)	(535 388)	150 515
Non residents	742 383	40 293	(19 092)	(177 786)	585 798
Other securities with variable income	**2 739 312**	**46 533**	**(651)**	**(723 654)**	**2 061 540**
Residents	2 673 797	43 615	(651)	(684 856)	2 031 905
Non residents	65 515	2 918	-	(38 798)	29 635
Balance as at 31 December 2017	**12 358 144**	**283 041**	**(87 320)**	**(1 651 578)**	**10 902 287**

[1] Acquisition cost with respect to shares and other equity instruments and amortized cost for debt securities, including accrued interest.

The changes occurred in impairment reserves in securities at fair value through other comprehensive income are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2017 *	**-**	**-**	**-**	**1 651 578**
Impact of transition to IFRS 9				(1 650 979)
Balance as at 1 January 2018	**599**	**-**	**-**	**599**
Increases due to changes in credit risk	9 024	23	12	9 059
Decreases due to changes in credit risk	(7 603)	(1)	(12)	(7 616)
Uses	(850)	-	-	(850)
Other movements	12	-	-	12
Balance at the end of the period	**1 182**	**22**	**-**	**1 204**

* corresponds to accumulated impairment losses on available-for-sale securities at December 31, 2017, booked in accordance with IAS 39.

(in thousands of Euros)

	31.12.2017 *
Balance at the beggining of the period	1 508 952
Appropriations	208 956
Utilisations	(48 125)
Reversals	(15 333)
Exchange and other differences	(2 872)
Balance at the end of the period	**1 651 578**

* corresponds to accumulated impairment losses on available-for-sale securities at December 31, 2017, booked in accordance w ith IAS 39.

During 2018, the Group sold Euro 9 208.3 thousand securities classified in financial instruments classified at fair value through other comprehensive income, with a gain of Euro 33.7 million. Out of the accumulated gain due to this derecognition, Euro -3.6 million, were transferred from revaluation reserves to reserves associated with sales and the remaining amount was recognised in the income statement of the year.

During 2018, the dividends received from equity instruments at a fair value through other comprehensive income amount to Euro 1 586 thousand.

The changes occurred in impairment losses on securities at amortised cost are presented as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2017	-	-	-	-
Impact of transition to IFRS 9				213 147
Balance as at 1 January 2018	**3 266**	**3 784**	**206 097**	**213 147**
Increases due to changes in credit risk	13 137	242 031	558	255 726
Decreases due to changes in credit risk	(10 576)	(235 057)	(918)	(246 551)
Uses	(1 857)	(2 105)	(74 665)	(78 627)
Other movements	-	48 630	-	48 630
Balance at the end of the period	**3 970**	**57 283**	**131 072**	**192 325**

As at 31 December 2018 and 2017, the securities portfolio, by maturity, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Securities at fair value through profit or loss		
Unlimited duration	-	3 973
	-	**3 973**
Securities at fair value through profit or loss - mandatory		
Up to 3 months	1	-
From 1 to 5 years	9 969	-
More than 5 years	319 979	-
Unlimited duration	2 619 648	-
	2 949 597	**-**
Securities at fair value through other comprehensive income		
Up to 3 months	153 776	790 681
From 3 months to 1 year	618 397	1 094 177
From 1 to 5 years	4 185 852	3 405 502
More than 5 years	2 530 607	2 814 074
Unlimited duration	78 658	2 797 853
	7 567 290	**10 902 287**
Securities at amortised cost		
Up to 3 months	734 468	-
From 3 months to 1 year	125 633	-
From 1 to 5 years	33 519	-
More than 5 years	1 601 470	-
	2 495 090	**-**
	13 011 977	**10 906 260**

(*) Gross value before impairments

The detail of the securities portfolio, by fair value hierarchy, is presented in Note 42.

The securities in the portfolio given as guarantee by the Group are analysed in the Note 39.

As at 31 December 2018, the exposure in this caption to the public debt of Eurozone "peripheral" countries are presented in the Note 43 – Risk Management.

NOTE 23 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2018 and 2017, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	1 720	148 140	149 860	546	170 539	171 085
Derivatives held for risk management purposes - liabilities	(36 150)	-	(36 150)	(76 210)	-	(76 210)
	(34 430)	**148 140**	**113 710**	**(75 664)**	**170 539**	**94 875**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to customers	31 571	-	31 571	70 663	-	70 663
	31 571	**-**	**31 571**	**70 663**	**-**	**70 663**
Financial liabilities						
Deposits from banks	-	12 608	12 608	-	16 757	16 757
	-	**12 608**	**12 608**	**-**	**16 757**	**16 757**
	31 571	**12 608**	**44 179**	**70 663**	**16 757**	**87 420**

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 assets and liabilities designated at fair value through profit or loss (and which were not designated as hedging derivatives).

Hedging derivatives – fair value

As at 31 December 2018 and 2017, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2018

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Change in fair value of derivative in period	Fair value component of item hedged (2)	Change in fair value component of item hedged in period (2)
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	2 611 421	(34 430)	42 591	31 571	(39 132)
			2 611 421	**(34 430)**	**42 591**	**31 571**	**(39 132)**

(1) Includes accrued interest
(2) Attributable to hedged risk

(in thousands of Euros)

31.12.2017

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Change in fair value of derivative in period	Fair value component of item hedged (2)	Change in fair value component of item hedged in period (2)
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	1 416 278	(75 664)	29 097	70 663	(32 609)
Interest Rate Swap	Deposits from banks	Interest rate	-	-	(2 379)	-	2 339
Interest Rate Swap	Debt securities issued	Interest rate	-	-	(95)	-	82
			1 416 278	**(75 664)**	**26 623**	**70 663**	**(30 188)**

(1) Includes accrued interest
(2) Attributable to hedged risk

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (see Note 7).

As at 31 December 2018, the ineffective portion of the fair value hedging operations resulted in a gain of Euro 3.5 million that was recognised in the income statement (31 December 2017: cost of Euro 3.6 million). The Bank 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 2.4 and 2.6 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)

31.12.2018								
		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	155 926	77 963	(25 815)	-	-	-	77 963
	Liabilities							
Interest Rate Swap	Deposits from banks	342 744	70 177	1 746	12 608	(1 126)	92 088	104 699
		498 670	**148 140**	**(24 085)**	**12 608**	**(1 126)**	**92 088**	**182 662**

(in thousands of Euros)

31.12.2017								
		Derivative			Associated financial asset / liability			
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying book value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	271 046	103 779	-	-	-	-	135 523
	Liabilities							
Interest Rate Swap	Deposits from banks	342 744	66 760	(46 105)	16 757	(52 469)	152 219	168 976
Interest Rate Swap	Due to customers	-	-	(1 628)	-	2 067	-	-
		613 790	**170 539**	**(47 733)**	**16 757**	**(50 402)**	**152 219**	**304 499**

As at 31 December 2018 and 2017, the credit default swaps associated with loans and advances to customers are part of synthetic securitization operations, as mentioned in Note 41.

As at 31 December 2018, the fair value of financial liabilities at fair value through profit or loss attributable to the credit risk of the Bank includes a positive cumulative effect of Euro 50.8 million (31 December 2017: Euro 77.5 million). During 2017, the Bank recognised in the income statement a negative effect of Euro 63.7 million related to changes in the fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's own credit risk (see Note 7). Since 1 January 2018, these changes started to be registered in equity, having a positive variation in reserves in the amount of Euro 1 202 thousand been recognized in the year (see Note 38).

As at 31 December 2018 and 2017, the analysis of derivatives held for risk management and hedging purposes, by maturity, may be analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	-	-	-	-	-	-
3 months to 1 year	25 000	25 000	(436)	45 000	45 000	(967)
1 to 5 years	646 002	646 002	(11 528)	229 688	229 688	(12 790)
More than 5 years	884 043	884 044	125 674	740 346	740 346	108 632
	1 555 045	**1 555 046**	**113 710**	**1 015 034**	**1 015 034**	**94 875**

NOTE 24 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This caption, as at 31 December 2018 and 2017, is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Non-current assets held for sale		
GNB Vida	620 472	620 472
BES Vénétie	-	55 070
Banco Well Link (previous NB Ásia)	4 013	4 785
Quinta dos Cónegos	-	4 893
Banco Delle Tre Venezie	8 926	8 926
NB Venezuela Branch	-	6 427
SCI Georges Mandel	-	2 401
Other	1 470	11 037
	634 881	**714 011**
Impairment losses		
GNB Vida	(445 472)	(420 472)
BES Vénétie	-	(32 787)
Quinta dos Cónegos	-	(3 452)
Banco Delle Tre Venezie	(2 901)	(2 901)
NB Venezuela Branch	-	(1 647)
Other	-	(6 935)
	(448 373)	**(468 194)**
	186 508	**245 817**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

In June 2018, NOVO BANCO Group entered into a purchase and sale agreement with the company Promontoria MMB SAS, a company based in France and a subsidiary of Cerberus Capital Management,L.P, in the share capital of Banque Espírito Santo et de la Vénétie, S.A. and directly related assets (including the investment in SCI George Mandel). The acquisition and sale of the participation took place on December 28, 2018 (date of closing of the operation), with the necessary authorizations from the Supervisory Entities.

During the year of 2017, the sale of 75% of the shareholding in NB Ásia (currently Banco Well Link) took place, with the recording of a capital gain of Euro 88.2 million (see Note 10).

The Bank implemented a plan aimed at the immediate sale of all non-current assets held for sale, continuing its efforts to meet the sales program established.

The movement of the non-current assets held for sale was as follow:

(in thousands of Euros)

	31.12.2018	**31.12.2017**
Balance at the beginning of the period	714 011	94 868
Transfers	(9 567)	638 226
Additions	-	1 468
Sales	(68 791)	(20 283)
Other	(772)	(268)
Balance at the end of the period	**634 881**	**714 011**

The movements occurring in impairment losses are presented as follows:

	31.12.2018	**31.12.2017**
Balance at the beginning of the period	468 194	10 428
Allocation / reversals for the period	23 354	252 654
Utilisation during the period	(36 292)	(91)
Transfers **(a)**	(6 883)	205 203
Balance at the end of the period	**448 373**	**468 194**

a) As at 31 December 2017, refers to the impairment of the shareholding in GNB Vida transferred from investments in subsidiaries and associated companies.

NOTE 25 – OTHER TANGIBLE ASSETS

This caption as at 31 December 2018 and 2017, is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Real estate properties		
For own use	202 410	219 524
Improvements in leasehold properties	137 254	148 917
	339 664	**368 441**
Equipment		
Computer equipment	104 095	104 755
Fixtures	64 078	68 270
Furniture	69 707	72 835
Security equipment	26 579	27 215
Office equipment	7 800	8 037
Transport equipment	586	697
Other	163	175
	273 008	**281 984**
Work in progress		
Improvements in leasehold properties	793	117
Real estate properties	160	405
Equipment	936	38
	1 889	**560**
	614 561	**650 985**
Accumulated depreciation	(468 221)	(488 165)
Impairment losses	(10 609)	(11 122)
	(478 830)	**(499 287)**
	135 731	**151 698**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Work in progress	Total
Acquisition cost				
Balance at 31 December 2016	**411 447**	**501 078**	**846**	**913 371**
Acquisitions	424	3 706	1 333	5 463
Disposals / write-offs	(17 855)	(220 056)	-	(237 911)
Reclassifications **(a)**	(20 532)	(886)	(1 619)	(23 037)
Foreign exchange differences and other	(5 043)	(1 858)	-	(6 901)
Balance at 31 December 2017	**368 441**	**281 984**	**560**	**650 985**
Acquisitions	172	11 569	2 802	14 543
Disposals / write-offs	(12 546)	(18 887)	-	(31 433)
Reclassifications **(b)**	(16 403)	(1 669)	(1 474)	(19 546)
Foreign exchange differences and other	-	11	1	12
Balance at 31 December 2018	**339 664**	**273 008**	**1 889**	**614 561**
Depreciations				
Balance at 31 December 2016	**250 327**	**463 361**	**-**	**713 688**
Amortizations	7 984	12 768	-	20 752
Disposals / write-offs	(17 659)	(218 930)	-	(236 589)
Reclassifications **(a)**	(7 900)	(1 563)	-	(9 463)
Foreign exchange differences and other	548	(771)	-	(223)
Balance at 31 December 2017	**233 300**	**254 865**	**-**	**488 165**
Amortizations	5 893	10 348	-	16 241
Disposals / write-offs	(12 546)	(18 625)	-	(31 171)
Reclassifications **(b)**	(4 077)	(1 690)	-	(5 767)
Other movements	424	329	-	753
Balance at 31 December 2018	**222 994**	**245 227**	**-**	**468 221**
Impairments				
Balance at 31 December 2016	**-**	**-**	**-**	**-**
Impairment losses	11 122	-	-	11 122
Balance at 31 December 2017	**11 122**	**-**	**-**	**11 122**
Transfers	(513)	-	-	(513)
Balance at 31 December 2018	**10 609**	**-**	**-**	**10 609**
Balance at 31 December 2018	**106 061**	**27 781**	**1 889**	**135 731**
Balance at 31 December 2017	**124 019**	**27 119**	**560**	**151 698**

(a) Includes Euros 20 448 thousand of fixed assets (real estate and equipment) and Euros 6 696 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items

(b) Includes Euros 10 053 thousand of fixed assets (real estate and equipment) and Euros 3 109 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items

NOTE 26 – INTANGIBLE ASSETS

This caption as at 31 December 2018 and 2017, is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Internally developed		
Software - Automatic data processing system	68 575	78 677
	68 575	**78 677**
Acquired from third parties		
Software - Automatic data processing system	360 612	387 085
	360 612	**387 085**
Work in progress	2 618	1 921
	431 805	**467 683**
Accumulated amortization	(427 024)	(459 823)
	4 781	**7 860**

The caption Intangible assets developed internally includes costs incurred by the Bank units specialised in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.12).

The changes in this caption were as follows:

(in thousands of Euros)

	Software	Work in progress	Total
Acquisition cost			
Balance at 31 December 2016	**721 843**	**6 798**	**728 641**
Acquisitions			
Internally developed	-	3 736	3 736
Acquired from third-parties	3 503	5 263	8 766
Write-offs / sales	(259 293)	-	(259 293)
Reclassifications **(a)**	2 582	(13 876)	(11 294)
Foreign exchange differences and other	(2 873)	-	(2 873)
Balance at 31 December 2017	**465 762**	**1 921**	**467 683**
Additions:			
Internally developed	-	1 446	1 446
Acquired from third-parties	1 457	3 745	5 202
Write-offs / sales	(37 829)	-	(37 829)
Reclassifications (b)	-	(4 494)	(4 494)
Foreign exchange differences and other	(203)	-	(203)
Balance at 31 December 2018	**429 187**	**2 618**	**431 805**
Amortizations			
Balance at 31 December 2016	**686 316**	**-**	**686 316**
Amortizations	35 534	-	35 534
Write-offs / sales	(259 241)	-	(259 241)
Foreign exchange differences and other	(2 786)	-	(2 786)
Balance at 31 December 2017	**459 823**	**-**	**459 823**
Amortizations	5 073	-	5 073
Write-offs / sales	(37 829)	-	(37 829)
Foreign exchange differences and other	(43)	-	(43)
Balance at 31 December 2018	**427 024**	**-**	**427 024**
Balance at 31 December 2018	**2 163**	**2 618**	**4 781**
Balance at 31 December 2017	**5 939**	**1 921**	**7 860**

(a) Includes Euro 11 294 thousand in discontinued investment projects that were imputed to costs
(b) Includes Euro 4 494 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)

	31.12.2018				31.12.2017			
	No. shares	Direct shareholding %	Nominal amount (Euros)	Shareholding cost	No. shares	Direct shareholding %	Nominal amount (Euros)	Shareholding cost
NB AÇORES	2 144 404	57.53%	5.00	10 308	2 144 404	57.53%	5.00	10 308
NB FINANCE	100 000	100.00%	1.00	1 700	100 000	100.00%	1.00	1 700
BEST	62 999 700	100.00%	1.00	100 418	62 999 700	100.00%	1.00	100 418
ES Plc	30 000	100.00%	5.00	38	30 000	100.00%	5.00	38
GNB SEGUROS	749 800	24.99%	5.00	3 749	749 800	24.99%	5.00	3 749
ES TECH VENTURES	71 500 000	100.00%	1.00	71 500	71 500 000	100.00%	1.00	71 500
GNB GA	2 350 000	100.00%	5.00	86 722	2 350 000	100.00%	5.00	86 722
GNB CONCESSÕES	942 306	98.97%	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%	0.22	12	49 995	99.99%	0.25	14
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
BES GMBH	1	100.00%	25 000.00	365 025	1	100.00%	25 000.00	365 025
NOVO BANCO SERVICIOS	2 676 665	100.00%	0.40	1 057	2 676 665	100.00%	0.40	1 057
NOVO VANGUARDA	500 000	100.00%	1.00	500	500 000	100.00%	1.00	500
NB ÁFRICA	13 300 000	100.00%	5.00	66 500	13 300 000	100.00%	5.00	66 500
UNICRE	350 029	17.50%	5.00	11 497	350 029	17.50%	5.00	11 497
IJAR LEASING ALGERIE	122 499	35.00%	72.66	12 362	122 499	35.00%	72.66	12 362
EDENRED PORTUGAL	101 477 601	50.00%	0.01	4 984	101 477 601	50.00%	0.01	4 984
MULTIPESSOAL	20 000	22.52%	5.00	100	20 000	22.52%	5.00	100
HERDADE DO PINHEIRINHO I	5 280 000	100.00%	1.00	5 280	5 280 000	100.00%	1.00	5 280
HERDADE DO PINHEIRINHO II	17 200 000	100.00%	1.00	17 197	17 200 000	100.00%	1.00	17 197
				792 152				**792 154**
Impairment losses				(146 281)				(98 677)
				645 871				**693 477**

During 2017 it was concluded the sale of 41.06% of shares and of supplementary capital contributions of Nanium for the fixed amount of Euro 18 585 thousand, with a capital gain of Euro 103 thousand being recognized. The shareholding in Praça do Marquês was also disposed of during financial year 2017, with a capital gain of Euro 23 thousand having been recognised. The company Oblog was liquidated during the year 2017.

The movement occurring in impairment losses is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	98 677	261 753
Allocation / reversals for the period	47 605	44 146
Utilization during the period	-	(2 020)
Transfers (1)	-	(205 203)
Other	(1)	1
Balance at the end of the period	**146 281**	**98 677**

(1) In 2017 refers to the impairment of GNB Vida, which was transfered together with the respective shareholding to Non-current assets held for sale (see Note 24)

NOTE 28 – OTHER ASSETS

As at 31 December 2018 and 2017, the balance Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Collateral deposits placed	680 685	642 533
Derivative products	*468 442*	*373 862*
Collateral CLEARNET, VISA and EBA	*33 350*	*49 711*
Collaterals relating to letters of credit	-	-
Collateral deposits relating to reinsurance operations	*167 967*	*195 947*
Other collateral deposits	*10 926*	*23 013*
Recoverable government subsidies on mortgage loans	1 270	1 495
Public sector	304 746	278 227
Contigent Capital Agreement	1 149 295	791 695
Other debtors	889 214	712 361
Income receivable	21 362	18 383
Deferred costs	61 454	68 621
Retirement pensions and health-care benefits (see Note 13)	-	3 333
Precious metals, numismatics, medal collection and other liquid assets	9 339	9 328
Real estate properties a)	974 179	1 284 259
Equipment a)	22 157	22 277
Stock exchange transactions pending settlement	2 010	50 269
Other transactions pending settlement	20 321	19 281
Other assets	163 687	172 819
	4 299 719	**4 074 881**
Impairment losses		
Real estate properties a)	(313 195)	(318 733)
Equipment a)	(19 479)	(13 470)
Other debtors - Shareholder loans, supplementary capital contributions	(118 662)	(129 122)
Other	(102 611)	(65 860)
	(553 947)	**(527 185)**
	3 745 772	**3 547 696**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

The caption Other debtors includes, amongst others:

- Euro 112.8 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2017: Euro 112.9 million, entirely provisioned);
- Euro 50 million, as at 31 December 2017 related to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, SA, and
- Euro 392.4 million in relation to the sale operation of non-performing loans (Project NATA), which will be liquidated during the first semester of 2019.

As at 31 December 2018, the caption Deferred costs includes the amount of Euro 46 826 thousand (31 December 2017: Euro 47 414 thousand) related to the difference between the nominal amount of the loans and advances granted to Bank employees under the Collective Labor Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. 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 through the recovery of loans and advances and to discontinued facilities, for which the Bank maintains the objective of immediate sale.

The Bank implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; (iv) the regular sponsorship of auctions; and (v) the organization of marketing actions near the major emigration centers. Despite its intention to sell these assets, the Bank regularly requests the Banco de Portugal's authorization, under article 114 of RGICSF, to extend the period the Bank has to hold foreclosed assets.

Stock exchange transactions pending settlement refer to transactions of securities, recorded at the trade date and pending settlement, in accordance with the accounting policy described in Note 2.4.

During 2018, the Bank celebrated a promissory purchase and sale agreement for the sale of a portfolio of real estate assets, designated Project *Viriato*, whose details can be found in Note 46.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	527 185	527 614
Allocation for the period	233 350	42 641
Utilisation during the period	(193 740)	(30 118)
Write-back for the period	(20 244)	(2 919)
Foreign exchange differences and other	7 396	(10 033)
Balance at the end of the period	**553 947**	**527 185**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	1 284 259	1 406 570
Additions	176 313	181 514
Sales	(486 393)	(303 389)
Other movements	-	(436)
Balance at the end of the period	**974 179**	**1 284 259**

As at 31 December 2018 and 2017, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2018				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	839	147 732	47 191	100 541	107 588
Rural	350	254 157	118 067	136 090	139 555
	1 189	401 889	165 258	236 631	247 143
Buildings under construction					
Commercial	3	115	14	101	127
Residential	3	756	110	646	844
Other	1	1 577	410	1 167	1 168
	7	2 448	534	1 914	2 139
Buildings constructed					
Commercial	621	110 645	34 723	75 922	92 124
Residential	2 842	284 049	53 389	230 660	253 213
Other	359	172 432	45 995	126 437	140 785
	3 822	567 126	134 107	433 019	486 122
Other (a)	**24**	**2 716**	**13 296**	**(10 580)**	**(9 473)**
	5 042	**974 179**	**313 195**	**660 984**	**725 931**

(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 2.10

(in thousands of Euros)

	31.12.2017				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	1 514	236 796	63 684	173 112	181 610
Rural	541	278 204	78 791	199 413	204 982
	2 055	515 000	142 475	372 525	386 592
Buildings under construction					
Commercial	11	825	147	678	1 305
Residential	29	1 879	569	1 310	1 370
Other	5	15 275	10 568	4 707	5 332
	45	17 979	11 284	6 695	8 007
Buildings constructed					
Commercial	1 365	204 473	45 541	158 932	172 855
Residential	3 528	360 016	53 327	306 689	323 304
Other	634	184 570	45 653	138 917	152 871
	5 527	749 059	144 521	604 538	649 030
Other (a)	**8**	**2 221**	**20 453**	**(18 232)**	**(17 198)**
	7 635	**1 284 259**	**318 733**	**965 526**	**1 026 431**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy 2.10

The detail of the real estate properties included in Other assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2018				
	Up to 1 year	**1 to 2.5 years**	**2.5 to 5 years**	**More than 5 years**	**Total net book value**
Land					
Urban	23 227	18 239	18 300	40 775	100 541
Rural	13 594	24 592	34 456	63 448	136 090
	36 821	42 831	52 756	104 223	236 631
Buildings under construction					
Commercial	-	-	98	3	101
Residential	-	53	109	484	646
Other	-	-	1 167	-	1 167
	-	53	1 374	487	1 914
Buildings constructed					
Commercial	5 471	20 809	20 227	29 415	75 922
Residential	42 732	76 130	54 846	56 952	230 660
Other	22 997	22 411	35 780	45 249	126 437
	71 200	119 350	110 853	131 616	433 019
Other [(a)]	**(10 515)**	**-**	**-**	**(65)**	**(10 580)**
	97 506	**162 234**	**164 983**	**236 261**	**660 984**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2017				
	Up to 1 year	**1 to 2.5 years**	**2.5 to 5 years**	**More than 5 years**	**Total net book value**
Land					
Urban	5 682	36 236	51 312	79 882	173 112
Rural	62 552	22 335	81 134	33 392	199 413
	68 234	58 571	132 446	113 274	372 525
Buildings under construction					
Commercial	-	162	451	65	678
Residential	239	-	615	456	1 310
Other	-	1 299	-	3 408	4 707
	239	1 461	1 066	3 929	6 695
Buildings constructed					
Commercial	16 717	41 286	48 906	52 023	158 932
Residential	48 701	85 357	88 984	83 647	306 689
Other	12 559	45 550	41 817	38 991	138 917
	77 977	172 193	179 707	174 661	604 538
Other [(a)]	**(18 537)**	**-**	**-**	**305**	**(18 232)**
	127 913	**232 225**	**313 219**	**292 169**	**965 526**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2018, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 22 355 thousand (31 December 2017: Euro 20 448 thousand), having the Bank recorded impairment losses for these assets in the total amount of Euro 9 433 thousand (31 December 2017: Euro 6 696 thousand).

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

The caption Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
From the European System of Central Banks		
Deposits	461	5
Other funds	6 410 000	6 410 000
	6 410 461	**6 410 005**
From other Central Banks		
Deposits	-	118
	-	**118**
	6 410 461	**6 410 123**

As at 31 December 2018, the caption Other funds from the European System of Central Banks includes Euro 6 410 million, covered by Bank financial assets pledged as collateral (31 December 2017: Euro 6 410 million) (see Note 39).

As at 31 December 2018 and 2017, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Up to 3 months	461	123
1 to 5 years	6 410 000	6 410 000
	6 410 461	**6 410 123**

Deposits from Central Banks are renewable after the maturity date.

NOTE 30 – DEPOSITS FROM BANKS

The caption Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Domestic		
Deposits	650 958	613 292
Very short-term funds	34 936	42 530
Other funds	6 946	9 806
	692 840	**665 628**
International		
Deposits	1 087 619	1 220 653
Loans	647 730	771 791
Very short-term funds	23 716	43 252
Repurchase agreements	237 178	79 737
Other funds	19 595	106 045
	2 015 838	**2 221 478**
	2 708 678	**2 887 106**

As at 31 December 2018, this caption includes deposits in the amount of Euro 92 088 thousand covered by risk management derivatives (31 December 2017: Euro 152 219 thousand) (see Note 42).

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 2.5.

As at 31 December 2018 and 2017, the analysis of the caption Deposits from banks, by maturity, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Up to 3 months	1 481 217	1 351 644
3 months to 1 year	435 075	579 138
1 to 5 years	263 540	312 540
More than 5 years	528 846	643 784
	2 708 678	**2 887 106**

The maturity period of the Repurchase Agreement Operations is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
International		
3 months to 1 year	237 178	79 737
	237 178	**79 737**

NOTE 31 – DUE TO CUSTOMERS

The caption Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2018	31.12.2017 *
Repayable on demand		
Demand deposits	10 942 957	8 747 780
Time deposits		
Time deposits	13 263 052	17 281 805
Other	196	303
	13 263 248	**17 282 108**
Savings accounts		
Pensioners	240 446	245 049
Other	3 654 637	3 283 774
	3 895 083	**3 528 823**
Other funds		
Repurchase agreements	-	227 964
Other	337 787	281 072
	337 787	**509 036**
	28 439 075	**30 067 747**

*Data as at 31 December 2017 restated in order to reflect the change in the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The balance of the Sales operations with repurchase agreements corresponds to the sale of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.5.

As at 31 December 2017, the sales of securities with repurchasing agreements, in the amount of Euro 228.0 million, matured within 3 months.

As at 31 December 2018 and 2017, the caption Due to customers, by maturity, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017 *
Repayable on demand	**10 942 957**	**8 747 780**
Term deposits		
Up to 3 months	7 614 228	8 356 122
3 months to 1 year	6 765 875	7 581 648
1 to 5 years	2 646 596	4 971 965
More than 5 years	469 419	410 232
	17 496 118	**21 319 967**
	28 439 075	**30 067 747**

*Data as at 31 December 2017 restated in order to reflect the change in the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

NOTE 32 – DEBT SECURITIES ISSUED

The caption Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2018	31.12.2017
Euro Medium Term Notes (EMTN)	477 787	617 861
	477 787	**617 861**

Under the Covered Bonds Program (*Programa de Emissão de Obrigações Hipotecárias*), which has a maximum amount of Euro 10 000 million, the Bank issued covered bonds which amount to Euro 4 200 million (31 December 2017: Euro 4 200 million). The main characteristics of the outstanding issues as at 31 December 2018 and 2017 are as follows:

31.12.2018

Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Market	Rating Moody's	Rating DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
	4 200 000	**-**							

31.12.2017

Description	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Market	Rating Moody's	Rating DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2018 a)	Quarterly	Euribor 3 Months + 0.25%	XDUB	Baa2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	XDUB	Baa2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	XDUB	Baa2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	Baa2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	Baa2	A
	4 200 000	**-**							

a) Date of the next call option

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Bank's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law no. 59/2006, and in Notices nos. 5, 6, 7 and 8 and Instruction 13, of Banco de Portugal.

As at 31 December 2018, the assets that collateralize these covered debt securities amount to Euro 4 617.4 million (31 December 2017: Euro 4 684.8 million) (see Note 21).

The changes occurred in debt securities issued, during 2018 and 2017, were as follows:

(in thousands of Euros)

	Balance at 31.12.2017	Issues	Redemptions	LME	Net purchases	Other movements [a]	Balance at 31.12.2018
Euro Medium Term Notes (EMTN)	617 861	-	-	(157 068)	(8 602)	25 596	477 787
	617 861	**-**	**-**	**(157 068)**	**(8 602)**	**25 596**	**477 787**

[a] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

(in thousands of Euros)

	Balance at 31.12.2016	Issues	Redemptions	LME	Net purchases	Other movements [a]	Balance at 31.12.2017
Euro Medium Term Notes (EMTN)	2 700 185	-	(25 000)	(2 044 793)	(83)	(12 448)	617 861
Certificates of deposit	-	-	-		-	-	-
Bonds	283 308	-	(283 000)	-	-	(308)	-
Covered bonds	42 010	50 000	(40 000)	-	(50 025)	(1 985)	-
	3 025 503	**50 000**	**(348 000)**	**(2 044 793)**	**(50 108)**	**(14 741)**	**617 861**

[a] Other movements include accrued interest, corrections for hedging operations, fair value adjustments and foreign exchange differences

Liability Management Exercise (LME) - 2018

On 29 June 2018, NOVO BANCO issued Euro 400 million of instruments of subordinated liabilities. This issuance was carried out jointly with tender and exchange offers addressed to holders of senior bonds of NOVO BANCO Group, having been prioritized the allocation of the new Tier 2 issuance to the investors participating in the exchange offer (65%), against the allocation to new investors (35%). The tender and exchange offers allowed the extinction of a balance sheet value of Euro 250.7 million of senior bonds (see Note 35).

Liability Management Exercise (LME) - 2017

The LME operation, completed on 4 October 2017, was one of the conditions precedent under the terms of the purchase and sale agreement for the sale of NOVO BANCO to Lone Star announced on 31 March 2017. The LME was a tender offer operation over several senior bonds issued by NOVO BANCO, in order to strengthen the Bank´s equity and took place between 25 July and 2 October 2017, with the financial settlement on 4 October. The operation involved 36 bond series with maturities between 2019 and 2052, with the overall nominal value of Euro 8.3 billion, corresponding to *circa* Euro 3 billion in accounting liabilities.

The completion of this operation involved the acquisition and reimbursement of bonds, representing 73% of their book value, with an immediate result of Euro 176.2 million. For the Bank´s clients who opted for the sale or who were reimbursed, term deposits with specific conditions were made available, therefore this operation had limited impact on cash flows.

In accordance with the accounting policy mentioned in the Note 2.6, in case of purchases of securities representatives of the Bank's liabilities, these securities are written off from liabilities and the difference between the purchase price and the respective book value is recognised in the income statement. Following the debt exchange operation addressed to holders of senior bonds of NOVO BANCO Group by subordinated liabilities (LME) and purchases made, the Bank recognised a net loss of Euro 69.4 million (see Note 11), from which Euro 68.5 million are related to operations of debt exchange by subordinated liabilities (see Note 35).

During the year 2017, with the purchases made and with the operation *Liability Management Exercise* (LME), the Bank recognised a total net gain of Euro 176.2 million, from which Euro 184.4 million from LME.

As at 31 December 2018 and 2017, the analysis of Debt securities issued, by maturity, is as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
More than 5 years	477 787	617 861
	477 787	**617 861**

The main characteristics of the debts securities, as at 31 December 2018 and 2017, are as follows:

(in thousands of Euros)

		31.12.2018					
Entity	**Description**	**Currency**	**Issue date**	**Carrying book value**	**Maturity**	**Interest rate**	**Market**
Euro Medium Term Notes							
NB (Luxembourg branch)	BES Luxembourg 3.5% 02/01/43	EUR	2013	41 225	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg 3.5% 23/01/43	EUR	2013	95 411	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg 3.5% 19/02/2043	EUR	2013	61 704	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg 3.5% 18/03/2043	EUR	2013	45 447	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC	EUR	2013	32 452	2048	Zero coupon	XLUX
NB (Luxembourg branch)	Banco Esp San Lux ZC 12/02/49	EUR	2014	40 223	2049	Zero coupon	XLUX
NB (Luxembourg branch)	Banco Esp San Lux ZC 19/02/49	EUR	2014	35 324	2049	Zero coupon	XLUX
NB (Luxembourg branch)	Banco Esp San Lux ZC 27/02/51	EUR	2014	30 550	2051	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 06/03/2051	EUR	2014	13 329	2051	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 03/04/48	EUR	2014	37 968	2048	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 09/04/52	EUR	2014	34 169	2052	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 16/04/46	EUR	2014	9 985	2046	Zero coupon	XLUX
				477 787			

(in thousands of Euros)

		31.12.2017					
Entity	**Description**	**Currency**	**Issue date**	**Carrying book value**	**Maturity**	**Interest rate**	**Market**
Euro Medium Term Notes							
NB (Luxembourg branch)	BES Luxembourg 3.5% 02/01/43	EUR	2013	55 581	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg 3.5% 23/01/43	EUR	2013	108 157	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg 3.5% 19/02/2043	EUR	2013	83 073	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg 3.5% 18/03/2043	EUR	2013	59 087	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC	EUR	2013	43 241	2048	Zero coupon	XLUX
NB (Luxembourg branch)	Banco Esp San Lux ZC 12/02/49	EUR	2014	51 424	2049	Zero coupon	XLUX
NB (Luxembourg branch)	Banco Esp San Lux ZC 19/02/49	EUR	2014	49 813	2049	Zero coupon	XLUX
NB (Luxembourg branch)	Banco Esp San Lux ZC 27/02/51	EUR	2014	32 327	2051	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 06/03/2051	EUR	2014	16 052	2051	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 03/04/48	EUR	2014	48 083	2048	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 09/04/52	EUR	2014	42 308	2052	Zero coupon	XLUX
NB (Luxembourg branch)	BES Luxembourg ZC 16/04/46	EUR	2014	28 715	2046	Zero coupon	XLUX
				617 861			

The Bank did not present any capital or interest defaults regarding debt issued during the 2018 and 2017.

NOTE 33 – PROVISIONS

As at 31 December 2018 and 2017, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provisions	Provision for guarantees and commitments	Commercial offers	Provision for anticipated repayment of liabilities	Other provisions	Total
Balance at 31 December 2016	**9 437**	**112 590**	**153 255**	**-**	**59 264**	**422 127**
Allocation / (restitution) for the period	133 731	35 138	300	-	19 683	188 852
Utilization during the period	(51 176)	-	(48 715)	-	(7 964)	(107 855)
Foreign exchange differences and other	-	(1 544)	260	-	(263)	(1 547)
Balance at 31 December 2017	**91 992**	**146 184**	**105 100**	**-**	**70 720**	**413 996**
Impact of the transition to IFRS 9	-	4 446	-	-	-	4 446
Balance at 1 January 2018	**91 992**	**150 630**	**105 100**	**-**	**70 720**	**418 442**
Allocation / (restitution) for the period	(21 086)	26 161	(2 222)	182 800	54 320	239 973
Utilization during the period	(61 125)	-	(29 902)	(143 935)	(12 022)	(246 984)
Foreign exchange differences and other	-	12 578	(99)	-	(27)	12 452
Balance at 31 December 2018	**9 781**	**189 369**	**72 877**	**38 865**	**112 991**	**423 883**

The changes in the caption Provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2017				**144 230**
Impact of the transition to IFRS 9				4 454
Balance at 1 January 2018	**14 131**	**7 905**	**126 648**	**148 684**
Increases through changes in credit risk	14 162	10 207	79 000	103 369
Decreases through changes in credit risk	(2 056)	(11 852)	(63 649)	(77 557)
Other movements	552	10 528	1 499	12 579
Balance at the end of the period	**26 789**	**16 788**	**143 498**	**187 075**

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 31 December 2017				**1 954**
Impact of the transition to IFRS 9				(8)
Balance at 1 January 2018	**1 380**	**566**	**-**	**1 946**
Increases through changes in credit risk	1 312	363	-	1 675
Decreases through changes in credit risk	(722)	(603)	(1)	(1 326)
Other movements	(100)	98	1	(1)
Balance at the end of the period	**1 870**	**424**	**-**	**2 294**

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 divestment in non-strategic assets and the reduction, in 2016, of Euro 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 Euro 94.5 million, to cover the facilities' closure costs and the employee downsizing. As at 31 December 2018 the provision booked in the balance sheet amounted to Euro 0.8 million, of which Euro 0.6 million was used and Euro 2.2 million were write down during 2018. The restructuring plan was executed during 2016, and in 31 December 2016 the employees reduction goal was met and the distribution network was reduced as well as the operational costs recorded a surpassing decrease.

The goals agreed with the European Commission for 30 June 2017, included a Euro 230 million reduction on recurring operational costs (excluding restructuring costs) when compared to 2015. This cost reduction is due to a re-sizing to 5 908 employees at the Group level and the distribution network to 475 branches. In IAS 37 scope, in 2017 a provision for this restructure was created, in the amount of Euro 52.0 million, making up for the costs of shutting down facilities and reducing headcount. This new phase of the restructuring plan was executed, and as at 30 June 2017, the goal of downsizing employees and the distribution network was met and the operational costs recorded a decrease bigger than the established goal. As at 31 December 2018 the balance of this provision amounted to Euro 2.3 million, and was intended to bear the costs still related with this restructuring process, having been used Euro 2.8 million of this provision and Euro 1.1 million reinstated during the year of 2018.

Under the sale process of NOVO BANCO, concluded in October 2017, additional commitments were made with the European Commission. As such, at the end of 2017 a restructuring provision was established in the amount of Euro 82.3 million in order to address the new objectives. This provision contemplates restructuring measures including the focus of the banking activity in Portugal and Spain and on the retail and corporate segments, the divestment of non-strategic assets, the reduction of the number of employees and the resizing of the distribution network. During 2018, approximately Euro 57.7 million of the established provision were used and Euro 17.9 million were reinstated, whereby as at 31 December 2018 the balance of Euro 6.7 million was intended to address the costs yet to be occurred related to this restructuring process.

Provisions for commercial offers, in the amount of Euro 72.9 million (31 December 2017: Euro 105.1 million), are intended to cover costs resulting from commercial offers approved by the Executive Board of Directors of NOVO BANCO, aimed at retail customers holding NOVO BANCO unsubordinated bonds. The Executive Board of Directors considers the amount of this provision to be adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by customers.

During 2018, the Group launched a program of early repayment of liabilities. In this regard, provisions of Euro 182.8 million were incorporated for the clients that adhered to this program, in return for a compensation for loss of capital revenue, from which were used approximately Euro 143.9 million still in 2018.

Other provisions amounting to Euro 113.0 million (31 December 2017: Euro 70.7 million) are intended to cover certain duly identified contingencies related to the Bank's activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of Euro 14.5 million (31 December 2017: Euro 10.0 million);
- The remaining amount, of Euro 98.5 million (31 December 2017: Euro 60.7 million), is intended to cover for losses in connection to the Bank's normal activities, such as, amongst others, fraud, theft and robbery, and ongoing legal lawsuits.

Contingent liabilities are disclosed in Note 39.

NOTE 34 – INCOME TAXES

NOVO BANCO, individually, is subject to tax in accordance with the Corporate Income Tax (IRC) Code. As a result, deferred taxes are recorded depending on the temporary differences between accounting and tax income relevant for IRC purposes, whenever such temporary differences are to be reverted in the future.

NOVO BANCO is also subject to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, to which it adhered, and to taxes, contribution and other levies foreseen in standalone legislation.

The current taxes correspond to the value determined of taxable income (if applicable) of the period, using the overall Corporate Income Tax (IRC) at the tax rate in force and autonomous taxations.

Corporate income taxes (current or deferred) are recognised in the income statement except when the underlying transactions or items to which they are related have been reflected under equity captions (e.g. revaluation of financial assets at a fair value through other comprehensive income). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

For the purpose of the deferred tax asset calculation as at 31 December 2018, and as occurred in the periods following 3 August 2014, the following aspects were considered:

- 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 applicable. 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 temporary differences arising from the assets and liabilities included in the transfer made under said deliberation were also transferred to NOVO BANCO;
- According to no. 2 of article 145-AU of the RGICSF and the deliberations of Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct tax losses declared by BES in respect of IRC were transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF, requesting the confirmation that the tax losses generated by BES and subject to carry forward could be transmitted to NOVO BANCO, which was deferred. As explained below, based on the assessment of the recoverability of the deferred 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 have not been recognized in the Balance Sheet;
- The Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:
    - The negative equity change arising from the accounting policy change 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 be fully deductible for 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 pensions and survival benefit liabilities vis-à-vis retirees and pensioners are not applicable to a specific financial year if in said period a tax loss is determined.

- In accordance with the previous paragraphs:
  - As at 31 December 2015, the deferred tax assets arising from the transfer of liabilities and from the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euro 25 022 thousand and Euro 159 188 thousand, respectively, are therefore recoverable over the minimum periods of 12 and 6 years, and are also eligible for the purpose of the conversion into tax credits foreseen in the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August.
  - Following the determination of a negative net income for the 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 from the transfer of the liabilities to the Social Security and from the accounting policy change regarding the recognition of actuarial gains and losses, were converted into tax credits, having the final amount of Euro 153 555 thousand been approved during the second half of 2017.
  - Following the establishment of a negative net income in 2016 and the approval of the annual accounts by the corporate bodies, the application of the Special Regime in 2017 once again led to the conversion of the deferred tax assets into a tax credit having the final amount of Euro 99 474 thousand been approved during the second half of 2018.
  - Following the establishment of a negative net income in 2017 and the approval of the annual accounts by the corporate bodies, the application of the Special Regime in 2018 once again led to the conversion of the deferred tax assets into a tax credit due to of the proportion of this net result in the value of shareholders' equity, estimated at Euro 152.5 million. This estimated amount may change due to the certification of the auditors and the Tax and Customs Authority itself, which is expected to take place in 2019.

- During the year of 2018, the regulatory decree n. º 13/2018, from 28 December was applied, maintaining the tax regime in place as at 31 December 2017, extending to 2018, the tax regime of impairment losses for credit risk applicable in 2017 and the preceding years. Therefore, it was applied, for tax effects, the framework resulting from Notice n.º 3/95 from the Banco de Portugal.

Deferred taxes are calculated based on the tax rates expected to be in force at the temporary differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Thus, at 31 December 2018 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Bank Levy (*Contribuição sobre o Sector Bancário*) was established, 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 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. As at 31 December 2018, NOVO BANCO recognised Banking Levy charges, subject to the Law no. 114/2019, of 29 December, as a cost in the amount of Euro 26 800 thousand (31 December 2017: Euro 30 256 thousand). The cost recognised as at 31 December 2018 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of 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 2018 and 2017 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Financial instruments	57 152	240 606	(30 702)	(105 281)	26 450	135 325
Loans and advances to customers	903 769	1 342 490	-	-	903 769	1 342 490
Other tangible assets	-	-	(8 552)	(8 735)	(8 552)	(8 735)
Investments in subsidiaries and associated companies	-	-	-	(1 058)	-	(1 058)
Provisions	81 583	70 492	-	-	81 583	70 492
Pensions	37 189	19 415	-	-	37 189	19 415
Long-term service bonuses	-	-	-	-	-	-
Other	803	580	-	(114)	803	466
Tax losses carried forward	138 030	389 030	-	-	138 030	389 030
Deferred tax asset / (liability)	**1 218 526**	**2 062 613**	**(39 254)**	**(115 188)**	**1 179 272**	**1 947 425**
Asset / liability set-off for deferred tax purposes	(39 254)	(115 188)	39 254	115 188	-	-
Net Deferred tax asset / (liability)	**1 179 272**	**1 947 425**	**-**	**-**	**1 179 272**	**1 947 425**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilization of the deductible temporary differences. The Bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverable deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

At 31 December 2018 and 2017, deferred tax assets related to tax liabilities were of Euro 138 030 thousand and Euro 389 030 thousand, respectively.

As referred in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognised based on the Group's expectation of their recoverability. The assessment of the recoverability of the deferred tax assets with reference to 31 December 2018 was made based on the business plan for the period 2018-2021, having the Bank, in 2018, proceeded to annul deferred tax assets generated from tax liabilities recognized in previous periods in the amount of Euro 251 million.

The reduction in the Bank´s capacity to recover the deferred tax assets generated from tax liabilities which was the reason for the abovementioned write down at the end of 2018, when compared to the amount estimated by the Executive Board of Directors at the end of 2017, is due, with the commitments between the Portuguese State and Directorate-General for Competition of the European Commission ("DGCOMP"), reviewed upon the partial sale of NOVO BANCO concluded by the end of October 2017 and formally announced to the Bank in December 2017, and due to a higher level of conservatism on the Portuguese macroeconomic projections for the medium and long term, bearing in mind the challenges and difficulties faced by NOVO BANCO, as well as the current expectations for the reference rates in the medium term.

The Plan incorporates also a greater focus on reducing non-performing assets, reflecting the requirements and commitments the bank faces in the regulatory framework of the European Union, something that also contribute to this less favorable evolution when compared with the previous plan.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- Growth of pre-tax income at a rate of 3.20% from 2022;
- Significantly unfavorable evolution of net interest income in relation to the projections presented in the previous Medium-term Plan (PMP), since the positive impact of the expected decrease in the cost of term deposits and the reduction in the Bank's cost of funding, are not sufficient to offset the significant reduction of the loan portfolio in the period from 2018 to 2021, compared to the growth shown in the previous PMP, as well as the effect of the reduction in the interest rate benchmarks, according to the current macroeconomic estimates;
- Reduction of operating costs, reflecting the favorable effect of the decreases in the number of employees and branches and, generally, of the simplification and increased process efficiency; and
- Increase in credit impairment in line with the evolution of the Bank's activity and based on the macroeconomic projections, especially bearing in mind the significant effort made in the last years in the provisioning of the loan portfolio.

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Balance at the beginning of the period	1 947 425	2 548 707
Recognized in Results for the period	(657 882)	(429 422)
Recognized in Fair value reserves	68 744	(43 119)
Recognized in Other reserves	-	(15 572)
Impact of the transition to IFRS 9	(48 570)	-
Conversion of Deferred taxes into Tax credits	(152 478)	(114 198)
Foreign exchange differences and other	22 033	1 029
Balance at the end of the period (Assets / (Liabilities))	**1 179 272**	**1 947 425**

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2018 and 2017 may be analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Assets		
Corporate tax recoverable	-	-
Other	3 209	4 445
	3 209	**4 445**
Liabilities		
Corporate tax payable	4 547	5 051
Other	4 565	5 725
	9 112	**10 776**

The current and deferred taxes recognised in the income statement and in reserves, in 2018 and 2017, had the following origins:

(in thousands of Euros)

	31.12.2018		31.12.2017	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Deferred taxes				
Financial Instruments	53 888	(68 744)	49 797	43 119
Loans and advances to customers	382 091	-	(143 234)	-
Other tangible assets	(183)	-	(5 780)	15 572
Investments in subsidiaries and associated companies	(1 058)	-	68	-
Provisions	(9 713)	-	15 769	-
Pensions	(17 773)	-	(6 073)	-
Other	(370)	-	(1 125)	-
Tax losses carried forward	251 000	-	520 000	-
Deferred taxes	**657 882**	**(68 744)**	**429 422**	**58 691**
Current taxes	**2 714**	**-**	**9 154**	**-**
Total tax recognized (income) / cost	**660 596**	**(68 744)**	**438 576**	**58 691**

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)

	31.12.2018		31.12.2017 *	
	%	Amount	%	Amount
Income before tax		**(772 277)**		**(1 717 072)**
Tax rate	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		**(162 178)**		**(360 585)**
Tax-exempt dividends	0.3	(2 106)	0.5	(4 083)
Impairment on investments in subsidiaries or associated companies not subject to participation exemption	-	-	(7.6)	62 274
Impairment on investments in subsidiaries or associated companies subject to participation exemption	(2.5)	19 463	(7.1)	58 056
Non-deductible costs	-	-	(8.8)	71 730
Taxes of Bank Branches and tax withheld abroad	(0.7)	5 580	(0.9)	7 709
Rate differential on the generation / reversal of timing differences	(4.2)	32 364	4.3	(35 060)
Annulment of tax losses carried forward	(32.5)	251 000	(63.8)	520 000
Change in the rate of IRC	-	-	12.8	(104 531)
Impairments and provisions for credit	(32.9)	254 374	12.8	57 244
Profit/Loss in units with a more favorable tax regime	(3.2)	24 935	(1.7)	13 933
Impairments for securities	(3.2)	24 491		(4 122)
Provisions for other risks, charges and contigencies	0.6	(4 849)		(18 608)
Other	(28.2)	217 522	1.3	174 619
Total tax recognized	**(85.5)**	**660 596**	**(25.5)**	**438 576**

* Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

NOTE 35 – SUBORDINATED DEBT

The caption Subordinated debt is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Bonds	414 903	-
	414 903	**-**

The main characteristics of the caption Subordinated debt, as at 31 December 2018, are presented as follows:

(in thousands of euros)

		31.12.2018						
Issuer	**Designation**	**Currency**	**Issue date**	**Issue amount**	**Carrying book value**	**Interest rate**	**Maturity**	**Market**
NOVO BANCO	NB 06/07/2028	EUR	2018	400 000	414 903	Fixed rate	2023 a)	XDUB
				400 000	**414 903**			

a) Date of the next *call option*

On 29 June 2018, NOVO BANCO issued Euro 400 million of instruments of subordinated liabilities. This issuance was carried out jointly with tender and debt exchange offers addressed to holders of senior bonds of NOVO BANCO Group, having been prioritized the allocation of the new Tier 2 issuance to the investors participating in the exchange offer (65%), against the allocation to new investors (35%). The tender and exchange offers allowed the extinction of a balance sheet value of Euro 157.1 million of senior bonds (see Note 32).

NOTE 36 – OTHER LIABILITIES

As at 31 December 2018 and 2017, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017 *
Public sector	55 223	31 951
Security deposit accounts	81 509	101 091
Other creditors	245 981	228 497
Creditors for transactions with securities	4 928	10 005
Career bonuses (see Note 13)	6 376	6 261
Retirement pensions and health-care benefits (see Note 13)	26 715	18 095
Other accrued expenses	69 860	73 328
Deferred income	2 083	2 817
Foreign exchange transactions pending settlement	7 193	4 973
Stock exchange transactions pending settlement	961	25 999
Other transactions pending settlement	74 601	129 533
	575 430	**632 550**

*Data as at 31 December 2017 restated in order to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

Stock exchange transactions pending settlement refer to transactions of securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.4.

NOTE 37 – SHARE CAPITAL

In 2017, and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised. Thus, as at 31 December 2018 and 31 December 2017, the share capital of the Bank amounts to Euro 5 900 000 000, represented by 9 799 999 997 registered shares, with no nominal value, fully subscribed and realised by the following shareholders:

	Share Capital %	
	31.12.2018	31.12.2017
Nani Holdings, SGPS, SA	75.00%	75.00%
Fundo de Resolução [(1)]	25.00%	25.00%
	100.00%	**100.00%**

[(1)] Given the commitments made by the Portuguese Republic and the European Commisson, the Resolution Fund is inhibited from using its voting rights.

NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law no. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

Law no. 23/2016, of 19 August, changed the temporal scope of this Special Regime, establishing that it was not applicable to expenses and eligible negative changes in shareholders' equity accounted for in taxable periods beginning on or after 1 January 2016.

Hence, following the net loss reported for the 2015 financial year, the approval of the annual accounts by the corporate bodies and the application of said Special Regime on deferred tax assets, part of the eligible deferred tax assets resulting from the transfer of liabilities to Social Security and from the changes in the accounting policies on recognition of actuarial deviations, was converted to tax credit, where the final amount approved during the second semester of 2017 was of Euro 153 555 thousand, and received in December 2017. The application of the aforementioned Special Regime implied the simultaneous establishment of a special reserve amounting to Euro 168 911 thousand.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level.

A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that grant the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. The shareholders of NOVO BANCO have the unilateral right to acquire the conversion rights from the State.

As a result of the net losses reported in 2016, and the approval of the annual accounts by the corporate bodies, the application of the aforementioned Special Regime implied again in 2017, the conversion of the eligible deferred tax assets into a tax credit, having the final amount been certified by the Tax Authority during the second semester of 2018 in the amount of Euro 99 474 thousand and received in December 2018.

As a result of the net losses reported in 2017, and of the approval of the annual accounts by the corporate bodies, the application of the aforementioned Special Regime implied again in 2018, the conversion of the eligible deferred tax assets into a tax credit, proportionate to the ratio of that loss to total equity, estimated in Euro 152 478 thousand. These estimated amounts may change due to the certification of the auditors and the Tax Authority which will presumably occur in 2019.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015, 2016 and 2017 will confer a shareholding of up to approximately 6.5% of the share capital of NOVO BANCO.

NOTE 38 – OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

The Bank's reserves and retained earnings had the following breakdown as at 31 December 2018 and 2017:

(in thousands of Euros)

	31.12.2018	31.12.2017 *
Originating reserve	2 234 440	2 402 165
Special reserve	470 295	302 569
Other reserves and retained earnings	(3 300 086)	(2 235 285)
	(595 351)	**469 449**
Fair value reserves	(272 495)	135 104
	(867 846)	**604 553**

*Data as at 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Banco de Portugal to BES. The amount of the reserve includes the effects of Banco de Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Banco de Portugal.

Special reserve

As mentioned in Note 37, the special reserve was created as a result of the adherence of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve, following the determination of a net loss in years 2015, 2016 and 2017 and the approval of the respective annual accounts by the corporate bodies. The special reserve was set up for the same amount of the tax credit calculated, increased by 10%, against the originating reserve and it shall be incorporated in the share capital. The amounts of the originating reserve transferred to the special reserve are presented as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	133 658	133 658
2018 (net loss of 2017)	167 726	-
	470 295	**302 569**

Resulting from the credit tax certified by the Tax authority at the end of 2018, the amount of the Special Reserve booked during 2017 (referring to the negative results in 2016), will be adjusted throughout 2019, after correcting for the number of rights issued in favor of the Portuguese State.

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analysed as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total Fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total Fair value reserves
Balance at the beginning of the period	**195 915**	**(60 811)**	**135 104**	**60 778**	**(17 692)**	**43 086**
Impact of the transition to IFRS 9	(442 105)	56 398	(385 707)	-	-	-
Balance at 1 January 2018	**(246 190)**	**(4 413)**	**(250 603)**	**60 778**	**(17 692)**	**43 086**
Changes in fair value	6 985	-	6 985	262 470	-	262 470
Foreign exchange differences	(17 980)	-	(17 980)	-	-	-
Sales in the period	(23 243)	-	(23 243)	(83 463)	-	(83 463)
Impairment recognized in the period	-	-	-	(43 870)	-	(43 870)
Deferred taxes recognized in the period in reserves	-	12 346	12 346	-	(43 119)	(43 119)
Balance at the end of the period	**(280 428)**	**7 933**	**(272 495)**	**195 915**	**(60 811)**	**135 104**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2018
Amortised cost of financial assets at fair value through other comprehensive income	7 847 718
Market value of financial assets at fair value through other comprehensive income	7 567 290
Unrealised gains / (losses) recognised in fair value reserves	(280 428)
Deferred taxes	7 933
Fair value reserves attributable to shareholders of the Bank	**(272 495)**

(in thousands of Euros)	31.12.2017
Amortised cost of financial assets at fair value through other comprehensive income	12 358 144
Accumulated impairment recognised	(1 651 578)
Amortised cost of financial assets at fair value through equity, net of impairment	10 706 566
Market value of financial assets at fair value through other comprehensive income	10 902 287
Unrealised gains / (losses) recognised in fair value reserves	195 721
Fair value reserves of discontinued activities	194
Deferred taxes	(60 811)
	135 104

Other reserves and retained earnings

The changes occurred in Other Reserves and Retained Earnings were as follows:

(in thousands of Euros)

	Other comprehensive income, Other reserves and Retained earnings					Total Other reserves and Retained earnings
	Impairment reserves	Credito Risk reserves	Reserves of sales	Actuarial deviations (net of taxes)	Other reserves and Retained earnings	
Balance at 31 December 2016	**-**	**-**	**-**	**(380 771)**	**857 135**	**476 364**
Actuarial deviations	-	-	-	(23 715)	-	(23 715)
Appropriation of the Net profit / (loss) of the previous year to Retained earnings	-	-	-	-	(744 744)	(744 744)
Reserve of Contingent Capital Agreement *	-	-	-	-	791 695	791 695
Foreign exchange differences	-	-	-	-	(12 689)	(12 689)
Other	-	-	-	-	(17 462)	(17 462)
Balance at 31 December 2017 *	**-**	**-**	**-**	**(404 486)**	**873 935**	**469 449**
Impact of the transition to IFRS 9	599	-	-	-	15 449	16 048
Balance at 1 January 2018	**599**	**-**	**-**	**(404 486)**	**889 384**	**485 497**
Actuarial deviations	-	-	-	(69 951)	-	(69 951)
Appropriation of the Net profit / (loss) of the previous year to Retained earnings *	-	-	-	-	(2 155 648)	(2 155 648)
Reserve of Contingent Capital Agreement	-	-	-	-	1 149 295	1 149 295
Foreign exchange differences	-	-	-	-	(2 549)	(2 549)
Changes in the credit risk of financial liabilities at fair value, net of taxes	-	1 202	-	-	-	1 202
Reserves of impairment of securities at fair value through other comprehensive income	605	-	-	-	-	605
Reserves of sales of securities at fair value through other comprehensive income	-	-	(3 557)	-	-	(3 557)
Other	-	-	-	-	(245)	(245)
Balance at 31 December 2018	**1 204**	**1 202**	**(3 557)**	**(474 437)**	**(119 763)**	**(595 351)**

*Data as of 31 December 2017 restated in order to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold of up to a maximum of Euro 3 890 million (see Note 39 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31

December 2018 these assets had a net value of Euro 4 billion, mainly as a result of the recording of losses and the occurrence of receipts and recoveries (31 December 2017: net value of Euro 5.4 billion). In view of the losses presented by NOVO BANCO on 31 December 2017, the conditions determining the payment by Resolution Fund of Euro 791 695 thousand were verified and the payment occurred in May 2018. In 2018, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 1 149 295 thousand relating to the Contingent Capital Agreement. The amount is accounted for under Other reserves and it depends at each Balance Sheet date on the incurred losses and on the regulatory ratios in force at the moment of its determination.

The accumulated variation of the credit risk reserves of financial liabilities at fair value through profit or loss is, at 31 December 2018, negative in the amount of Euro 1 202 thousand.

NOTE 39 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2018 and 2017 are the following:

(in thousands of Euros)

	31.12.2018	31.12.2017
Contingent liabilities		
Guarantees and standby letters	3 361 309	3 817 601
Financial assets pledged as collateral	12 338 526	12 052 762
Open documentary credits	664 905	756 055
Other	-	2 747
	16 364 740	**16 629 165**
Commitments		
Revocable commitments	5 127 423	5 168 584
Irrevocable commitments	452 979	1 060 606
	5 580 402	**6 229 190**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As at 31 December 2018, 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 Euro 12.1 billion (31 December 2017: Euro 11.6 billion);

- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 7.7 million (31 December 2017: Euro 8.6 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 70.1 million (31 December 2017: Euro 70.1 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 155.4 million (31 December 2017: Euro 263.1 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Deposit and custodianship of securities and other items for customers	34 433 770	32 659 157
Assets received for subsequent collection on behalf of clients	296 996	242 986
Securitized loans under management (servicing)	3 791 918	3 658 444
Other responsibilities related to banking services	1 685 399	2 233 452
	40 208 083	**38 794 039**

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 the deliberation of Banco de Portugal of 11 August 2014, the "*Excluded Liabilities*" from the transfer to NOVO BANCO include "*any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (…)*".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include *"any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".*

On 29 December 2015, Banco de Portugal adopted a new deliberation for the "*Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of Banco de Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Banco de Portugal of 11 August 2014 (5 p.m.)*". Through this deliberation, Banco de Portugal:

(i) Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labor, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of no. 1 of Appendix 2 of the Deliberation of 3 August; and

(ii) Clarified that the following liabilities had not been transferred from BES to NOVO BANCO:

a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;
b. All liabilities, damages and expenses related to real estate assets that were transferred to NOVO BANCO;
c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 20h00 on 3 August 2014;
d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;
f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and
g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

(iii) To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to NOVO BANCO which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 20hours of 3 August 2014.

In the preparation of its separate financial statements as at 31 December 2018 (as well as in the previous financial statements), NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet items and assets under management of BES, as well as from the deliberation of 29 December 2015 of Banco de Portugal, in particular, with regards to the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by the deliberation of Banco de Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to neutralize, at the NOVO BANCO level, the effects of decisions that are legally binding, beyond the control of NOVO BANCO and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the perimeter of the transfer to NOVO BANCO as defined by Banco de Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Banco de Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Banco de Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely regarding the various disputes relating to the loan made by Oak Finance to BES and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Banco de Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO. These disputes include the two lawsuits of late January 2016, with the Supreme Court of Justice of Venezuela, Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and NOVO BANCO, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of 37 million dollars and 335 million dollars, respectively, and which requests the reimbursement of the amount invested, plus interest, compensation for the value of inflation and costs (at the date in a total approximate amount of 96 overall and 871 million dollars, respectively). In accordance with resolution measure, these responsibilities were not transferred to NOVO BANCO and is still pending before the Supreme Court of Venezuela the main actions and precautionary seizure procedures.

In the preparation of the separate and consolidated financial statements of the Bank as at 31 December 2018 and 31 December 2017, the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Banco de Portugal, in particular the decisions of 29 December 2015, especially the one regarding the clarification of the contingent liabilities. In this context, the present financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management transferred from BES to NOVO BANCO, as determined by Banco de Portugal and taking as reference the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Banco de Portugal, dated 29 December 2015, concerning the neutralisation, at the level of NOVO BANCO, of the effects of unfavorable decisions that are legally binding, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Significant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely regarding the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Banco de Portugal (and the criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective.

(ii) Lawsuit brought by NOVO BANCO, S.A. challenging the resolution decided in favor of the insolvent estate in respect of the acts of the constitution and subsequent execution of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A., due to considering that there are no grounds for the resolution of these acts, as well as demanding the reimbursement of the amount received by way of price (Euro 25 000 000.00, susceptible of a positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially the resolution act, with this process running its course appended to the insolvency proceedings of Partran, SGPS, S.A.

(iii) Following the conclusion of the sale agreement of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, related to the conditions of the sale, namely the administrative action brought by Banco Comercial Português, SA against Resolution Fund, of which NOVO BANCO is not a party and, according to the public disclosure of inside information made by BCP on the website of the CMVM on the 1 September 2017, it requested the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the CCA is requested.

(iv) In addition, NOVO BANCO was informed by the publication in the Official Journal of the European Union of 16 July 2018, of the existence of an appeal to the General Court by Banco Comercial Português, SA and other entities of the group seeking the annulment of the decision of the European Commission C (2017 / N) of 11 October 2017 which considers the contingent capital agreement agreed between the Resolution Fund and the Lone Star Group in connection with the sale of NOVO BANCO, compatible with the internal market. Although NOVO BANCO is not a party to this proceeding, it has asked the General Court to intervene as a party and this request was granted.

Resolution Fund

Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law no. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Banco de Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Banco de Portugal, based, essentially, on the amount of its liabilities. As at 31 December 2018, the periodic contribution made by the Bank amounted to Euro 10 803 thousand (31 December 2017: Euro 7 673 thousand).

As part of its responsibility as the supervisory and resolution authority, Banco de Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under no. 5 of article 145-G of the RGICSF, which consisted on the transfer of most of its activity to NOVO BANCO, created specifically for this purpose and the capital was assured by the Resolution Fund.

To realise the share capital of NOVO BANCO, Resolution Fund made available Euro 4 900 million, of which Euro 365 million corresponded to own funds. A loan was also granted by a banking syndicate to Resolution Fund, amounting to Euro 635 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euro 3 900 million) had its origin in a reimbursable loan granted by the Portuguese State.

In December 2015, national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (Banif) to Banco Santander Totta, S.A. (Santander Totta), for Euro 150 million, also in the scope of the application of a resolution measure. This operation involved an estimated Euro 2 255 million of public funding, aimed at covering future contingencies, financed in Euro 489 million by Resolution Fund and Euro 1 766 million directly by the Portuguese State. 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..

The serious financial imbalance of BES in 2014 and Banif in 2015 , which justified the application of resolution measures, created uncertainties related to the risk of litigation involving Resolution Fund, which is significant, as well as to the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and by the banks participating in Resolution Fund in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Resolution Fund. To this end, an addendum to the financing agreements with Resolution Fund was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Resolution Fund for special contributions or any other extraordinary contribution.

As announced by the Resolution Fund on 31 March 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the resolution, with the basis of a stable, predictable and affordable charge to the banking sector. Based on this review, the assumed Resolution Fund is assured the full payment of their responsibilities, and the respective remuneration, without need for recourse to special contributions or any other type of contributions extraordinary by the banking industry.

Also on 31 March 2017, Banco de Portugal announced that it had selected Lone Star Funds for the acquisition of NOVO BANCO, which was completed on 18 October 2017, through the injection, by the new shareholder, of Euro 750 million, followed by another capital injection of Euro 250 million, made on 21 December 2017. Lone Star Funds came to hold 75% of the share capital of NOVO BANCO and Resolution Fund the remaining 25%. In addition, the approved conditions include:

- A Contingent Capital Agreement, under which the Resolution Fund, whilst shareholder, may be called upon to make payments in the event of certain cumulative conditions related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalization levels. The possible payments needed, in the agreed terms of this Contingent Capital Agreement are of an absolute maximum of Euro 3 890 million.

- A Compensation Mechanism to NOVO BANCO if in the event that some conditions are met, and it is convicted to make payments of any responsibilities, due to a final court judicial decision not recognising or that is opposed to the resolution measure applied by Banco de Portugal, or to NOVO BANCO's perimeter of assets and liabilities. Within the sale operation of NOVO BANCO, SA, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Banco de Portugal, dated 29 December 2015, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund).

Notwithstanding the possibility under the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Resolution Fund by the Portuguese State and by a syndicate of banks, and of the public press releases made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and Banif, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs.

According to the announcement issued by the Resolution Fund on 1 March 2019, for the payment to be made to the NOVO BANCO under the contingent capital agreement, the available financial resources will be used first, resulting from the contributions paid, directly or indirectly by the banking sector, and these resources are complemented by a loan agreed with the State in October 2017, with an annual maximum limit then defined of Euro 850 million.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTE 40 – RELATED PARTY TRANSACTIONS

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of NOVO BANCO); (ii) people or entities with a family, legal or business relationship with shareholders; (iii) people or entities with a family, legal or business relationship with key management personnel; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of NOVO BANCO; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which NOVO BANCO Group holds the power to significantly influence financial and operational polices, despite not having control; and (vii) entities under joint control of NOVO BANCO (joint ventures).

During the year of 2018, NOVO BANCO carried out the following credit operations and the other transactions with Related Parties:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euros)
FUNDO GESTÃO PATRIMÓNIO IMOB. FUNGEPI NOVO BANCO	Subsidiary	Bank guarantee	210,000
GRUPO ESEGUR	Associate	Credit Card	225,000
		Authorized overdraft	2,400,000
		NB Express Bill	100,000
		Collateral Line Guarantees	2,000,000
GRUPO ESEGUR	Associate	Furniture Leasing	2,000,000
EDENRED PORTUGAL SA	Associate	Authorized overdraft	4,000,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Loan Account Cc_	2,500,000
		Op. Markets Rce_	3,000,000
		Credit Card	10,000
		Furniture Leasing	3,500,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	CC Loan or Commercial Paper	7,500,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Direct Debits Limits	4,000,000
GNB - COMPANHIA SEGUROS SA	Associate	Direct Debits Limits	8,120,000
GRUPO MULTIPESSOAL	Associate	Multipurpose Line	6,500,000
		Credit Card	117,500
		Collateral Line Guarantees	1,750,000
		Factoring	8,880,000
		Loan Account Cc_	1,500,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Commercial paper	1,500,000
			6,000,000
LOCARENT - COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Commercial paper	23,000,000
		Leasing	27,000,000
NOVO VANGUARDA SL	Subsidiary	Authorized overdraft	650,000
GNB - COMPANHIA SEGUROS VIDA SA	Subsidiary	Direct Debits Limits	8,010,000
GNB - COMPANHIA SEGUROS VIDA SA	Subsidiary	Op. Markets Rce_	10,000,000
NOVO BANCO SERVICIOS CORPORATIVOS	Subsidiary	Authorized overdraft	45,000,000
		Participative Loan	4,750,000
ENTIDADES GNB: BEST,BESV, NB AÇORES, ESPLC BESIL, NB FINANCE	Subsidiary	Interbank Boundaries (Business Boundaries)	1,270,000,000
GRUPO ESEGUR	Associate	Credit Card	225,000
		Authorized overdraft	2,400,000
		NB Express Bill	100,000
		Collateral Line Guarantees	2,000,000
EDENRED PORTUGAL SA	Associate	Authorized overdraft	4,000,000
		Credit Card	5,000
GRUPO MULTIPESSOAL	Associate	Multipurpose Line	2,500,000
		Credit Card	115,000
		Collateral Line Guarantees	1,750,000
		Factoring	9,200,000
		Collateral Line CC	4,500,000
NEXXPRO - FÁBRICA CAPACETES SA	Associate	Factoring	500,000
GRUPO ESEGUR	Associate	Credit Card	225,000
		Authorized overdraft	2,400,000
		NB Express Bill	100,000,00
		Collateral Line Guarantees	2,000,000
NOVO BANCO DOS AÇORES SA	Subsidiary	Derivatives Interbank Boundaries	3,000,000
UNICRE - CARTÃO INTERNACIONAL CRÉDITO SA	Associate	MLT Funding	up to 15,000,000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation
NANI HOLDINGS SGPS SA	Shareholders	Securities Custody
FUNDO RESOLUÇÃO	Shareholders	Securities Custody
HUDSON ADVISORS PORTUGAL UNIPESSOAL LDA e NANI HOLDINGS SGPS SA	Shareholders	Service Contracts Services (1st Addendum)
GNB - COMPANHIA SEGUROS SA	Associate	Addendum - Contract Distribution Insurance
GNB - COMPANHIA SEGUROS VIDA SA	Subsidiary	Addendum - Contract Distribution Insurance
NANI HOLDINGS SGPS SA	Shareholders	Intragroup contract for Sharing and Reporting Information
LOCARENT-COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Vehicle Leasing
NB PATRIMÓNIO - FUNDO INVEST. IMOB. ABERTO	Subsidiary	Rental Agreement
GNB - SOC. GESTORA FUNDOS INVEST. IMOB. SA	Subsidiary	Admission of Employees
HUDSON ADVISORS PORTUGAL UNIPESSOAL LDA e NANI HOLDINGS SGPS SA	Shareholders	Service Contracts Services (2nd Addendum)
GRUPO ESEGUR	Associate	Acquiring Alarms for the Network
NB LOGÍSTICA - FUNDO ESPECIAL INVEST. IMOB. ABERTO	Subsidiary	Real estate sale
FUNDES -NB LOGÍSTICA - FUNDO ESPECIAL INVEST. IMOB. FECHADO	Subsidiary	Real estate sale
LOCARENT-COMP. PORTUG. ALUGUER VIATURAS SA	Associate	Distribution Agreement

The amounts of the transactions between the Group and its related parties as at 31 December 2018 and 2017, as well as the respective costs and revenue recognised, are summarised as follows:

(in thousands of Euro)

	31.12.2018					31.12.2017 (*)				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholder										
NANI HOLDINGS	-	153	-	390	-	-	-	-	-	-
FUNDO DE RESOLUÇÃO	1 149 295	-	-	-	10 803	791 695	-	-	-	7 673
Subsidiaries										
GNB RECUPERAÇÃO DE CRÉDITO	-	267	-	35	3 072	-	293	-	46	3 046
GNB CONCESSÕES	63 351	39 501	-	-	-	5 727	37 699	9 421	92	31
GNB ACE	-	517	-	-	2 041	-	530	-	23	3 795
GNB GA	549	54 278	4 026	6 013	30	2 117	45 332	4 026	8 514	308
NOVO BANCO SERVICIOS	42 803	-	-	924	2 610	48 513	6	-	846	2 621
BES GMBH	-	3 872	-	-	-	-	3 973	-	-	-
BESIL	-	115 882	-	153	1 135	-	115 780	-	153	1 225
BANCO WELL LINK				-	-	-		-	15	16
ES Plc	443 281	454	-	19 620	14 583	451 318	1 079	-	20 135	17 971
ES TECH VENTURES	46 732	65 277	-	-	17	46 732	39 588	-	-	19
BEST	2 410	411 259	-	476	6 673	1 491	323 318	-	1 035	5 252
NB AÇORES	139 198	125 567	1 295	2 075	2 653	150 895	116 268	1 414	3 131	4 274
QUINTA DOS CONEGOS	-	-	-	-	-	-	2 058	-	24	-
FCR PME	-	9 066	-	-	-	-	855	-	-	1
GNB SISTEMAS DE INFORMAÇÃO	-	-	-	-	-	-	-	-	41	2 303
FT LPF1	1 509	505	-	-	-	8 312	39 027	-	-	-
SPE-LM6	365 930	4 138	-	484	-	305 915	6 377	-	800	-
SPE-LM7	681 379	7 062	-	1 281	-	867 606	11 373	-	-	-
PRAÇA DO MARQUES				-	-	-	-	-	-	454
FCR NB GROWTH	15 456	1 471	-	-	-	15 414	1 480	-	-	-
NB ÁFRICA	-	7 265	-	-	-	-	10 622	-	-	8
BANCO INTERNACIONAL DE CABO VERDE	-	-	-	-	-	-	61 179	-	-	729
GNB Vida	14 835	218 807	-	16 961	462	13 496	243 108	-	28 631	20 239
NOVO VANGUARDA	199	309	-	-	2 290	264	72	-	-	2 110
FLITPTREL VIII	-	-	-	-	-	15 149	8	-	-	-
FUNGEPI	-	52 017	1 898	35	18	-	34 564	2 218	33	27
FUNGEPI_II	-	45 956	41	43	15	-	29 682	41	40	34
FUNGERE	-	32 941	60	35	4	-	11 378	60	32	8
IMOINVESTIMENTO	-	817	-	74	-	-	1 406	-	68	-
PREDILOC	-	973	-	-	-	-	484	-	-	-
IMOGESTÃO	-	7 854	436	45	-	-	1 636	436	15	-
ARRABIDA	-	27	-	-	-	-	226	-	-	1
INVESFUNDO VII	-	883	-	9	-	-	579	-	9	1
BES VÉNÉTIE	-	-	-	-	-	33 182	40 179	300 285	2 105	128
NB LOGÍSTICA	-	3 095	-	-	1	-	4 419	-	-	1
NB PATRIMÓNIO	-	24 348	387	-	5 790	-	7 811	648	151	5 848
FUNDES	-	11 115	-	-	6	-	16 269	-	-	11
AMOREIRAS	-	1 899	4 674	-	-	-	6 929	8 147	-	-
FIMES ORIENTE	-	40 281	113	-	28	207	5 613	5 513	-	5
NB ARRENDAMENTO	-	2 620	-	-	-	-	2 240	-	-	1
NB FINANCE	-	68 692	-	114	5 274	-	267 078	257 574	5 633	86 803
ASAS INVEST	-	5	880	-	-	-	76	880	-	-
FEBAGRI	-	954	-	-	-	-	653	-	-	-
AUTODRIL	-	8	-	-	-	-	37	-	-	-
JCN	17 920	11	-	-	-	17 920	87	-	-	-
PORTUCALE	-	46	1 127	-	-	-	23	1 127	-	-
GREENWOODS	-	138	-	-	-	-	123	4 797	-	-
QUINTA D. MANUEL I	-	-	-	-	-	-	22	-	-	-
QUINTA DA AREIA	-	-	-	-	-	-	41	-	-	-
VÁRZEA DA LAGOA	-	-	-	-	-	-	30	-	-	-
PROMOTUR	-	17	-	-	-	-	28	-	-	-
HERDADE DA BOINA	-	-	-	-	-	-	7	-	-	-
RIBAGOLFE	-	-	-	-	-	-	4	-	-	-
BENAGIL	-	125	-	-	-	-	258	-	-	-
IMOASCAY	-	639	-	-	-	-	649	-	-	-
PALEXPO	-	-	-	-	-	18	1 347	-	-	-
HERDADE PINHEIRINHO	24 194	2	470	-	-	24 194	292	470	-	-
HERDADE PINHEIRINHO II	73 341	12	4 227	-	-	73 230	79	4 227	-	-
QUINTA DA RIBEIRA	-	53	-	-	-	-	19	-	-	-
PROMOÇÃO E TURISMO	-	-	-	-	-	-	1 115	-	-	-
PROMOFUNDO	-	263	-	18	-	-	-	-	-	-
OREY REABILITAÇÃO URBANA	-	25	-	-	-	-	-	-	-	-
R INVEST	-	214	-	-	-	-	-	-	-	-
GREENDRAIVE	3 784	104	-	46	-	-	-	-	-	-
	3 086 166	**1 361 784**	**19 634**	**48 831**	**57 505**	**2 873 395**	**1 495 408**	**601 284**	**71 572**	**164 943**
Associated companies										
LINEAS	97 644	34 426	-	4 710	3	208 013	44 660	3 844	11 593	3
LOCARENT	31 304	1 282	-	1 323	5 409	56 615	836	-	1 777	5 570
NANIUM	-	-	-	-	-	-	-	-	107	-
ASCENDI PINHAL INTERIOR	-	-	-	-	-	102 259	48 311	7 639	12 529	18 012
GNB SEGUROS	-	8 237	-	-	2	-	13 667	-	2	5
ESEGUR	5 528	3 507	69	-	-	5 958	1 185	909	-	-
UNICRE	10 001	21	-	26	-	-	8	-	-	-
MULTIPESSOAL	3 074	35	251	52	-	5 512	49	251	95	-
OTHER	1 172	47 425	49	32	82	933	42 433	70	994 #	146
	148 723	**94 933**	**369**	**6 143**	**5 496**	**379 290**	**151 149**	**12 713**	**27 097**	**23 736**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	5 444	-	-	-	-	-
NACIONAL CONTA LDA	120	7	-	-	-	-	-	-	-	-
Other (**)	**120**	**7**	**-**	**-**	**5 444**	**-**	**-**	**-**	**-**	**-**

(*) Restated by the amount of the triggering of the Contingent Capital Agreement registered in Reserves

(**) Companies controlled directly or indirectly by members of the corporate bodies

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding 2018 and 2017.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and NOVO BANCO, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer 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.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 6% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of NOVO BANCO in 2018 and 2017, are as follows:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Executive Board of Directors	**General and Supervisory Board**	**Total**	**Executive Board of Directors**	**General and Supervisory Board**	**Total**
Short-term employment benefits	2 265	993	3 258	2 207	340	2 547
Post-employment benefits	4	-	4	2	-	2
Other long-term benefits	33	26	59	-	5	5
Employment termination benefits	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-
	2 302	**1 019**	**3 321**	**2 209**	**346**	**2 554**

As at 31 December 2018, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 503 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives was Euro 1 thousand.

As at 31 December 2017, loans granted to members of Key Management Personnel of NOVO BANCO were as follows: (i) to members of the Executive Board of Directors and their immediate family members, was of Euro 101 thousand; and (ii) members of the General and Supervisory Board and their immediate family members, had no loans granted to them.

NOTE 41 – SECURITISATION OF ASSETS

As at 31 December 2018 and 2017, the outstanding securitisation transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2018	31.12.2017	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	182 361	210 905	Mortgage loans (subsidized scheme)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	185 120	213 871	Mortgage loans (general and subsidized scheme)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	291 087	328 966	Mortgage loans (general scheme)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	351 544	396 244	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	513 952	569 453	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	478 943	554 890	Mortgage loans (general scheme)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	8 371	9 300	Project Finance loan
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 199 264	1 352 403	Mortgage loans (general scheme)
Lusitano Finance No. 3	November 2011	657 981	-	50 049	Credit to individuals
Lusitano SME No.3	November 2016	630 385	197 987	353 038	Loans to small and medium-sized enterprises

Additionally, as at 31 December 2018 and 2017, the following synthetic securitization operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of CDS	Current amount of CDS		Asset securitized
			31.12.2018	31.12.2017	
Lusitano Synthetic Limited	December 2012	1 000 000	354 311	509 323	Financing M/L Term (SMEs)
Lusitano Synthetic II Ldt.	December 2013	2 000 000	-	1 453 640	Current Account

The loans and advances to customers covered by the securitization operations Lusitano Finance No. 3 and Lusitano SME No. 3 were not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised as the Bank substantially transferred all the risks and rewards of ownership. During the last quarter of 2018, the Group proceeded to the early redemption of Lusitano Finance No. 3.

Lusitano Synthetic Limited and Lusitano Synthetic II Limited are synthetic loan securitization operations, involving the contracting by the Bank of a credit default swap (CDS) for each operation as to eliminate the credit risk associated with a portfolio of loans granted to companies. The loans associated to this portfolio continue to be recognised in the Bank's balance sheet under the caption Loans and advances to customers.
During 2018, Lusitano Syntethic II Limited was early terminated and, as at 31 December 2018 the CDS of Lusitano Syntethic Limited has a positive fair value of Euro 77 963 thousands (31 December 2017: positive fair value of both CDS in Euro 103 779 thousands).

The main characteristics of these operations, as at 31 December 2018 and 2017, may be analysed as follows:

(in thousands of Euros)

31.12.2018														
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	87 504	-	-	December 2035	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	AA	Aa3	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Baa1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB+	B1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	99 505	-	-	December 2036	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	Aa3	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB-	Baa2	BBB-	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	B	B2	B	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	250 799	-	-	December 2047	AAA	Aaa	AAA	-	A	A1	A	-
	Class B	27 000	9 841	-	-	December 2047	AA	Aa2	AA	-	BBB+	Ba1	BB-	-
	Class C	18 600	6 780	-	-	December 2047	A	A2	A	-	BB+	Ba3	B	-
	Class D	14 400	5 249	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 400	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	272 930	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	A	-
	Class B	22 800	18 066	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BBB-	-
	Class C	19 200	15 214	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	19 017	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 529	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	406 872	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA-	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B1	BBB-	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa2	BB+	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC+	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	319 906	266 342	253 795	March 2060	AAA	Aaa	AAA	-	A-	Aa3	BBB+	-
	Class B	65 450	65 450	63 950	57 394	March 2060	AA	Aa3	AA	-	BB+	Baa1	BBB+	-
	Class C	41 800	41 800	41 800	31 497	March 2060	A	A3	A	-	B-	Ba3	BBB-	-
	Class D	17 600	17 600	17 600	11 945	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 511	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	8 833	1 521	1 509	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	749 529	749 529	681 379	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	-	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	-	-	-	December 2037	-	A3	-	AA	-	Aa3	-	AA
	Class B	62 700	31 058	31 058	30 782	December 2037	-	Baa3	-	BBB	-	Aa3	-	AAL
	Class C	62 700	62 700	62 700	61 061	December 2037	-	B1	-	B	-	A3	-	BBBH
	Class D	116 000	116 000	116 000	110 677	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	3 691	3 691	3 420	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	5 624	5 624	2 645	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	255 731	255 731	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	77 963	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2017														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	114 821	-	-	December 2035	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	A1	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	A+	A1	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Ba1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	A	Caa1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	127 091	-	-	December 2036	AAA	Aaa	AAA	-	A+	A1	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	A1	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	A1	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB+	Baa3	BB	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	285 314	-	-	December 2047	AAA	Aaa	AAA	-	A-	A1	A-	-
	Class B	27 000	11 196	-	-	December 2047	AA	Aa2	AA	-	BBB	Ba1	BB-	-
	Class C	18 600	7 713	-	-	December 2047	A	A2	A	-	BB	Ba3	B	-
	Class D	14 400	5 971	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 583	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	308 280	-	-	December 2048	AAA	Aaa	AAA	-	BB	A1	A	-
	Class B	22 800	20 406	-	-	December 2048	AA	Aa2	AA	-	BB	Baa2	BBB-	-
	Class C	19 200	17 184	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	21 480	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	8 490	-	-	December 2048	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	465 410	-	-	December 2059	AAA	Aaa	AAA	-	BB	A2	BBB+	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B2	BB+	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa3	BB-	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	371 205	149 589	140 174	March 2060	AAA	Aaa	AAA	-	BBB	A1	BBB+	-
	Class B	65 450	65 450	63 950	35 235	March 2060	AA	Aa3	AA	-	BB-	Baa1	BBB-	-
	Class C	41 800	41 800	41 800	30 964	March 2060	A	A3	A	-	B-	Ba3	BB	-
	Class D	17 600	17 600	17 600	11 846	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	16 010	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	47 817	8 231	7 117	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	867 606	867 606	784 883	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	-	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano Finance N.º 3	Class A	450 700	-	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	48 913	48 913	45 541	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	9 134	November 2029	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	129 276	-	-	December 2037	-	A3	-	AA	-	A1	-	AAL
	Class B	62 700	62 700	62 700	60 464	December 2037	-	Baa3	-	BBB	-	A3	-	BBBH
	Class C	62 700	62 700	62 700	59 432	December 2037	-	B1	-	B	-	Ba1	-	BH
	Class D	116 000	116 000	116 000	81 654	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	6 201	6 201	5 298	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	6 160	6 160	2 905	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	425 460	425 460	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	79 382	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ldt.	Senior	1 800 000	1 289 247	1 289 247	-	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	56 141	-	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	November 2023	-	-	-	-	-	-	-	-

The above mentioned securitization operations implied the recording of financial liabilities associated with the assets transferred, which are detailed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Lusitano Finance No. 3	-	50 059
Lusitano SME No. 3	197 987	353 038
FLITPTREL [(1)]	44 451	44 451
	242 438	**447 548**

[(1)] Asset transfer operation, with the Bank holding in its securities portfolio equity instruments of the vehicle

NOTE 42 – 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 establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

In accordance with the fair value valuation methodology of assets and liabilities followed, these are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding valuation method:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favor of a specific price.

This category includes, amongst others, the following financial instruments:

- (i) Derivatives traded on an organised market;
- (ii) Shares quoted on a stock exchange;
- (iii) Open investment funds quoted on a stock exchange;
- (iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
- (v) Bonds with more than one provider and for which the instruments are 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 unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

(i) Debt securities valued using non-observable market inputs;
(ii) Unquoted shares;
(iii) Closed real estate funds;
(iv) Hedge funds;
(v) Private equities;
(vi) Restructuring funds; and
(vii) Over the counter (OTC) derivatives with prices provided by third parties.

The valuation models used by type of instrument are as follows:

<u>Money market operations and loans and advances to customers</u>: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

<u>Commercial paper</u>: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga.
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads.
- Futures and Options: the Bank trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

The fair value of the financial assets and liabilities measured at fair value, of the Bank, is as follows:

(in thousands of Euros)

	At fair value			Total Fair Value
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	
31 December 2018				
Financial assets held for trading	257 270	-	-	257 270
Bonds issued by government and public entities	*257 269*	-	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*
Derivatives held for trading	-	519 739	396	520 135
Exchange rate contracts	-	*33 777*	-	*33 777*
Interest rate contracts	-	*439 257*	*396*	*439 653*
Credit default contracts	-	*9*	-	*9*
Other	-	*46 696*	-	*46 696*
Financial assets at fair value through profit or loss - mandatory	86 755	46	2 862 796	2 949 597
Bonds issued by other entities	*9 970*	*46*	*319 932*	*329 948*
Shares	*76 785*	-	*596 514*	*673 299*
Other variable income securities	-	-	*1 946 350*	*1 946 350*
Other financial assets at fair value through other comprehensive income	7 504 959	20 155	42 176	7 567 290
Bonds issued by government and public entities	*6 537 547*	-	-	*6 537 547*
Bonds issued by other entities	*951 085*	-	-	*951 085*
Shares	*16 327*	*20 155*	*42 173*	*78 655*
Other variable income securities	-	-	*3*	*3*
Derivatives held for risk management purposes	-	1 728	148 132	149 860
Exchange rate contracts	-	*1 728*	*70 169*	*71 897*
Credit default contracts	-	-	*77 963*	*77 963*
Financial assets at fair value	**7 848 984**	**541 668**	**3 053 500**	**11 444 152**
Financial liabilities held for trading	-	490 679	2 724	493 403
Derivatives				
Exchange rate contracts	-	*33 596*	-	*33 596*
Interest rate contracts	-	*433 239*	*2 724*	*435 963*
Credit default contracts	-	*117*	-	*117*
Other	-	*23 727*	-	*23 727*
Financial liabilities associated with assets transferred	-	242 438	-	242 438
Derivatives held for risk management purposes	-	36 150	-	36 150
Interest rate contracts	-	36 150	-	*36 150*
Financial liabilities at fair value	**-**	**769 267**	**2 724**	**771 991**

(in thousands of Euros)

	At fair value			
	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair Value
31 December 2017				
Financial assets held for trading	-	-	81	81
Bonds issued by other entities	-	-	*2*	*2*
Shares	-	-	*79*	*79*
Derivatives	-	582 425	448	582 873
Exchange rate contracts	-	*33 995*	-	*33 995*
Interest rate contracts	-	*502 340*	*448*	*502 788*
Credit default contracts	-	*15*	-	*15*
Other	-	*46 075*	-	*46 075*
Other financial assets at fair value through profit or loss	-	-	3 973	3 973
Shares and other variable income securities	-	-	*3 973*	*3 973*
Other financial assets at fair value through other comprehensive income	5 593 676	662 642	4 597 158	10 853 476
Bonds issued by government and public entities	*5 370 610*	*519 128*	-	*5 889 738*
Bonds issued by other entities	*142 766*	*143 514*	*1 928 416*	*2 214 696*
Shares	*80 300*	-	*607 272*	*687 572*
Other variable income securities	-	-	*2 061 470*	*2 061 470*
Derivatives held for risk management purposes	-	67 306	103 779	171 085
Exchange rate contracts	-	*67 306*	-	*67 306*
Credit default contracts	-	-	*103 779*	*103 779*
Financial assets at fair value	**5 593 676**	**1 312 373**	**4 705 439**	**12 807 311**
Financial liabilities held for trading	-	558 206	2 440	560 646
Derivatives				
Exchange rate contracts	-	*34 396*	-	*34 396*
Interest rate contracts	-	*505 360*	*2 440*	*507 800*
Credit default contracts	-	*113*	-	*113*
Other	-	*18 337*	-	*18 337*
Financial liabilities associated with assets transferred	-	447 548	-	447 548
Derivatives held for risk management purposes	-	76 210	-	76 210
Interest rate contracts	-	*76 210*	-	*76 210*
Financial liabilities at fair value	**-**	**1 081 964**	**2 440**	**1 084 404**

The changes occurred in financial assets valued based on non-observable market information (level 3 of the fair value hierarchy) during 2018 and 2017, may be analysed as follows:

(in thousands of Euros)

	31.12.2018							
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss - mandatory	Financial assets at fair value through other comprehensive income	Derivatives for risk management	Total Assets	Financial liabilities held for trading - derivatives
Balance as at 31 December 2017	**448**	**81**	**3 973**	**-**	**4 597 158**	**103 779**	**4 705 439**	**2 440**
Impact of transition to IFRS 9	-	(81)	(3 973)	3 005 906	(4 550 344)	-	(1 548 492)	-
Balance as at 1 January 2018	**448**	**-**	**-**	**3 005 906**	**46 814**	**103 779**	**3 156 947**	**2 440**
Acquisitions	-	-	-	57 667	7 516	-	65 183	-
Attainment of maturity	-	-	-	(43 016)	(7 661)	-	(50 677)	-
Liquidation	(121)	-	-	(98 969)	(1)	(24 397)	(123 488)	-
Transfers in	163	-	-	-	-	70 169	70 332	40
Changes in value	(94)	-	-	(58 792)	(4 492)	(1 419)	(64 797)	244
Balance at the end of the period	**396**	**-**	**-**	**2 862 796**	**42 176**	**148 132**	**3 053 500**	**2 724**

(in thousands of Euros)

	31.12.2017						
	Financial assets held for trading - derivatives	Financial assets held for trading - securities	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives for risk management	Total	Financial liabilities held for trading - derivatives
Balance at the beginning of the period	**2 097**	**77**	**526**	**4 806 148**	**105 569**	**4 914 417**	**2 416**
Acquisitions	-	-	3 477	5 325 190	-	5 328 667	-
Attainment of maturity	-	-	(27)	(179 579)	-	(179 606)	-
Liquidation	-	-	-	(5 214 403)	-	(5 214 403)	(1 156)
Transfers in	-	-	-	-	-	-	
Transfers out	-	-	-	-	-	-	
Changes in value	(1 649)	4	(3)	(140 198)	(1 790)	(143 636)	1 180
Balance at the end of the period	**448**	**81**	**3 973**	**4 597 158**	**103 779**	**4 705 439**	**2 440**

Unrealised gains and losses on financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in the income statement or revaluation reserves, in accordance with the respective assets' accounting policy. The following amounts were determined in financial years 2018 and 2017:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Recognized in Reserves	Recognized in the Income statement	Total	Recognized in Reserves	Recognized in the Income statement	Total
Financial assets held for trading - derivatives	-	(464)	(464)	-	(1 649)	(1 649)
Loans and advances to banks	-	27 302	27 302	-	-	-
Financial assets held for trading - securities	-	-	-	-	38	38
Financial assets at fair value through profit or loss	-	(55 216)	(55 216)	-	(7 349)	(7 349)
Financial assets at fair value through other comprehensive income	(28 617)	-	(28 617)	(740)	-	(740)
Derivatives for risk management purposes	-	24 724	24 724	-	(1 790)	(1 790)
	(28 617)	**(3 654)**	**(32 271)**	**(740)**	**(10 750)**	**(11 490)**

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	31.12.2018						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Derivatives held for trading	*Other*	*(a)*	**0.4**	**-**	**-**	**-**	**-**
Securities at fair value through profit or loss - mandatory			**2 862.8**	**-**	**(37.9)**	**-**	**46.6**
Bonds of other issuers	*Discounted cash flow model*	*Discount rate*	*319.9*	*(-) 100 bps*	*(14.9)*	*(+) 100 bps*	*16.5*
Shares			*596.5*	-	(23.0)	-	30.1
	Discounted cash flow model	Specific Impairment	*83.5*	-50%	(23.0)	+50%	30.1
	Other	*(a)*	*2.8*		-		-
	Valuation of management company	*Net assets value (b)*	*510.3*		-		-
Other variable income securities			*1 946.4*	-	-	-	-
	Other	*(a)*	*0.5*	-	-	-	-
	Valuation of management company	*Net assets value (b)*	*1 945.8*	-	-	-	-
Securities at fair value through other comprehensive income			**42.2**	**-**	**-**	**-**	**-**
Shares			*42.2*	-	-	-	-
	Other		*10.9*		-		-
	Other	(a)	*31.2*	-	-	-	-
	Valuation of management company	*Net assets value (b)*	*0.1*	-	-	-	-
Derivatives held for risk management purposes	***(c)***	***(c)***	**148.1**	**-**	**-**	-	**-**
Total			**3 053.5**		**(37.9)**		**46.6**

(a) Sensitivity analysis was not carried out for these categories because they included non-material individual securities.

(b) In the specific case of the units valued according to the quotation provided by the respective management company, it is not reasonable to carry out the analysis of the impact of the change in the variables underlying the quotation calculation by that entity

(c) In the specific case of derivatives valued according to the information provided by an external entity, it is not reasonable to analyze the impact of the change in the variables underlying the fair value determination by these entities.

(in millions of euros)

Assets classified under Level 3	31.12.2017						
	Valuation model	Variable analyzed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**0.5**		**-**		**-**
Bonds issued by other entities			*0.0*		-		-
Shares	*Other*	(a)	*0.1*		-		-
Derivatives	*Other*	(a)	*0.4*				
Securities at fair value through profit or loss			**4.0**		**-**		**-**
Shares and other variable income securities			*4.0*		-		-
	Valuation of management company	*Net assets value (b)*	*0.2*		-		-
	(a)	*(a)*	*3.7*		-		-
Securities at fair value through other comprehensive income			**4 597.2**		**(104.8)**		**110.3**
Bonds issued by other entities			*1 928.4*		(86.4)		81.1
	Discounted cash flow model	*Discount rate*	*1 335.7*	*(-) 100 bps*	*(66.3)*	*(+) 100 bps*	*70.9*
	Discounted cash flow model	*Probability of default*	*2.9*	*-50%*	*(1.4)*	*+50%*	*4.9*
	Discounted cash flow model	*Probability of default*	*579.3*	*2 levels*	*(20.8)*	*2 levels*	*7.4*
	Discounted cash flow model	*Probability of default*	*10.5*	*-25%*	*2.1*	*+25%*	*(2.1)*
Shares			*607.3*		(18.5)		29.2
	Discounted cash flow model	*Discount rate*	*91.2*	*-50%*	*(17.4)*	*+50%*	*28.1*
	Valuation of management company	*Net assets value (b)*	*490.2*		-		-
	Market multiples		*10.6*	*(-) outliers*	*(1.1)*	*(+) outliers*	*1.1*
	Other	*(a)*	*15.2*				
Other variable income securities			*2 061.5*		-		-
	Valuation of management company	*Net assets value (b)*	*2 061.5*		-		-
	(a)	*(a)*	*0.0*		-		-
Derivatives held for risk management purposes	*(c)*	*(c)*	**103.8**		**-**		**-**
Total			**4 705.4**		**(104.8)**		**110.3**

(a) Sensitivity analysis was not carried out for these categories because they included non-material individual securities.

(b) In the specific case of the units valued according to the quotation provided by the respective management company, it is not reasonable to carry out the analysis of the impact of the change in the variables underlying the quotation calculation by that entity

(c) In the specific case of derivatives valued according to the information provided by an external entity, it is not reasonable to analyze the impact of the change in the variables underlying the fair value determination by these entities.

The main parameters used in the valuation models as at 31 December 2018 and 2017 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:

(%)

	31.12.2018			31.12.2017		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.4200	2.4000	0.7650	-0.4100	1.4500	0.6450
1 month	-0.3630	2.7000	0.9050	-0.3680	1.6500	0.5000
3 months	-0.3090	2.8700	0.9500	-0.3290	1.7600	0.7500
6 months	-0.2370	2.9500	1.0700	-0.2710	1.9100	0.8400
9 months	-0.2295	3.0300	1.1600	-0.2170	2.0600	0.7900
1 year	-0.2250	2.7440	0.9898	-0.2550	1.8790	0.6060
3 years	-0.0650	2.5800	1.2193	0.0110	2.1440	0.8837
5 years	0.2010	2.5780	1.3050	0.3150	2.2380	1.0325
7 years	0.4690	2.6210	1.3574	0.5660	2.3000	1.1430
10 years	0.8150	2.7110	1.4365	0.8860	2.3850	1.2735
15 years	1.1690	2.7890	1.5131	1.2480	2.4750	1.4052
20 years	1.3450	2.8190	1.5461	1.4180	2.5170	1.4530
25 years	1.3720	2.8190	1.5491	1.4950	2.5275	1.4447
30 years	1.4050	2.8110	1.5411	1.5010	2.5250	1.4250

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 from renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behavior in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2018						
CDX USD Main	**30**	28.34	55.91	87.74	112.28	132.90
iTraxx Eur Main	**29**	-	54.76	88.08	111.06	131.23
iTraxx Eur Senior Financial	**29**	-	-	109.52	-	146.91
31 December 2017						
CDX USD Main	**29**	-	24.26	49.09	72.34	90.66
iTraxx Eur Main	**28**	-	21.51	45.12	65.34	84.28
iTraxx Eur Senior Financial	**28**	-	-	43.94	-	72.75

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2018			31.12.2017		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	16.48	11.25	33.95	12.26	15.31	52.35
3 years	32.17	22.87	-	31.32	22.10	-
5 years	48.20	27.29	58.01	46.25	28.62	58.67
7 years	57.42	28.35	61.25	54.61	30.07	63.27
10 years	63.34	30.20	-	61.27	28.18	-
15 years	64.69	-	-	64.25	-	-

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	**31.12.2018**	**31.12.2017**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1450	1.1993	7.26	7.31	7.48	7.60	7.68
EUR/GBP	0.8945	0.8872	10.87	11.20	10.87	10.76	10.32
EUR/CHF	1.1269	1.1702	5.49	5.79	6.05	6.15	6.34
EUR/NOK	9.9483	9.8403	8.06	7.75	7.60	7.60	7.54
EUR/PLN	4.3014	4.1770	4.85	5.13	5.45	5.73	5.91
EUR/RUB	79.7153	69.3920	13.39	13.69	13.86	14.10	14.21
USD/BRL [a)]	3.8812	3.3127	14.91	14.68	14.51	14.49	14.46
USD/TRY [b)]	5.2915	3.7909	19.53	19.75	20.15	20.53	20.88

[a)] Calculated based on the EUR/USD and EUR/BRL rates

[b)] Calculated based on the EUR/USD and EUR/TRY rates

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implicit volatility
	31.12.2018	31.12.2017	Variação %	1 month	3 months	
DJ Euro Stoxx 50	3 001	3 504	16.74%	18.52	14.74	-
PSI 20	4 731	5 388	13.88%	16.51	13.28	-
IBEX 35	8 540	10 044	17.61%	18.62	14.72	-
FTSE 100	6 728	7 688	14.26%	18.44	14.05	20.75
DAX	10 559	12 918	22.34%	20.35	16.18	21.83
S&P 500	2 507	2 674	6.65%	27.31	20.65	22.39
BOVESPA	87 887	76 402	-13.07%	20.70	24.86	24.83

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / Liabilities recorded at amortized cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2018					
Cash and deposits with Central Banks	695 289	-	695 289	-	695 289
Deposits with banks	107 041	-	107 041	-	107 041
Securities at amortised cost	2 302 765	10 464	705 677	1 781 362	2 497 503
Loans and advances to banks	558 652	-	558 652	-	558 652
Loans and advances to customers	22 821 556	-	-	23 011 602	23 011 602
Financial assets	**26 485 303**	**10 464**	**2 066 659**	**24 792 964**	**26 870 087**
Deposits from Central Banks	6 410 461	-	6 410 461	-	6 410 461
Deposits from banks	2 708 678	-	2 727 188	-	2 727 188
Due to customers	28 439 075	-	-	28 439 075	28 439 075
Debt securities issued	477 787	639 861	-	-	639 861
Subordinated liabilities	414 903	415 934		-	415 934
Financial liabilities	**38 450 904**	**1 055 795**	**9 137 649**	**28 439 075**	**38 632 519**

(in thousands of Euros)

	Assets / Liabilities recorded at amortized cost	Fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2017					
Cash and deposits with Central Banks	3 782 902	-	3 782 902	-	3 782 902
Deposits with banks	189 725	-	189 725	-	189 725
Securities at amortised cost	48 811	-	-	48 811	48 811
Loans and advances to banks	752 892	-	752 892	-	752 892
Loans and advances to customers	23 492 905	-	-	23 244 289	22 048 466
Financial assets	**28 267 235**	**-**	**4 725 519**	**23 293 100**	**26 822 796**
Deposits from Central Banks	6 410 123	-	6 410 123	-	6 410 123
Deposits from banks	2 887 106	-	2 832 450	-	2 832 450
Due to customers *	30 067 747	-	-	29 961 813	29 961 813
Debt securities issued	617 861	886 440	-	-	886 440
Subordinated liabilities	-	-	-	-	-
Financial liabilities	**39 982 837**	**886 440**	**9 242 573**	**29 961 813**	**40 090 826**

*Data as at 31 December 2017 restated in order to reflect the change of the initial recognition of liabilities related to the LME operation concludedin the last quarter of 2017

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortized cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

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 principal 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 mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Bank are the current interest rates used for loans with similar characteristics.

Deposits from 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 principal and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal 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 Bank estimates their fair value by discounting their expected future cash flows of principal and interest.

NOTE 43 – RISK MANAGEMENT

The Bank is exposed to a number of risks arising from the use of financial instruments, which are analysed below:

- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

Credit risk
Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honor its contractual obligation 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 credit default swaps (CDS), the net exposure between selling and buying positions in relation to each reference entity, is also considered a credit risk to NOVO BANCO. CDSs are accounted for at fair value in accordance with the accounting policy described in Note 2.3.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the valuation methodologies and tools used to evaluate and control risk, as well as in the procedures and decision making processes.

The risk profile of the Bank is analysed on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses. Regular analyzes also include compliance with the approved credit limits and the correct operation of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas.

NOVO BANCO's maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Deposits with and loans and advances to banks	665 693	942 617
Derivatives for trading	520 135	582 873
Securities held for trading	257 270	2
Securities at fair value through profit/loss - mandatory	329 948	-
Securities at fair value through other comprehensive income	7 487 428	8 104 434
Securities at amortised cost	2 302 765	-
Loans and advances to customers	22 821 556	23 492 905
Derivatives held for risk management purposes	149 860	171 085
Other assets	690 573	537 257
Guarantees and standby letters provided	3 171 940	3 673 371
Documentary credits	664 905	756 055
Irrevocable commitments	5 578 108	6 227 236
Credit risk associated with the credit derivatives' reference entities	7 814	7 814
	44 647 995	**44 495 649**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the 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 a collective or individual basis in accordance with the accounting policy described in Note 2.4. Whenever the value of the collateral, net of haircuts (taking into account the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, NOVO BANCO does not have any overdue financial assets for which it has not performed a review regarding their recoverability and the subsequent impairment recognition, when necessary.

The table below displays the assets impaired, or overdue by not impaired:

(in thousands of Euros)

	31.12.2018					
	Neither overdue nor impaired	**Overdue but not impaired**	**Impaired**	**Total exposure**	**Impairment**	**Net exposure**
Deposits with and loans and advances to banks	367 037	-	374 400	741 437	(75 744)	665 693
Securities held for trading	257 270	-	-	257 270	-	257 270
Bonds issued by government and other public entities	*257 269*	-	-	*257 269*	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*	-	*1*
Securities at fair value through profit/loss - mandatory	329 948	-	-	329 948	-	329 948
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	*329 948*	-	-	*329 948*	-	*329 948*
Securities at fair value through other comprehensive income	7 443 132	-	45 500	7 488 632	(1 204)	7 487 428
Bonds issued by government and other public entities	*6 537 547*	-	-	*6 537 547*	*(807)*	*6 536 740*
Bonds issued by other entities	*905 585*	-	*45 500*	*951 085*	*(397)*	*950 688*
Securities at amortised cost	2 352 129	-	142 961	2 495 090	(192 325)	2 302 765
Bonds issued by government and other public entities	*503 123*	-	-	*503 123*	*(771)*	*502 352*
Bonds issued by other entities	*1 849 006*	-	*142 961*	*1 991 967*	*(191 554)*	*1 800 413*
Loans and advances to customers	20 659 358	14 655	6 219 386	26 893 399	(4 071 843)	22 821 556

(in thousands of Euros)

	31.12.2017					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	477 193	-	536 581	1 013 774	(71 157)	942 617
Securities held for trading	2	-	-	2	-	2
Bonds issued by government and other public entities	*-*	*-*	*-*	*-*	*-*	*-*
Bonds issued by other entities	*2*	*-*	*-*	*2*	*-*	*2*
Securities at fair value through other comprehensive income	8 035 385	-	283 799	8 319 184	(214 750)	8 104 434
Bonds issued by government and other public entities	*5 889 738*	*-*	*-*	*5 889 738*	*-*	*5 889 738*
Bonds issued by other entities	*2 145 647*	*-*	*283 799*	*2 429 446*	*(214 750)*	*2 214 696*
Loans and advances to customers	19 978 741	3 828	9 204 194	29 186 763	(5 693 858)	23 492 905

Impairment exposures correspond to (i) exposures with objective evidence of loss ("Exposure in *default*", according to the internal definition of *default* - which corresponds to stage 3); and (ii) exposures classified as having specific impairment after an individual assessment of impairment.

Exposures classified as non-impairing relate to (i) all exposures that do not show signs of significant deterioration of credit risk - exposures classified as stage 1; (ii) exposures that, with signs of a significant deterioration of credit risk, have no objective evidence of impairment or impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(in thousands of Euros)

	31.12.2018					
	Securities Portfolio - 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	-	-	-	-	11 999	43 758
3 months to 1 year	-	11 000	-	-	1 107	390 776
1 to 3 years	-	72 697	-	-	1 349	1 219 855
3 to 5 years	-	97 775	-	-	73	1 136 612
More than 5 years	-	219	-	-	127	723 467
	-	**181 691**	**-**	**-**	**14 655**	**3 514 468**
Due						
Up to 3 months	-	3 880	-	-	-	231 351
3 months to 1 year	-	2 890	-	-	-	623 333
1 to 3 years	-	-	-	-	-	450 902
3 to 5 years	-	-	-	-	-	275 401
More than 5 years	-	-	-	374 400	-	1 123 931
	-	**6 770**	**-**	**374 400**	**-**	**2 704 918**
	-	**188 461**	**-**	**374 400**	**14 655**	**6 219 386**

(in thousands of Euros)

	31.12.2017					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	3 400	-	-	2 051	62 610
3 months to 1 year	-	68 559	-	-	683	315 034
1 to 3 years	-	171 847	-	-	541	2 245 967
3 to 5 years	-	15 251	-	-	346	1 442 253
More than 5 years	-	924	-	-	207	998 368
	-	**259 981**	**-**	**-**	**3 828**	**5 064 232**
Due						
Up to 3 months	-	-	-	-	-	296 819
3 months to 1 year	-	2 797	-	-	-	675 958
1 to 3 years	-	-	-	-	-	617 097
3 to 5 years	-	-	-	-	-	573 771
More than 5 years	-	21 021	-	536 581	-	1 976 317
	-	**23 818**	**-**	**536 581**	**-**	**4 139 962**
	-	**283 799**	**-**	**536 581**	**3 828**	**9 204 194**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Deposits with and loans and advances to banks	-	374 400	-	374 400
Securities at fair value through other comprehensive income	-	-	45 500	45 500
Securities at amortised cost	-	-	142 961	142 961
Loans and advances to customers	6 846	155 511	6 071 684	6 234 041
	6 846	529 911	6 260 145	6 796 902

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)

	31.12.2018					
	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	1	13 732	44 909	64 031	244 364	367 037
Securities held for trading	-	-	257 269	-	1	257 270
Bonds issued by government and other public entities	-	-	*257 269*	-	-	*257 269*
Bonds issued by other entities	-	-	-	-	*1*	*1*
Securities at fair value through profit/loss - mandatory	-	-	-	-	329 948	329 948
Bonds issued by other entities	-	-	-	-	*329 948*	*329 948*
Securities at fair value through other comprehensive income	1 081 656	2 088 725	3 894 079	-	378 672	7 443 132
Bonds issued by government and other public entities	*784 128*	*2 047 323*	*3 706 096*	-	-	*6 537 547*
Bonds issued by other entities	*297 528*	*41 402*	*187 983*	-	*378 672*	*905 585*
Securities at amortised cost	-	-	-	533 577	1 818 552	2 352 129
Bonds issued by government and other public entities	-	-	-	*503 123*	-	*503 123*
Bonds issued by other entities	-	-	-	*30 454*	*1 818 552*	*1 849 006*
Loans and advances to customers	2 399 987	7 093 238	2 630 639	6 283 981	2 251 513	20 659 358

(in thousands of Euros)

	31.12.2017					
	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	-	63 607	974	37 944	374 668	477 193
Securities held for trading	-	-	-	-	2	2
Bonds issued by other entities	-	-	-	-	*2*	*2*
Securities at fair value through other comprehensive income	287 657	14 501	5 125 575	549 064	2 058 588	8 035 385
Bonds issued by government and other public entities	*284 867*	-	*5 085 743*	*519 128*	-	*5 889 738*
Bonds issued by other entities	*2 790*	*14 501*	*39 832*	*29 936*	*2 058 588*	*2 145 647*
Loans and advances to customers	2 020 700	6 478 379	2 821 798	6 166 955	2 490 909	19 978 741

As at 31 December 2018 and 2017, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

	31.12.2018													
Segment	**Perfoming**						**Non-Perfoming**						**Total Credit**	
	Performing or with a delay < 30 days		**With a delay > 30 days**		**Total**		**Days of delay**				**Total**		**Exposure**	**Impairment**
							<= 90 days		**> 90 days**					
	Exposure	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**		
Corporate	11 976 252	288 439	38 781	1 524	12 015 033	289 963	1 734 509	712 254	4 058 565	2 934 405	5 793 074	3 646 659	17 808 107	3 936 622
Mortgage loans	7 435 397	17 951	37 559	651	7 472 956	18 602	49 689	13 000	130 661	20 390	180 350	33 390	7 653 306	51 992
Consumer and other loans	1 106 648	325	8 227	505	1 114 875	830	180 025	6 754	137 086	75 645	317 111	82 399	1 431 986	83 229
Total	**20 518 297**	**306 715**	**84 567**	**2 680**	**20 602 864**	**309 395**	**1 964 223**	**732 008**	**4 326 312**	**3 030 440**	**6 290 535**	**3 762 448**	**26 893 399**	**4 071 843**

(in thousands of Euros)

	31.12.2017													
Segment	**Perfoming**						**Non-Perfoming**						**Total Credit**	
	Active or with delay < 30 days		**With > 30 days**		**Total**		**Dias de atraso**				**Total**		**Exposure**	**Impairment**
							<= 90 days		**> 90 days**					
	Exposure	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**		
Corporate	11 747 259	236 613	52 765	1 398	11 800 024	238 011	3 112 415	1 480 502	5 224 897	3 645 695	8 337 312	5 126 197	20 137 336	5 364 208
Mortgage loans	7 101 922	19 842	51 709	307	7 153 631	20 149	42 577	3 200	429 119	102 209	471 696	105 409	7 625 327	125 558
Consumer and other loans	961 719	5 570	6 591	239	968 310	5 809	187 964	71 522	267 826	126 761	455 790	198 283	1 424 100	204 092
Total	**19 810 899**	**262 025**	**111 066**	**1 944**	**19 921 965**	**263 969**	**3 342 956**	**1 555 223**	**5 921 842**	**3 874 666**	**9 264 798**	**5 429 889**	**29 186 763**	**5 693 858**

As at 31 December 2018 and 2017, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euros)

31.12.2018												
Year of production	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	6 718	454 071	84 340	43 402	1 002 323	28 421	706 344	151 032	11 403	756 464	1 607 426	124 164
2005	1 334	153 867	30 717	5 762	244 337	1 183	18 243	18 941	486	25 339	417 145	32 386
2006	1 512	333 431	46 227	8 474	393 257	1 491	22 889	24 006	1 216	32 875	750 694	48 934
2007	1 792	472 602	88 964	14 579	604 373	2 827	32 138	30 311	1 299	48 509	1 107 286	93 090
2008	1 809	817 706	102 862	13 535	685 978	2 762	25 967	32 175	939	41 311	1 535 859	106 563
2009	1 677	699 604	203 033	10 902	575 855	2 878	23 131	39 948	2 659	35 710	1 315 407	208 570
2010	2 009	732 943	294 947	9 980	585 689	2 778	27 397	54 821	2 041	39 386	1 373 453	299 766
2011	1 843	556 323	126 675	5 707	277 873	1 459	27 342	28 186	1 250	34 892	862 382	129 384
2012	2 293	1 587 108	993 590	3 392	133 248	1 156	34 785	33 526	3 239	40 470	1 753 882	997 985
2013	3 861	970 845	337 116	4 090	205 182	1 350	31 289	65 781	12 547	39 240	1 241 808	351 013
2014	4 682	1 212 884	427 147	2 792	158 848	702	28 685	36 786	1 586	36 159	1 408 518	429 435
2015	7 017	1 501 406	301 536	3 733	245 966	653	37 673	160 225	22 985	48 423	1 907 597	325 174
2016	8 490	1 953 268	480 685	7 339	529 890	1 235	56 988	149 737	13 584	72 817	2 632 895	495 504
2017	11 141	2 264 472	140 797	10 876	907 970	1 543	62 446	235 962	6 119	100 343	3 408 404	148 459
2018	21 330	4 097 577	277 986	11 463	1 102 517	1 554	65 346	370 549	1 876	98 139	5 570 643	281 416
Total	**77 508**	**17 808 107**	**3 936 622**	**156 026**	**7 653 306**	**51 992**	**1 200 663**	**1 431 986**	**83 229**	**1 450 077**	**26 893 399**	**4 071 843**

(in thousands of Euros)

31.12.2017												
Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	23 234	784 328	302 354	48 900	1 275 062	33 923	147 895	101 939	8 780	220 029	2 161 329	345 057
2005	3 789	199 509	58 688	6 522	292 924	8 548	27 553	29 901	2 773	37 864	522 334	70 009
2006	4 722	684 468	245 519	9 534	463 030	10 292	33 980	37 541	4 462	48 236	1 185 039	260 273
2007	12 622	670 765	171 888	16 082	694 235	16 704	45 216	47 376	9 232	73 920	1 412 376	197 824
2008	4 579	1 290 878	379 354	14 997	784 508	12 479	44 198	49 719	7 281	63 774	2 125 105	399 114
2009	3 695	926 288	269 659	12 327	661 548	12 874	32 678	63 223	15 657	48 700	1 651 059	298 190
2010	13 998	955 716	401 274	11 627	705 227	11 190	32 884	62 777	11 526	58 509	1 723 720	423 990
2011	6 039	1 007 978	263 548	6 948	334 088	7 752	29 427	71 343	21 421	42 414	1 413 409	292 721
2012	6 507	1 455 800	589 046	4 256	166 471	4 641	33 719	64 089	21 949	44 482	1 686 360	615 636
2013	25 696	1 948 127	653 113	4 854	238 816	3 554	31 494	110 689	43 574	62 044	2 297 632	700 241
2014	9 959	1 633 883	603 966	3 227	186 839	1 087	29 751	64 145	9 703	42 937	1 884 867	614 756
2015	30 880	2 399 178	439 403	4 225	275 909	938	37 101	122 828	17 514	72 206	2 797 915	457 855
2016	30 725	2 779 116	679 204	8 251	585 508	874	51 329	227 785	25 098	90 305	3 592 409	705 176
2017	35 002	3 401 302	307 192	11 442	961 162	702	53 899	370 745	5 122	100 343	4 733 209	313 016
Total	**211 447**	**20 137 336**	**5 364 208**	**163 192**	**7 625 327**	**125 558**	**631 124**	**1 424 100**	**204 092**	**1 005 763**	**29 186 763**	**5 693 858**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of NOVO BANCO.

As at 31 December 2018 and 2017, 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)

	31.12.2018					
	Individual Assessment[1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	6 037 388	3 764 203	11 770 719	172 419	17 808 107	3 936 622
Mortgage loans	6 943	826	7 646 363	51 166	7 653 306	51 992
Consumer and other loans	269 965	56 576	1 162 021	26 653	1 431 986	83 229
Total	**6 314 296**	**3 821 605**	**20 579 103**	**250 238**	**26 893 399**	**4 071 843**

[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 according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2017					
	Individual Assessment[1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	8 631 362	5 070 085	11 505 974	294 123	20 137 336	5 364 208
Mortgage loans	87 456	32 507	7 537 871	93 051	7 625 327	125 558
Consumer and other loans	287 241	160 495	1 136 859	43 597	1 424 100	204 092
Total	**9 006 059**	**5 263 087**	**20 180 704**	**430 771**	**29 186 763**	**5 693 858**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee
[2] Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

The loans and advances analysed by the Impairment Committee, for which the impairment amount automatically determined by the model was not changed, are included and presented in the "Collective assessment".

In order to mitigate credit risk, credit operations are secured, namely with mortgages or pledges. The fair value of those guarantees is determined on the date of the loan disbursement, being revalued periodically.

The gross amount of the loans to customers and the respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euros)

	31.12.2018		31.12.2017	
	Amount of loans	**Fair value of collateral**	**Amount of loans**	**Fair value of collateral**
Individuals - Mortgage				
Mortgages	7 524 800	7 511 810	7 391 770	7 364 939
Pledges	56 090	55 704	54 072	53 753
Not collateralized	72 416	-	179 485	-
	7 653 306	7 567 514	7 625 327	7 418 692
Individuals - Other				
Mortgages	273 338	261 495	293 412	270 455
Pledges	337 031	191 572	342 076	201 619
Not collateralized	821 617	-	788 612	-
	1 431 986	453 067	1 424 100	472 074
Corporate				
Mortgages	3 448 299	3 109 864	4 372 560	3 901 463
Pledges	6 386 323	2 795 794	5 076 316	2 404 380
Not collateralized	7 973 485	-	10 688 460	-
	17 808 107	5 905 658	20 137 336	6 305 843
Total	**26 893 399**	**13 926 239**	**29 186 763**	**14 196 609**

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. This value is not impacted by collaterals with a fair value in excess of the loan to which they are linked.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

	31.12.2018							
	Individuals - Mortgage loans		**Individuals - Other loans**		**Corporate loans**		**Total**	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	148 766	7 343 301	4 943	213 885	7 826	412 373	161 535	7 969 559
>= 0.5M€ and <1.0M€	223	126 899	60	23 151	2 257	289 076	2 540	439 126
>= 1.0M€ and <5.0M€	36	41 610	25	24 459	3 322	822 777	3 383	888 846
>= 5.0M€ and <10.0M€	-	-	-	-	635	414 388	635	414 388
>= 10.0M€ and <20.0M€	-	-	-	-	1 260	379 255	1 260	379 255
>= 20.0M€ and <50.0M€	-	-	-	-	161	453 519	161	453 519
>=50M€	-	-	-	-	1 603	338 476	1 603	338 476
	149 025	**7 511 810**	**5 028**	**261 495**	**17 064**	**3 109 864**	**171 117**	**10 883 169**

(in thousands of Euros)

	31.12.2017							
	Individuals - Mortgage loans		**Individuals - Other loans**		**Corporate loans**		**Total**	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	150 595	7 226 365	5 134	221 252	17 127	585 655	172 856	8 033 272
>= 0.5M€ and <1.0M€	181	106 580	67	24 427	2 836	336 102	3 084	467 109
>= 1.0M€ and <5.0M€	33	31 994	94	24 776	7 408	953 441	7 535	1 010 211
>= 5.0M€ and <10.0M€	-	-	-	-	2 339	536 044	2 339	536 044
>= 10.0M€ and <20.0M€	-	-	-	-	4 997	518 316	4 997	518 316
>= 20.0M€ and <50.0M€	-	-	-	-	3 078	685 888	3 078	685 888
>=50M€	-	-	-	-	1 582	286 017	1 582	286 017
	150 809	**7 364 939**	**5 295**	**270 455**	**39 367**	**3 901 463**	**195 471**	**11 536 857**

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 considers the associated credit risk mitigation elements, according to the internal rules and procedures implemented.

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 several procedures applicable to collateral (namely the financial and real estate properties collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the risks of liquidity and volatility."

The real estate properties revaluation process is conducted by valuation experts registered with the CMVM, and is based on the methodology described in Note 2.10.

The analysis of risk exposure by sector of activity, as at 31 December 2018 and 2017, is presented as follows:

(in thousands of Euros)

	31.12.2018											
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss - mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment [(a)]					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	566 586	(211 768)	-	87	-	-	10 870	-	-	-	14 042	(6 706)
Mining	94 954	(3 198)	-	-	-	-	102	-	-	-	5 256	(98)
Food, Beverages and Tobacco	518 912	(26 963)	-	544	-	-	9 601	(2)	23 460	(2 516)	54 381	(381)
Textiles and Clothing	314 532	(18 591)	-	79	-	-	-	-	2 495	-	11 728	(1 035)
Leather and Shoes	62 486	(3 003)	-	23	-	-	-	-	1 000	-	1 731	(101)
Wood and Cork	106 052	(8 545)	-	284	-	-	-	-	7 497	(12)	7 950	(50)
Paper and Printing Industry	194 371	(19 166)	-	-	-	-	22 150	(14)	1 498	-	7 538	(44)
Refining of Petroleum	8 105	(111)	-	-	-	-	-	-	-	-	11 371	-
Chemicals and Rubber	337 344	(18 354)	-	1 917	-	-	25 323	(38)	3 980	(8)	39 651	(251)
Non-metallic Minerals	184 135	(40 088)	-	-	-	-	3 174	(3)	23 344	(26)	15 248	(257)
Metallurgical Industries and Metallic Products	354 059	(13 509)	-	211	-	-	9 572	(8)	6 248	(11)	44 489	(674)
Production of Machinery, Equipment and Electrical De	140 883	(10 001)	-	2 086	-	-	37 880	(19)	-	-	81 318	(341)
Production of Transport Material	84 546	(2 533)	-	-	-	-	13 225	(10)	-	-	10 888	(113)
Other Transforming Industries	160 969	(17 001)	-	6	-	-	-	-	1 006	(1)	25 527	(1 795)
Electricity, Gas and Water	521 677	(39 416)	-	35 853	-	-	28 893	(24)	162 804	(496)	93 397	(75)
Construction and Public Works	1 603 556	(394 600)	-	57 515	-	-	-	-	191 407	(36 219)	933 290	(73 233)
Wholesale and Retail Trade	1 523 779	(275 893)	-	1 237	-	-	30 803	(22)	19 612	(100)	286 799	(44 135)
Tourism	1 027 050	(37 072)	-	712	-	-	144	-	-	-	95 198	(5 900)
Transport and Communication	1 023 995	(84 609)	-	110 358	-	-	107 920	(75)	33 285	(53)	427 984	(9 746)
Financial Activities	951 155	(262 228)	1	279 206	2 863 272	149 860	610 628	(102)	969 492	(19 658)	329 183	(1 365)
Real Estate Activities	2 381 579	(504 129)	-	6 947	2 751	-	38 034	(21)	104 549	(18 010)	261 164	(20 407)
Services Provided to Companies	3 735 290	(1 415 022)	-	18 433	71 245	-	181 551	(39)	435 290	(114 345)	439 053	(11 368)
Public Administration and Services	797 840	(59 056)	257 269	1 562	-	-	6 295 967	(779)	503 123	(771)	21 717	(1 241)
Other activities of collective services	1 083 327	(471 672)	-	3 075	12 329	-	73 359	(40)	5 000	(99)	116 932	(1 480)
Mortgage Loans	7 653 306	(51 992)	-	-	-	-	-	-	-	-	68	-
Consumers Loans	1 431 986	(83 229)	-	-	-	-	-	-	-	-	6 423	(322)
Other	30 925	(94)	-	-	-	-	68 094	(8)	-	-	18 983	(8 251)
TOTAL	**26 893 399**	**(4 071 843)**	**257 270**	**520 135**	**2 949 597**	**149 860**	**7 567 290**	**(1 204)**	**2 495 090**	**(192 325)**	**3 361 309**	**(189 369)**

(in thousands of Euros)

	31.12.2017									
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Guarantees and endorsements provided	
	Gross amount	Impairment [(a)]					Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	392 740	(206 154)	-	113	-	-	10 870	-	13 618	(7 265)
Mining	116 440	(14 845)	-	302	-	-	1 484	(1 378)	5 531	(77)
Food, Beverages and Tobacco	753 469	(61 082)	-	2 170	-	-	29 735	(2 636)	74 435	(683)
Textiles and Clothing	323 094	(47 484)	-	190	-	-	23 223	(3 606)	12 454	(2 365)
Leather and Shoes	76 986	(9 685)	-	16	-	-	499	(499)	1 521	(103)
Wood and Cork	123 873	(33 461)	-	497	-	-	2 754	(1 251)	5 451	(46)
Paper and Printing Industry	234 165	(55 741)	-	-	-	-	28 319	(25 319)	8 359	(47)
Refining of Petroleum	5 267	(874)	-	-	-	-	-	-	12 530	(1)
Chemicals and Rubber	370 221	(23 635)	-	2 684	-	-	6 990	(5)	50 776	(210)
Non-metallic Minerals	205 155	(54 695)	-	-	-	-	28 433	(3 432)	13 680	(525)
Metallurgical Industries and Metallic Products	454 502	(95 596)	-	325	-	-	3 864	(3 218)	38 583	(433)
Production of Machinery, Equipment and Electrical De	172 400	(21 604)	-	269	-	-	3 589	(596)	81 086	(356)
Production of Transport Material	68 662	(3 657)	-	-	-	-	9 006	(31)	13 944	(55)
Other Transforming Industries	203 048	(46 513)	-	-	-	-	1 520	(242)	32 807	(533)
Electricity, Gas and Water	449 640	(16 611)	-	43 613	-	-	194 602	-	101 184	(278)
Construction and Public Works	1 837 756	(597 264)	-	61 737	-	-	191 795	(555)	989 447	(61 886)
Wholesale and Retail Trade	1 801 260	(477 608)	-	3 605	-	-	43 558	(20 433)	295 618	(4 087)
Tourism	1 021 270	(77 521)	-	707	-	-	8 196	(8 015)	72 738	(4 938)
Transport and Communication	1 220 561	(144 694)	-	106 906	-	-	42 089	(5 693)	586 699	(1 932)
Financial Activities	1 692 082	(664 476)	2	324 413	523	171 085	4 906 810	(884 445)	431 372	(1 368)
Real Estate Activities	2 632 538	(690 401)	-	7 320	3 450	-	189 043	(80 479)	206 350	(4 808)
Services Provided to Companies	3 585 332	(1 357 765)	-	22 006	-	-	778 668	(537 060)	587 535	(7 341)
Public Administration and Services	793 078	(49 937)	-	1 822	-	-	5 889 738	-	24 302	(6 919)
Other activities of collective services	1 569 916	(612 369)	79	4 178	-	-	150 912	(64 517)	133 344	(39 522)
Mortgage Loans	7 625 327	(125 558)	-	-	-	-	-	-	64	-
Consumers Loans	1 424 100	(204 092)	-	-	-	-	-	-	4 326	(19)
Other	33 881	(536)	-	-	-	-	8 168	(8 168)	19 847	(387)
TOTAL	**29 186 763**	**(5 693 858)**	**81**	**582 873**	**3 973**	**171 085**	**12 553 865**	**(1 651 578)**	**3 817 601**	**(146 184)**

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 to a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favorable than those applied to other customers with the same risk profile.

The unmarking of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no principal or interest past due; and (iii) there was no new loan restructuring during that period.

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2018 and 2017, are as follows:

(in thousands of Euros)

	31.12.2018	31.12.2017
Corporate	4 430 410	6 302 765
Mortgage loans	116 386	230 583
Consumer and other loans	245 966	332 685
Total	**4 792 762**	**6 866 033**

The details of the restructuring measures applied to loans restructured up to 31 December 2018 and 2017 are the following:

(in thousands of Euros)

Solution	31.12.2018								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	32	48 180	5 137	208	316 163	225 067	240	364 343	230 204
Assets received in partial settlement of loan	12	141	4	10	2 997	2 183	22	3 138	2 187
Capitalization of interest	19	5 449	111	226	560 754	463 192	245	566 203	463 303
New loan in total or partial payment of existing loan	1 823	144 122	4 211	773	827 213	522 931	2 596	971 335	527 142
Extension of repayment period	977	371 449	7 657	1 491	1 115 930	602 418	2 468	1 487 379	610 075
Introduction of grace period of principal or interest	662	90 281	2 557	254	392 044	250 714	916	482 325	253 271
Decrease in the interest rates	114	29 253	1 088	78	306 509	94 238	192	335 762	95 326
Changes of the lease payment plan	187	72 254	2 510	117	68 454	25 344	304	140 708	27 854
Changes in the interest payment	14	10 438	160	27	239 300	166 710	41	249 738	166 870
Other	2 842	70 882	1 558	1 365	120 949	67 922	4 207	191 831	69 480
Total	**6 682**	**842 449**	**24 993**	**4 549**	**3 950 313**	**2 420 719**	**11 231**	**4 792 762**	**2 445 712**

(in thousands of Euros)

Solution	31.12.2017								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	34	11 425	260	319	498 769	326 821	353	510 194	327 081
Assets received in partial settlement of loan	13	106	5	4	2 880	2 167	17	2 986	2 172
Capitalization of interest	22	59 965	1 523	332	400 033	213 015	354	459 998	214 538
New loan in total or partial payment of existing loan	2 754	224 435	5 658	1 650	1 184 352	832 741	4 404	1 408 787	838 399
Extension of repayment period	5 865	715 331	22 146	2 204	1 513 051	764 446	8 069	2 228 382	786 592
Introduction of grace period of principal or interest	1 067	315 855	4 198	399	420 212	238 918	1 466	736 067	243 116
Decrease in the interest rates	177	94 014	2 450	142	546 133	230 684	319	640 147	233 134
Changes of the lease payment plan	203	134 357	1 394	131	47 205	17 849	334	181 562	19 243
Changes in the interest payment	19	6 195	39	30	252 805	147 858	49	259 000	147 897
Other	5 212	137 205	2 012	4 759	301 705	171 882	9 971	438 910	173 894
Total	**15 366**	**1 698 888**	**39 685**	**9 970**	**5 167 145**	**2 946 381**	**25 336**	**6 866 033**	**2 986 066**

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, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

The main measurement of market risk is the assessment of unrealised losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2018				31.12.2017			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	526	2 239	2 242	4 294	1 359	2 166	3 137	1 733
Interest rate risk	9 870	10 247	10 000	6 150	5 232	2 179	5 829	548
Shares and commodities	199	324	440	307	869	1 046	638	491
Volatility	140	169	241	173	90	158	282	255
Credit spread	1 614	3 147	20 209	45	33	663	53	361
Diversification effect	(1 135)	(3 481)	(7 856)	(3 261)	(2 374)	(2 469)	(3 832)	(1 530)
Total	**11 215**	**12 645**	**25 276**	**7 707**	**5 208**	**3 744**	**6 107**	**1 858**

NOVO BANCO has a VaR of Euro 11 215 thousand (31 December 2017: Euro 5 208 thousand) in respect of its trading positions.

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2015/08, NOVO BANCO Group calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2018						
	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	1 432 687	208 321	727 328	115 360	6 153	4 468	371 057
Loans and advances to customers	26 892 180	31 571	14 138 268	4 419 015	2 587 621	4 725 161	990 544
Securities	13 637 600	3 601 447	2 052 434	912 614	482 836	3 966 200	2 622 069
Total			**16 918 030**	**5 446 989**	**3 076 610**	**8 695 829**	**3 983 670**
Deposits from banks	9 107 757	-	1 884 360	107 884	325 411	6 737 139	52 963
Due to customers	28 137 995	-	11 694 911	3 103 276	5 408 313	7 745 260	186 235
Debt securities issued	864 597	-	-	-	-	-	864 597
Total			**13 579 271**	**3 211 160**	**5 733 724**	**14 482 399**	**1 103 795**
Balance sheet GAP (Assets - Liabilities)	10 779		3 338 759	2 235 829	(2 657 114)	(5 786 570)	2 879 875
Off-Balance sheet	1		1 625 996	738 161	(36 194)	(1 106 439)	(1 221 523)
Structural GAP	**10 780**		**4 964 755**	**2 973 990**	**(2 693 308)**	**(6 893 009)**	**1 658 352**
Accumulated GAP			**4 964 755**	**7 938 745**	**5 245 437**	**(1 647 572)**	**10 780**

(in thousands of Euros)

	31.12.2017						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	4 789 651	230 266	3 815 205	148 976	203 515	4 468	387 221
Loans and advances to customers	29 147 557	70 663	15 216 454	4 547 850	2 359 536	5 830 314	1 122 740
Securities	11 551 073	3 520 293	1 996 212	960 343	795 615	3 455 100	823 510
Total			**21 027 871**	**5 657 169**	**3 358 666**	**9 289 882**	**2 333 471**
Deposits from banks	9 289 666	-	1 934 402	89 708	394 714	6 809 579	61 263
Due to customers	29 570 597	-	10 182 761	3 798 504	5 642 679	9 708 620	238 033
Debt securities issued	603 143	-	-	-	-	-	603 143
Total			**12 117 163**	**3 888 212**	**6 037 393**	**16 518 199**	**902 439**
Balance sheet GAP (Assets - Liabilities)	2 203 653		8 910 708	1 768 957	(2 678 727)	(7 228 317)	1 431 032
Off-Balance sheet	-		487 923	359 589	2 000	(224 355)	(625 157)
Structural GAP	**2 203 653**		**9 398 631**	**2 128 546**	**(2 676 727)**	**(7 452 672)**	**805 875**
Accumulated GAP			**9 398 631**	**11 527 177**	**8 850 450**	**1 397 778**	**2 203 653**

The Bank performs sensitivity analyses of the interest rate risk of the banking portfolio, based on an approximation to the duration model approach, considering several scenarios of yield curve shifts at all interest rate levels.

(in thousands of Euros)

	31.12.2018				31.12.2017			
	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	(83 054)	83 054	(42 333)	42 333	(5 173)	5 173	(3 420)	3 420

The following table presents the average balances, as well as the average interest rates for the period for the Bank's major financial asset and liability categories, as at 31 December 2018 and 2017, as well as the average balances and interest for the year:

(in thousands of Euros)

	31.12.2018			31.12.2017		
	Average balance of the period	**Interest of the period**	**Average interest rate**	**Average balance of the period**	**Interest of the period**	**Average interest rate**
Monetary assets	1 096 687	20 717	1,86%	1 464 885	34 087	2,30%
Loans and advances to customers	28 291 979	598 312	2,09%	29 726 366	622 578	2,07%
Securities and other	10 130 817	110 280	1,07%	7 581 319	91 756	1,19%
Differential applications	-	-	-	-	-	-
Financial assets and differentials	**39 519 483**	**729 309**	**1,82%**	**38 772 570**	**748 421**	**1,90%**
Monetary Liabilities	9 359 790	41 047	0,43%	9 950 117	63 446	0,63%
Due to customers	29 066 652	242 021	0,82%	27 822 400	403 816	1,43%
Differential liabilities	1 093 041	-	-	1 000 053	-	-
Financial liabilities and differentials	**39 519 483**	**283 068**	**0,71%**	**38 772 570**	**467 262**	**1,19%**
Net interest income		**446 241**	**1,11%**		**281 159**	**0,72%**

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2018 and 31 December 2017, is analysed as follows:

(in thousands of Euros)

		31.12.2018				31.12.2017			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(1 684 760)	1 679 256	(5 933)	(11 437)	(1 242 529)	1 201 842	9 115	(31 572)
GBP	GREAT BRITISH POUND	26 001	(21 867)	-	4 134	33 128	(29 233)	(1 215)	2 680
BRL	BRAZILIAN REAL	834	3 528	(4 287)	75	912	-	-	912
DKK	DANISH KRONE	(2 092)	2 643	-	551	2 355	(1 535)	-	820
JPY	JAPANESE YEN	(3 338)	3 359	5 947	5 968	100	56	(998)	(842)
CHF	SWISS FRANC	(8 710)	11 381	-	2 671	(8 438)	12 167	-	3 729
SEK	SWEDISH KRONE	(11 850)	11 624	(1 080)	(1 306)	137	(239)	(760)	(862)
NOK	NORWEGIAN KRONE	(12 421)	12 635	2 260	2 474	(27 106)	27 519	919	1 332
CAD	CANADIAN DOLLAR	(42 282)	42 967	984	1 669	(59 721)	61 111	(2 294)	(904)
ZAR	SOUTH AFRICAN RAND	(1 071)	1 167	-	96	(569)	419	-	(150)
AUD	AUSTRALIAN DOLLAR	(8 522)	8 724	-	202	(10 922)	11 078	-	156
VEB	VENEZUELAN BOLIVAR	5	-	-	5	43 744	-	-	43 744
MOP	MACAO PATACA	4 359	-	-	4 359	5 144	(5 402)	-	(258)
MAD	MOROCCAN DIRHAM	(3 196)	2 656	-	(540)	(2 726)	2 938	-	212
MXN	MEXICAN PESO	392	(261)	-	131	1 010	(590)	-	420
AOA	ANGOLAN KWANZA	19 828	-	-	19 828	30 203	-	-	30 203
	OTHER	(7 947)	16 865	3 977	12 895	18 563	(7 415)	3 003	14 151
		(1 734 770)	**1 774 677**	**1 868**	**41 775**	**(1 216 715)**	**1 272 716**	**7 770**	**63 771**

Note: assets / (liabilities)

Exposure to sovereign debt of "peripheral" Eurozone countries

As at 31 December 2018 and 2017, the Bank's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

31.12.2018	Loans and advances to customers	Securities held for trading	Derivative instruments (1)	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	743 450	257 269	(109)	3 591 448	502 352	5 094 410
Spain	54 243	-	-	1 980 394	-	2 034 637
Ireland	-	-		60 398	-	60 398
Italy	-	-	-	83 037	-	83 037
	797 693	**257 269**	**(109)**	**5 715 277**	**502 352**	**7 272 482**

(1) Net values: receivable / (payable)

(in thousands of Euros)

31.12.2017	Loans and advances to customers	Derivative instruments (1)	Securities at fair value through other comprehensive income	Total
Portugal	744 560	(98)	3 777 118	4 521 580
Spain	44 335	-	1 491 633	1 535 968
Italy	-	-	336 120	336 120
	788 895	**(98)**	**5 604 871**	**6 393 668**

(1) Net values: receivable / (payable)

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, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities is as follows:

(in thousands of Euros)

31.12.2018	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**3 157 428**	**3 547 804**	**43 644**	**3 591 448**	**-**	**25 029**
Maturity up to 1 year	610 124	613 677	2 785	616 462	-	372
Maturity exceeding 1 year	2 547 304	2 934 127	40 859	2 974 986	-	24 657
Spain	**1 832 372**	**1 950 455**	**29 939**	**1 980 394**	**-**	**16 930**
Maturity up to 1 year	30 027	30 895	583	31 478	-	282
Maturity exceeding 1 year	1 802 345	1 919 560	29 356	1 948 916	-	16 648
Ireland	**60 000**	**59 845**	**553**	**60 398**	**-**	**(7)**
Maturity exceeding 1 year	60 000	59 845	553	60 398	-	(7)
Italy	**80 000**	**82 644**	**393**	**83 037**	**-**	**2 011**
Maturity exceeding 1 year	80 000	82 644	393	83 037	-	2 011
	5 129 800	**5 640 748**	**74 529**	**5 715 277**	**-**	**43 963**
Securities at amortised cost						
Portugal	**501 022**	**570 587**	**2 085**	**502 352**	**-**	**-**
Maturity exceeding 1 year	501 022	570 587	2 085	502 352	771	-
	501 022	**570 587**	**2 085**	**502 352**	**-**	**-**
Securities held for trading						
Portugal	233 000	254 161	3 108	257 269	-	-
	233 000	**254 161**	**3 108**	**257 269**	**-**	**-**

(in thousands of Euros)

31.12.2017	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**3 422 883**	**3 733 511**	**43 607**	**3 777 118**	**-**	**109 006**
Maturity up to 1 year	1 178 870	1 181 159	71	1 181 230	-	(1)
Maturity exceeding 1 year	2 244 013	2 552 352	43 536	2 595 888	-	109 007
Spain	**1 350 122**	**1 465 829**	**25 804**	**1 491 633**	**-**	**5 733**
Maturity exceeding 1 year	1 350 122	1 465 829	25 804	1 491 633	-	5 733
Italy	**330 000**	**335 937**	**183**	**336 120**	**-**	**2 577**
Maturity exceeding 1 year	330 000	335 937	183	336 120	-	2 577
	5 103 005	**5 535 277**	**69 594**	**5 604 871**	**-**	**117 316**

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 tenors and currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the

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

Banks are subject to liquidity risk as an inherent consequence of the business of transforming maturities (long-term lenders and short-term takers), with the prudent management of liquidity risk being therefore crucial.

At NOVO BANCO, the analysis and decision making are made based on the mismatch reports, which allow, not only to identify negative mismatches but also make a dynamic hedging of these mismatches. Following the withdrawal by the regulator of Instruction No. 13/2009 and its replacement by the ITS (Implementing Technical Standards) reports, the position as at 31 December 2018 is already calculated according to current instructions, namely by calculating the liquid deficit and the counterbalancing capacity:

(in thousands of Euros)

	31.12.2018						
	Total	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
Output							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	102 291	2 247	4 593	-	-	-	95 451
Liabilities from guaranteed lending operations and operations associated to financial markets	6 740 104	961	237 143	-	-	40 000	6 462 000
Behavioral output from deposits	31 103 674	332 338	300 208	536 319	449 683	969 009	28 516 117
Exchange swaps and derivatives	1 166 385	55 912	156 064	358 005	65 829	89 050	441 525
Other output	398 229	-	-	-	-	-	398 229
Total Output	**39 510 683**	**391 458**	**698 008**	**894 324**	**515 512**	**1 098 059**	**35 913 322**
Input							
Secured lending operations and operations associated to financial markets	11 760	2 010	9 750	-	-	-	-
Behavioral inputs from loans and advances	24 155 126	154 165	49 080	139 336	260 706	311 115	23 240 724
Swaps cambiais e Derivados	1 147 347	57 042	151 025	346 758	67 271	77 204	448 047
Own portfolio securities maturing and other entries	11 118 961	-	55 492	28 692	990 204	509 914	9 534 659
Total Input	**36 433 194**	**213 217**	**265 347**	**514 786**	**1 318 181**	**898 233**	**33 223 430**
Net contractual deficit	(3 077 487)	(178 240)	(432 661)	(379 538)	802 670	(199 826)	(2 689 892)
Accumulated net contractual deficit	**-**	**(178 240)**	**(610 901)**	**(990 439)**	**(187 769)**	**(387 595)**	**(3 077 487)**
Capacity to readjustment	Initial Stock	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
Cash	149 266						
Deployable reserves from the central bank	279 178	(279 178)					
Negotiable and non-negotiable assets eligible for the central bank	8 994 709	(36 510)	36 521	(263 447)	(429 904)	(612 820)	(7 595 446)
Authorized facilities and not utilized received	-	-	-	-	-	-	-
Net variation of capacity to adjustment	-	(315 688)	36 521	(263 447)	(429 904)	(612 820)	(7 595 446)
Accumulated capacity to readjustment	**9 423 153**	**9 107 465**	**9 143 986**	**8 880 539**	**8 450 635**	**7 837 815**	**242 369**

(in thousands of Euros)

	31.12.2017						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash (Except Central Banks)	230	230	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	4 559	3 763	17	35	149	198	398
Loans and advances to customers **(1)**	21 107	175	220	435	547	853	18 877
Securities **(2)**	17 713	36	82	402	475	1 984	14 733
Other net assets	702	75	8	1	1	1	617
Off-balance sheet (Commitments and Derivatives) **(4)**	103	2	2	15	44	40	-
Total		**4 281**	**329**	**888**	**1 216**	**3 076**	**34 625**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	9 290	1 053	156	167	90	480	7 344
Due to customers	29 571	868	1 079	365	202	300	26 755
Debt securities issued **(3)**	603	-	-	-	-	-	603
Other short-term liabilities	1 653	1 112	2	13	-	-	525
Off-balance sheet (Commitments and Derivatives) **(4)**	1 187	21	34	44	99	98	891
Total		**3 054**	**1 271**	**589**	**391**	**878**	**36 118**
GAP (Assets - Liabilities)		**1 228**	**(942)**	**298**	**825**	**2 197**	
Accumulated GAP		**1 228**	**286**	**584**	**1 409**	**3 607**	
Net Assets Buffer > 12 months							**3 539**

(1) This caption does not include the loans capable of being used for the obtaining of liquidity from the ECB

(2) This caption includes the securities and loans capable of being used for the obtaining of liquidity from the ECB. The securities capable of being used for ECB purposes are net of haircuts
(3) The amounts are stated at the nominal amount up to one year and at the carrying book value for longer periods
(4) The derivatives are considered at their Cash Flows for linear products and at NPV for non-linear products

The one-year cumulative liquidity gap moved from Euro 3 607 million on 31 December 2017 to Euro 388 million on 31 December 2018, being the counterbalancing capacity as at 31 December 2018 of Euro 7 838 million, with the net assets buffer as at 31 December 2017 of Euro 3 539 million.

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 market scenarios.

The Bank continues to follow all legislative changes 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 they hold enough high-quality liquid assets to survive a severe stress scenario over a 30-day period, whilst the NSFR aims to ensure banks maintain a stable funding for their assets and off-balance sheet assets operations, for one year. These ratios were adopted by the European Union, and the LCR has a limit of 100% since 1 January 2018.

Operational risk

Operational Risk reflects, typically, the probability of the occurrence of events with negative impacts, on net income or equity, resulting from inadequacies or weaknesses in procedures and in information systems, staff behavior or external events, including legal risks. Operational risk is, therefore, understood to be the sum of the following risks: operational, information systems, compliance and reputational.

To manage operational risk, a system was developed that standardizes, systematizes and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organizational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) - the entity directly responsible for the supervision of the NOVO BANCO - and by the Banco de Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the Bank objectives.

The European Parliament and Council approved, on 26 June 2013, Directive 2013/36/EU and Regulation (EU) no. 575/2013 (CRR) 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, in particular to the calculation of the ratios mentioned above.

NOVO BANCO is authorised to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of NOVO BANCO Portugal. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of the NOVO BANCO entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (common equity tier I or CET I), additional own funds of level 1 (additional tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or tier II) which added to the tier I represents the total own funds.

The total own funds of NOVO BANCO Group are composed by elements of CET I and Tier II.

The summary of own funds, risk weighted assets and capital ratios capital of NOVO BANCO as at 31 December 2018 and 2017 are presented in the following table:

(in thousands of Euros)

		31.12.2018	31.12.2017
Realized ordinary capital		5 900	5 900
Reserves and Retained earnings		(868)	(187)
Net income / (loss) for the period		(1 433)	(1 253)
A - Accounting Equity		**3 599**	**4 460**
Revaluation reserves		(13)	(13)
Transitory period to IFRS 9		246	-
Intangible assets		(5)	(8)
Insufficient provisions for future liabilities		(41)	(121)
Deferred taxes		(250)	(669)
Other		(68)	3
B - Prudential adjustments to Equity		**(131)**	**(809)**
C - Own principal funds level 1 - CET I (A+B)		**3 469**	**3 651**
D - Additional own funds Level 1 - Additional Tier 1		**-**	**-**
E - Level 1 own funds - Tier I (C+D)		**3 469**	**3 651**
Subordinated liabilities elegeible for Tier II		398	-
Other elements eligible for Tier II		139	150
Regulatory adjustments for Tier II		(13)	(82)
F - Level 2 own funds - Tier II		**524**	**68**
G - Eligible own funds (E+F)		**3 993**	**3 719**
Credit risk		29 471	31 747
Market risk		892	412
Operational risk		1 253	1 016
H - Risk Weighted Assets		**31 617**	**33 174**
Solvability ratio			
CET I ratio	**(C/H)**	**11.0%**	**11.0%**
Tier I ratio	**(E/H)**	**11.0%**	**11.0%**
Solvability ratio	**(G/H)**	**12.6%**	**11.2%**
Leverage ratio[1]		**7.3%**	**7.4%**

(1) The leverage ratio results from dividing Tier 1 for the exposure measure in accordance to the terms of the CRR

As at 31 December 2018 the Bank complied with the minimum capital requirements for every capital typology.

NOTE 44 – RENDERING OF INSURANCE AND RE-INSURANCE BROKERING SERVICES

At 31 December 2018 and 2017, services provided with insurance and re-insurance brokerage have the following composition:

(thousands of Euros)

	31.12.2018	31.12.2017
Life insurance		
Unit Link	8	131
Credit protection insurance (life part)	1 435	1 255
Traditional products	15 640	14 908
	17 083	**16 294**
Non-life insurance		
Insurance for individuals	6 051	7 743
Insurance for companies	755	798
Credit protection insurance (non-life part)	1 943	1 825
	8 749	**10 366**
	25 832	**26 660**

The Bank does not collect insurance premiums on behalf of the Insurance companies, nor does it undertake the movement of funds relating to insurance contracts. In this manner, there are no other assets, liabilities, income or expenses to report, relating to the insurance brokering activity carried out by the Bank, other than those already disclosed.

NOTE 45 – CONTRACTUAL COMMITMENTS

Credit Support Annex (CSA)

NOVO BANCO has a number of contracts negotiated with counterparts with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose a number of rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 46 – RELEVANT TRANSACTIONS WHICH OCCURRED DURING 2018

Sale of Non Performing Loans portfolio (Project Nata)

During 2018, NOVO BANCO and BEST, entered into a sale and purchase contract of a non-performing loans portfolio and related assets, named Project Nata, with a consortium of funds managed by KKR Credit Advisors (US) L.L.C and LX Investment Partners II S.À.R.L.

This operation impacted the balance sheet with a decrease on the loans and advances to customers in the amount of Euro 496.6 million (Euro 1,462.2 million of gross amount and Euro 965.6 million of impairment), a decreased in the securities portfolio in the amount of Euro 1.8 million (Euro 76.5 million of gross amount and Euro 74.7 million of impairment), and an increase on Other Assets in the amount of Euro 392.4 million. The operation had the following impacts on the income statement:

(millions of Euros)

Impact on Income Statement	**31.12.2018**
Net Interest Income	5.6
Results from the sale of other assets	-204.1
Credit impairment net of reversals	-92.4
Impact on Net Income	**-106.0**

Sale of Real Estate portfolio (Project Viriato)

The Bank entered into a promissory sale and purchase agreement with several entities indirectly held by investment funds managed by Anchorage Capital Group L.L.C, to sell a real estate portfolio, named Project Viriato, with the following impacts in the Income Statement:

(millions of Euros)

Impact on Income Statement	**31.12.2018**
Impairment on other assets net of reversals	-126.9
Impact on Net Income	**126.9**

NOTE 47 – TRANSITION ADJUSTMENTS FOR THE IFRS 9

On 24 July 2014, in response to the challenge proposed by the G20 following the global financial crisis, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 - Financial Instruments ("IFRS 9"). This new standard is effective for years beginning on or after January 1, 2018, which will replaced IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). As permitted by the transitional provisions of IFRS 9, the Bank did not restate the comparative values in its financial statements arising from the application of IFRS 9. The impacts on the separate financial statements of the Bank were recognised in retained earnings and, therefore, in the regulatory capital reported.

IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the Group and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with entities' risk management practices.

The impacts on the Bank's separate financial statements resulting from the adoption of this new standard are estimated by reference at 1 January 2018, having the available information to that date, and the assumption of a bundle of assumptions. Bearing in mind these estimates, the IFRS 9 adoption resulted in a decrease of the total equity of the Bank at 1 January 2018, of approximately -Euro 369.7 million, as follows.

(in thousands of Euros)

	Reserves, retained earnings and other comprehensive income		
	Fair value reserves	Other reserves, Retained earnings and Other comprehensive income	Total
Balance as at 31 December 2017 *	**135 104**	**469 449**	**604 553**
Impact of transition to IFRS 9	(385 707)	16 048	(369 659)
Balance as at 1 January 2018	**(250 603)**	**485 497**	**234 894**

* Data as at 31 December 2017 restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

There is no transitional regime establishing the tax treatment to be given to the transition adjustments for this standard. Consequently, the tax treatment of these adjustments resulted from the Bank's interpretation of the application of the general rules of the IRC Code.

During 2018 the Bank continued to review, improve and to validate the methodologies developed to comply with the new requirements of IFRS 9 and to follow any guidelines from national and international regulators regarding the application of said standard.

a) Classification and measurement of financial assets and liabilities

The criteria for the classification of financial assets will depend both on the business management model of the Bank and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortised cost, at fair value with changes recognised in other comprehensive income (revaluation reserves) or in the income statement for the year (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognised in the income statement for the period. The Bank considers the following criteria for their debt financial assets' classification:

- Amortised cost: a debt financial instrument that (i) is managed under a business model whose goal is the keep financial assets in the portfolio, and receive all their contractual cash flows and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;

- Fair value of recognised variations in other comprehensive income: a debt financial instrument that (i) is managed under a business model whose goal is achieved either by receiving all the contractual cash flows or by selling the financial assets and (ii) has contractual cash flows in specific dates that match exclusively with principal and interest payments over the principal outstanding;
- Fair value of recognised variations in the income statement: all other debt financial instruments must be measured at their fair value through profit or loss.

Regarding other financial instruments, namely equity and derivative instruments, these are, by definition, classified at fair value through profit or loss. For equity instruments, there is an irrevocable option to designate that all fair value changes be recognised in other comprehensive income. This irrevocable classification will imply that, upon the disinvestment / realisation of these financial assets, the amounts recognised in equity are not recycled to the income statement for the period.

With the entry into force of IFRS 9, in terms of measurement and classification of financial instruments, we must highlight:

(i) most of the loans and balances receivable from banks and customers will continue to be measured at amortised cost. The classification of these instruments from amortised cost to fair value had an impact of Euro 27.3 million in the income statement.

(ii) debt instruments classified as available-for-sale were mostly measured at fair value with changes recognised in other comprehensive income, with some of these instruments having been reclassified to amortised cost. The classification of these financial asset had an impact of around Euro -94 million in the equity of the Bank.

(iii) equity instruments are classified and measured at fair value through profit or loss, unless the Bank irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognised in other comprehensive income. The reclassification of available-for-sale equity instruments to fair value through profit or loss had an impact in equity of the Bank of Euro -7.0 million, while the fair value classification with recognised variations in other comprehensive income had an impact of approximately Euro +9 million in equity of the Bank, including the determination of the fair value of certain equity instruments previously valued at amortized cost.

In summary, by reference to 1 January 2018, the impacts on the Banks equity of the new IFRS 9 requirements for the classification and measurement of financial assets amount to Euro -94.0 million, including impairments.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, are recognised in equity (other comprehensive income) instead of in the income statement as required by IAS 39, unless this accounting treatment generates accounting mismatch. Subsequent reclassifications of these changes to the income statement are not permitted, not even on the repurchase of these liabilities.

b) Expected Credit Impairment Loss Model

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortised cost, to financial assets equivalent to debt instruments valued at fair value with changes recognised in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not valued at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Bank’s impairment model is based to meet the requirements of IAS 39. This conceptual change is introduced together with new classification and measurement requirements of expected credit impairment losses, with financial assets subject to impairment being required to be classified into different stages depending on the evolution of their credit risk as from the date of initial recognition and not in relation to credit risk at the reporting date:

“Stage 1”: financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from the probability of occurrence of events of default during the 12 months subsequent to the reporting date, or until the estimated residual maturity, if it is less than 12 months after the reporting date, should be recognised 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 recognised 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 recognised in the income statement for the year. Interest is calculated on the net book value of the assets.

Measurement

Despite the changes promoted to the model of impairment, in particular, the extension of criteria that determine the existence of a significant increase in credit risk, generally, impairment losses of assets classified in stages 1 and 2 largely replace the impairment recognised from a collective assessment perspective of financial assets as foreseen in IAS 39. In turn, the impairment losses determined of assets classified in stage 3, to a certain extent replace the impairment recognised from a collective assessment perspective of financial assets already impaired as provided for in IAS 39.

The impairment for expected credit losses in accordance with IFRS 9 is affected by several risk factors, such as, amongst others, the probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), as well as the expected life of the financial asset.

PD represents the probability that a loan will not be repaid and will default, within the 12-month horizon for stage 1 or during its expected lifetime, in the case it is less than 12 months and during its expected lifetime, for stage 2. The PD models are based on historical information incorporating information on current market conditions and reasonable and supportable information on future economic conditions.

LGD is the estimated value to be recovered in the event of default and is also modeled on historical data and reasonable and supportable information on future and current economic conditions, where appropriate. LGD methodologies consider the value of the collateral received.

The EAD represents an estimate of the amount of credit at the time the event of default might occur. For off-balance sheet exposures and undrawn commitments, the EAD includes an estimate of additional amounts to be used up to the moment of default.

Transition between stages

The transition of financial assets from *stage* 1 to *stage* 2 occurs at the moment their credit risk increases significantly when compared to their credit risk on the date of their initial recognition. The determination of a significant increase in credit risk is based on the analysis of quantitative and/or qualitative internal and external indicators used by the Bank in the normal credit risk management, thereby imposing a greater linkage of the accounting requirements with the credit risk management policies established by the Bank.

Specifically, the Bank established thresholds for significant increases in credit risk of an absolute and relative nature in the PD for the remaining life compared with at the initial recognition.

Generally, the transitions of financial assets from *stage* 2 to *stage* 3 occur when these assets default, that is, if: (i) there is a material default for more than 90 consecutive days; and / or (ii) there are indicators that show that the contractual obligations associated with such assets are unlikely to be met - "unlikeliness to pay". This definition of default is consistent with the definition used in the Bank's current credit risk management policies.

Forward looking information

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including trends and future scenarios, namely macroeconomic data. In this context, estimates of expected impairment credit losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends.

For the more material portfolios, the Bank adopted sophisticated credit risk modeling approaches to measure expected credit losses, leveraging, where possible, existing AIRB (Advanced Internal Rating Based) models. For the remaining portfolios, and according to the materiality of each one, the Bank will develop new models or use simplified approaches.

In summary, by reference to 1 January 2018, the impact on the Bank’s equity of the new requirements of IFRS 9 of impairment amount to Euro -259.2 million.

Impacts on the control system and on the internal governance structure

In order to ensure that appropriate controls and validations are carried out in measurement the Impairment, the Bank promoted changes on the existing governance framework. As part of this process, new controls are being developed and implemented in the main areas impacted by IFRS 9, such as the development and weighting of macroeconomic scenarios, the determination of a significant increase in credit risk, and data and credit risk systems.

c) Hedge accounting

The new hedge accounting model of IFRS 9 aims not only to simplify the process of creating and maintaining hedge relationships, but also to align the accounting of these relationships with the risk management activities of each institution, to extend the eligibility of a larger number hedged instruments and hedging, but also types of risk. IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity's risk management.

Estimated impacts on equity

The adoption of IFRS 9 had an impact at the Bank capital level particularly because of the anticipated increase in the stock of impairment provisions under the new expected credit losses model in comparison with the approach of losses incurred of IAS 39 and consequent accounting referential.

On 12 December 2017, the European Union, through Regulation (EU) no. 2017/2395 of the European Parliament, that amended Regulation (EU) no. 575/2013, introduced a transitory regime with the aim of reducing the impact of the adoption of IFRS 9 on the own funds of financial institutions. The abovementioned Regulation allows financial institutions to differ the impact resulting from the adoption of the IFRS 9, with the Bank deciding on implementing the referred transitional regime.

The Bank estimated a CET 1 ratio impact of approximately -49 bp.

Bank Implementation Strategy

The Bank defined a global work structure aimed at adapting its internal processes to the rules contained in IFRS 9.

Regarding the governance structure of the IFRS 9 implementation project, the Group has created a Committee responsible for seeing this project through, as well as assuring that all areas relevant to this project are involved for the success of the same. This Committee had the involvement of the Accounting, Consolidation and Tax Department, the Treasury and Finance Department, the Global Risk Department, and the Information Systems Department. Whenever found necessary, other departments of the Bank were involved in the project.

NOTE 48 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

I – Applicable to 2018

The standards and interpretations that became effective as of 1 January 1 2018. There was no materially relevant impact in the Bank accounts regarding these standards which were taken into consideration in the Bank accounts with reference to 31 December 2018:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all previous revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 Leases (or IFRS 16, once effective). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 must be applied using a five-step model: (1) Identify the contract(s) with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; (5) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Clarifications to IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues. As such, the amendments are:

- Clarify when a promised good or service is distinct within the context of the contract;

- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators;
- Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time;
- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract;
- Add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial

statements of the reporting period in which the entity first applies the interpretation.

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

<u>The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction</u>

- The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.

The classification of a share-based payment transaction with net settlement features for withholding tax obligations.

- This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment.
- This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature').
- Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.

The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled

- The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification.
- Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Annual improvements for the cycle 2014-2016

In the annual improvements for the 2014-2016 cycle, the IASB has introduced the following improvements that should be applied retrospectively and effective as of January 1, 2018 (a further improvement related to IFRS 12 was effective as of January 1 of 2017).

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement eliminated the short-term exemptions for first-time adopters in paragraphs E3-E7 of IFRS 1 because they have now served their intended purpose (which related to exemptions from certain disclosures of financial instruments under IFRS 7, exemptions at the level of employee benefits and exemptions at the level of investment entities).

IAS 28 Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss;
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

II - Applicable to 2018 only if early adopted and the early adoption is disclosed and the remaining required conditions are met

IFRS 16 – Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

This standard was endorsed on 31 October 2017 and must be applied from annual periods beginning on or after 1 January 2019.

The Bank assessed the impact estimated of the initial application of IFRS 16, as described below. The impacts arising from the adoption of IFRS 16, at 1 January 2019 may change due to:

- the Bank has not yet finalized the set of tests and evaluation of controls on new IT systems; and

- the new accounting policies are subject to changes until the Bank presents its first financial statements including the date of initial application.

i. Leases in which the Bank acts as lessee:

The Bank will recognize the new assets and liabilities as operating leases of their branches and facilities (central services). The nature of the costs related to these operating leases is changed, since IFRS 16 replaces linear operating leases expense for depreciation of the assets under right of use and interest charges relating to leasing liabilities.

Previously, the Bank recognized the costs of operating leases linearly during the term of the lease, and recognized assets and liabilities only to the extent that he was observing a difference in the length of time between the lease payments and the recognition of the expense.

ii. Leases in which the Bank acts as lessor:

No significant impacts are expected to lease agreements where the Bank acts as lessor. However, next year will be required a set of additional disclosures.

iii. Transition

The Bank intends to apply IFRS 16 initially at the date of 1 January 2019, using the simplified retrospective approach, without the restatement of comparative information. The transitional approach used allows to elect a set of practical expedients for the non-application of IFRS 16, namely: i) leasing of short term lease contracts with a period of less than 12 months (including renewal options); and ii) low-value Lease, lease contracts whose asset value corresponding to ≤ EUR 5,000.

The Bank intends to apply the practical expedient concerning the definition of the lease at the date of transition, i.e. will apply IFRS 16 to all contracts concluded before 1 January 2019 and identified as leasing according to IAS 17 and IFRIC 4. In this way, to the locations previously classified as operating leases under IAS 17, the active right of use is measured by an amount equal to the lease liabilities, adjusted by the amount of any previous lease payments or plus this related lease, recognized in the statement of financial position immediately before the date of the initial application. Thus, on the date of 1 January 2019 the impact on retained earnings will be null.

The Bank made an initial assessment of the potential impact on its financial statements but it is consolidating this assessment to determine the amount of the impact to be incorporated in the financial statements. The real impact of applying IFRS financial statements 16 in the period of initial application will depend on future economic conditions, development of the portfolio of the Bank's leasing contracts of your evaluation, including, if this will exercise any renewal options, the range that the Bank choses in terms of use of the options available and the practical recognition of exceptions.

IFRIC 23 – Uncertainty over Income Tax different treatments

In June 2017, the IASB issued IFRIC Interpretation 23 which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The interpretation was endorsed on 23 October 2018 and is applicable from annual periods beginning on or after 1 January 2019.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

<u>Modification or exchange of a financial liability that does not result in derecognition</u>

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

The amendments were endorsed on 22 March 2018 and is effective from annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

IFRS 10 and IAS 28: Sale or Contribution of Assets by an Investor to its Associate or Joint Venture

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted. The changes should be applied retrospectively.

III – Not applicable to 2018

<u>**Not yet endorsed by EU:**</u>

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.

Effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Annual improvements for the cycle 2015-2017

In the annual improvements for the 2015-2017 cycle, the IASB has introduced improvements in four standards summarized below:

IFRS 3 Business Combinations - Previously held Interests in a joint operation

- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IFRS 11 Joint Arrangements

- A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
- An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity

- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Definition of a Business - Amendments to IFRS 3

The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if:

(a) it is critical to the ability to develop or convert acquired inputs into outputs; and

(b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs.

In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if:

(a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or

(b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)).

Definition of Material - Amendments to IAS 1 and IAS 8

The purpose of this amendment was to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to 'users' but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term 'users' may be interpreted too widely.

This amendment is effective for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Note: This amendment also impacts IFRS Practice Statement 2: Making Materiality Judgements, which was disclosed in the IFRS Update paper issued with reference to 31 December 2017.

IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

Determining the current service cost and net interest

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using:
  - the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
  - the discount rate used to remeasure that net defined benefit liability (asset)

A plan amendment, curtailment or settlement may reduce or eliminate a surplus in a defined benefit plan, which may cause the effect of the asset ceiling to change.

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

The Conceptual Framework for Financial Reporting

The conceptual framework sets out a comprehensive set of concepts for:

- Financial reporting;
- Standard setting;
- Guidance for preparers in developing consistent accounting policies; and
- Assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes:

- some new concepts,
- provides updated definitions and recognition criteria for assets and liabilities; and
- clarifies some important concepts.

It is organized as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The amended conceptual framework for the financial reporting is not a standard and none of its concepts prevails on the concepts set out in other standards or requirements of any standard. It is applicable to entities that develop their accounting principles based on the conceptual framework applicable to annual reporting periods beginning on or after 1 January 2020.

IFRS 14 Regulatory Deferral Accounts

This standard allows an entity whose activities are subject to regulated rates to continue to apply most of its previous accounting policies for deferred accounts related to regulated activities when adopting IFRS for the first time.

This standard cannot be applied by: (i) entities that already prepare financial statements under IFRS; (ii) entities whose current accounting standards do not permit the recognition of regulatory assets and liabilities and (iii) entities whose current accounting standards permit the recognition of regulatory assets and liabilities but have not adopted such policy in their accounts prior to the adoption of the IFRS.

Deferral accounts related to regulated activities should be presented in a separate line of the statement of financial position and the movements in these accounts should be presented in separate lines in the income statement and in the statement of comprehensive income. The nature and risks associated with the entity's regulated rate and the effects of such regulation on its financial statements should be disclosed.

The amendments are applicable prospectively for annual periods beginning on or after 1 January 2016. Early application is permitted and should be disclosed.

The European Union (EU) has decided not to launch the endorsement of this intermediate standard and wait for the final standard.

Already endorsed by EU:

There are no standards already endorsed that enter into force only after 2018 and whose early application is not allowed.

NOTE 49 – SUBSEQUENT EVENTS

- On 31 January 2019 and 28 February 2019, the branches of NOVO BANCO in London and Venezuela, respectively were closed.

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(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails.)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Novo Banco, S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2018 (showing a total of 48.273.902 thousand euros and a total equity attributable to the shareholder of the Bank of 3.887.015 thousand euros, including a net loss for the year of 1.412.642 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Statement of Changes in Consolidated Equity and the Consolidated Cash Flow Statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Novo Banco, S.A. as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed 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 guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet caption loans and advances to customers includes accumulated impairment amounting 3,957,922 thousand of euros ("K€"), with an impact of 263,500 K€ recognized in the profit for the period recorded on the line impairment losses on loans and advances to customers net of reversals and recoveries. The gross amount of loans and advances to customers is 28,712,367 K€, the accumulated impairment represents 13.78% of loans and advances to customers. The details of the impairment and the accounting policies,	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures in particular:

methodologies, definitions and assumptions used are disclosed in the notes to the financial statements (Note 2.5, note 3.1 and note 22)

The impairment for loans and advances to customers represents the best estimate of the management for the expected loss on the loan portfolio to customers with reference to 31 December 2018. For the calculation of this estimate, the management established assumptions, used mathematical models to calculate parameters, defined concepts and designed a model to calculate the expected loss. For relevant exposures, the calculations resorted to expert judgment from specialists of the Group on the evaluation of credit risk.

Additionally, since 1 January 2018, due to the first time adoption of International Reporting Standard 9 - financial instruments, the impairment began to reflect the expected loss (loss incurred in 2017). This standard introduces two new concepts: the "significant increases in credit risk" and "forecasts of future economic conditions". The impacts of the transition are disclosed in the notes to the financial statements (Note 51).

In addition to the complexity of the models described, their use require the treatment of a significant volume of data that are not always available in the Group's core systems, such as the credit risk information at the time of origination, date and value at that date of the first default, the value of the historical recoveries since default. To overcome limitations that may exist on some data, management resorts to practical expedients which increase the judgements applied.

The use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment.

Given the degree of subjectivity and complexity that the estimated impairment involves and the materiality of its value, we consider this topic as key auditing matter.

- We obtained the understanding, evaluated the design and tested the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers;
- We used analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, compared with last year and with the expectations formed, which include the understanding of changes in the loan portfolio and changes in the assumptions and methodologies for impairment;
- We selected a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included: inspection of information containing the business models and the financial situation of the debtors and of collateral appraisal reports; inquiry of Group experts to understand the recovery strategy defined and the assumptions used;
- With the support of auditor's experts on risk, we evaluated the reasonableness of the parameters used in the calculation of impairment, according to the following procedures: i) understanding of the methodology formalized and adopted by management and comparison with the one effectively used; ii) evaluation of changes to models to determine the parameters to reflect the expected loss; iii) analysis of changes made during the financial year 2018 to risk parameters (PD, LGD and EAD); iv) on a test basis, comparison of the data used in the calculation of the risk parameters with source information; v) inquiries to management's experts responsible for models and the previous auditors and inspection of reports from internal audit, regulators and previous auditors vi) inspection of the reports with the results of the operational assessment of the model (back-testing);
- We have obtained the understanding and evaluated the design of the model used to calculate the expected loss, we tested the calculation, we compared the information used in the model with the source information, through the reconciliations prepared by the Group staff, evaluated the assumptions used to fill gaps in data, we compared the parameters used with the results of the estimation models, we compared the results with the values in the financial statements;
- Analysis of disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

2. Contingent capital mechanism

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In line with the conditions agreed, in the sale process of the majority of the share capital of the Novo Banco, S.A., between Nani Holdings, SGPS, SA (Lone Star) and the Resolution Fund, a mechanism of contingent capital ("CCA") was established, which requires the Group to be compensated, up to a limit of 3,890,000 K€, for (i) losses incurred in assets, which had an initial net value of approximately 7,836,823 K€ (with reference to 30 June 2016), (ii) certain costs associated with the financing structure of the Group, and (iii) lower profitability associated to assets covered by the CCA. The payments from the Resolution Fund under the CCA will be made, each period, up to the amount required to meet the minimum level of Common Equity Tier 1 ratio ("CET1") and TIER1, as defined in the conditions for the operation of the CCA. For 2018, the decrease of equity and consequently of the TIER1, led to a claim under the CCA of 1,149,295 K€, which will be subject to a validation by the verification agent. This value is presented on the caption reserves, retained earnings and other comprehensive income of the balance sheet and on the line reserve of contingent capital facility of the statement of changes in equity and more fully disclosed in the notes to the financial statements (Note 40). Calculating the CCA is complex, since it requires the computation of the regulatory capital requirements that follow the prudential rules in conjunction with the determination of the accounting results of a defined set of assets. Additionally, the CCA is significant in the Group's performance and is relevant for its solvency. For this reason, we consider this topic as a key audit matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► we obtained the understanding and evaluated the design of the existing internal control procedures in the process to quantify the CCA; ► We analyzed the movements for the year and inspected the support documentation to these movements, including the reports from the verification agent; ► Read the minutes of the monitoring commission and correspondence with the resolution Fund to identify any matters susceptible of judgement; ► Evaluated the methodology used and tested the calculation for the year based on this methodology. We compared the values used for the calculation with the source information in accounting and prudential reporting; ► With the support of auditor's experts in international financial reporting standards, we evaluated the accounting of the amounts claimed under the CCA; ► We have examined the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

3. Recoverability of deferred tax assets

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet presents assets for deferred taxes on the amount of 1,196,525 K€ and the result for the period included the value of 667,707 K€ on income taxes. The notes to the financial statements disclose the detail of these assets and movements (Note 36), the adopted accounting policies (Note 2.16) and the main assumptions used (Note 3.4). Deferred tax assets include 907,482 K€ in respect of temporary differences in the tax treatment of impairment losses for loans and advances to customers and 138,894 K€ for tax losses carried forward, a portion of which are protected by the special regime applicable to deferred tax assets. With reference to the requirements of IAS 12 - income taxes, deferred tax assets are recognized to the extent of the management's expectation of future recoverability, which is based primarily on the determination of the Group's capacity to generate sufficient future taxable profits and the interpretation made of the legal framework in force in the relevant period of analysis. Management prepared a recovery plan in which are estimated future results, which includes several assumptions on the activity and future macroeconomic performance. Based on this recovery plan, in the interpretation of what could be the legal framework in force in the relevant period and the estimated income tax due in each period, management evaluated the recoverability of the deferred tax assets. The Group's ability to recover deferred tax assets, is, accordingly, dependent on the execution of the recovery plan and on the fiscal framework being enacted as estimated by management. As the value is relevant in the context of the financial statements and its recoverability is dependent on the materialization of assumptions in a complex estimation process, we consider this topic to be a key audit matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of estimating the recoverability of deferred tax assets; ► Understanding of the key assumptions and judgments used by management in the preparation of the recovery plan, on which the future evolution of the results before tax was based; ► We inquired the people in charge of the area of taxation and the management about the assumptions used; ► With the support of auditor's experts in tax matters, we assessed the reasonableness of the interpretations of the relevant tax legislation and reviewed the calculations with the computation of the profit before tax, future taxes and the Bank's ability to recover tax assets deferred; ► Analysis of disclosures included in the explanatory notes to the financial statements related to this issue, based on the requirements of international financial reporting standards and in the accounting records.

4. Financial instruments measured at fair value and classified as level 3 under IFRS 13

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the notes to the financial statements (Note 45) on 31 December 2018, the Group held financial instruments valued at fair value in the amount of 10,072,922 K€ in assets and 625,865 K€ in liabilities, of which 1,603,915 K€ and 2,724 K€ respectively are valued through valuation techniques using unobservable variables in market (level 3). The details of these assets and liabilities are disclosed in the notes to the financial statements (note 19, note 20, note 23, note 24 and note 34). The negative results obtained with the changes in fair value of these assets during the 12 months ending in 31 December 2018 was 101,552 K€, as disclosed in note 8, and presented in the lines net losses on financial assets and financial liabilities at fair value through profit or loss and net losses on financial assets and financial liabilities at fair value through profit or loss mandatory of the consolidated income statement. The valuation of these financial instruments classified as level 3 is a matter of judgement of the management, given that these financial instruments are valued under an estimation process which is based on internal models that include unobservable market parameters, for which assumptions have to be made. As disclosed in the notes to the financial statements (Note 23), the assets at fair value through results-mandatory include 577,706 K€ in participation units and 508,279 K€ in shares in recovery funds that are valued using the information provided by the managers of these funds. This valuation is based on the NAV which corresponds to the value of the net assets of the fund, as calculated from the financial statements. The management considers that this valuation corresponds to the best estimate of fair value at 31 December 2018 on the assumption that the realization of the participation units of the funds corresponds to its underlying assets. The consideration of this issue as a key audit matter was based on its materiality for the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of financial instruments; ► With the involvement of auditor's experts, we assessed the reasonableness of the assumptions used in internal models of valuation; ► Analytical procedures on the value of the financial instruments, comparing the values with last year and with the expectations formed, which include understanding the variations occurred and the changes in the assumptions and methodologies; ► On the internal models we used the following procedures: i) understanding of the methodology formalized and adopted by the management ii) for a sample of financial instruments, analysis of the data used in the models and iii) on a test basis recalculation of the fair value; ► For the restructuring funds and closed-end funds our analysis was based on a sample for which we inspected the latest financial information available and/or the last NAV (Net Asset value) provided by the manager, the latest audit reports and the fund regulations; ► Analysis of disclosures included in the explanatory notes to the financial statements based on the requirements of international financial reporting standards and in the accounting records.

5. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet accounts, investment properties and other assets include real estate assets of 1,098,071 K€ and 936,820 K€ respectively, which were essentially obtained by credit foreclosure. The detail of these assets and the accounting policies are disclosed in the notes to the financial statements (Note 2.11, note 2.23 and note 3.7). The notes to the financial statements (Note 26) disclose the detail and the movement of investment properties, which are held by investment funds which are rented to third parties for obtaining income or held to generate capital gains. The properties in this category are valued at fair value which is calculated following the rules of the CMVM Regulation No. 2/2015 based on assessments prepared by management's experts. As disclosed in note 2.11 of the explanatory notes to the financial statements, the other assets include real estate for which the management has implemented a plan with a view to immediate sale. However, they are not classified as non-current assets held for sale, due to their age in the portfolio. These real estate are valued at the lower of net book value and the fair value less cost to sell. The fair value is based on assessments prepared by management's experts. Additionally, during 2018, the Group sold around nine thousand buildings, as described in the explanatory notes to the financial statements (Note 50), having realized a loss of 159,023 K€. The formalities necessary to complete the sale and the derecognition of the remaining of the real estate are still ongoing. The fair value results from a estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted experts. The assumptions considered include the best use that can be given to the asset, which could be a comparable transaction or result from the potential yield that can be obtained. We consider this topic as a key audit matter based on its materiality to the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of the properties received by credit recovery; ► Performance of analytical procedures on the value of the assets included in the investment properties and other assets, compared with last year and with the expectation formed, of which include the understanding of changes that have occurred and changes in the assumptions and methodologies; ► For a sample, we assessed the reasonableness of the assumptions included in the appraisals carried out by management's external experts registered in CMVM, as well as evaluating the adequacy of the methodology followed in the appraisals; ► Inspection of real estate sale contracts and assessment of the derecognition requirements and the calculation of gains and losses recorded; ► Analysis of the disclosures contained in the financial statements based on the requirements of international financial reporting standards and in the accounting records.

6. Disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The notes to the financial statements disclose the contingent liabilities (Note 41) that may represent a possible obligation to the Group resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Group. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 2.17 and the main estimates and assumptions in note 3.6. The main contingent liabilities arise from various situations, most notably: ► Notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Group; ► The incorporation of the Group resulted from a resolution measure applied to BES, which impacted third parties, leading to several disputes which, in spite of existing guarantees, may lead to effects or impacts in the Group which not possible to determine or quantify; ► Following the closing of the sale and purchase agreement of the Group and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Star, there were lawsuits contesting these contracts; ► The Group includes participating institutions in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Group will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. In spite of the management consideration that it is not likely that the situations described above materialize in impact on the Group's financial statements, the magnitude of these impacts would be quite significant. The risk assessment and the assumptions are matters of judgement by the management which requires complex analysis using both external and internal legal experts by the Group. Given the relevance of these contingencies for the Group, we consider this topic as a key audit matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of quantification of provisions and contingent liabilities; ► We read the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► Analysis of responses to external confirmations from external legal experts of the Group; ► Inspection of the documentation of the Resolution Fund, in particular the annual report of 2017 and the public communications from the Resolution Fund; ► Inquiries to the Board of Directors, legal consultants and the previous auditors on contingent liabilities of the Group; Review of the disclosures in the notes to the financial statements on this matter, based on the requirements of international financial reporting standards.

Other matters

We were appointed as Auditors of Novo Banco, S.A. on December 21, 2017. The consolidated financial statements for the year ended December 31, 2017 were examined by another statutory auditor, who issued an audit report, dated April 19, 2018, without any qualification.

In the case of a first-year audit, we performed a set of transition procedures with the previous auditor in accordance with ISA 510 - Initial audit work - opening balances.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are 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:

- 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;
- 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- 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 Group '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 Group to cease to continue as a going concern;
- 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;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion; and
- communicate with those charged with governance, including the supervisory body, 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;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code, as well as verifying that the non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

As described in article 451, nr. 7 of the Commercial Companies Code, the opinion on the preceding paragraph does not apply to the non-financial statement included in the Management Report.

On the Non-financial Statement in the terms of article 508-G of the Commercial Companies Code

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Group included the non-financial information in accordance with the article 508-G of the Commercial Companies Code in its Management Report.

On the Corporate Governance Report

In our opinion, the chapter 10. Corporate Governance of the Management Report includes the information required to the Group to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of the said article.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Novo Banco, S.A. (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on 4 April 2019; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Group in conducting the audit.

Lisbon, April 4, 2019

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

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(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails.)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Novo Banco, S.A. (the Bank), which comprise the Balance Sheet as at 31 December 2018 (showing a total of 43,830,599 thousand euros and a total equity of 3,599,279 thousand euros, including a net loss for the year of 1,432,875 thousand euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Novo Banco, S.A. as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed 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 guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet caption loans and advances to customers includes accumulated impairment amounting 4,071,843 thousand of euros ("K€"), with an impact of 295,072 K€ recognized in the profit for the period recorded on the line impairment losses on loans and advances to customers net of reversals and recoveries. The gross amount of loans and advances to customers is 26,893,399 K€, the accumulated impairment represents 15,14% of loans and advances to customers. The details of the impairment and the accounting policies, methodologies, definitions and assumptions used are disclosed in the notes to the financial statements (Note 2.4, Note 3.1 and Note 21)	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures in particular: ► We obtained the understanding, evaluated the design and tested the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers;

The impairment for loans and advances to customers represents the best estimate of the Bank management for the expected loss on the loan portfolio to customers with reference to 31 December 2018. For the calculation of this estimate, the management of the Bank established assumptions, used mathematical models to calculate parameters, defined concepts and designed a model to calculate the expected loss. For relevant exposures, the calculations resorted to expert judgment from specialists from the Bank on the evaluation of credit risk. Additionally, since 1 January 2018, due to the first time adoption of International Reporting Standard 9 - financial instruments, the impairment began to reflect the expected loss (loss incurred in 2017). This standard introduces two new concepts: the "significant increases in credit risk" and "forecasts of future economic conditions". The impacts of the transition are disclosed in the notes to the financial statements (Note 46). In addition to the complexity of the models described, their use require the treatment of a significant volume of data that are not always available in the Bank's core systems, such as the credit risk information at the time of origination, date and value at that date of the first default, the value of the historical recoveries since default. To overcome limitations that may exist on some data, management resorts to practical expedients which increase the judgements applied. The use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment. Given the degree of subjectivity and complexity that the estimated impairment involves and the materiality of its value, we consider this topic as key auditing matter.	► We used analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, compared with last year and with the expectations formed, which include the understanding of changes in the loan portfolio and changes in the assumptions and methodologies for impairment; ► We selected a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included: inspection of information containing the business models and the financial situation of the debtors and of collateral appraisal reports; inquiry of Bank experts to understand the recovery strategy defined and the assumptions used; ► With the support of auditor's experts on risk, we evaluated the reasonableness of the parameters used in the calculation of impairment, according to the following procedures: i) understanding of the methodology formalized and adopted by management and comparison with the one effectively used; ii) evaluation of changes to models to determine the parameters to reflect the expected loss; iii) analysis of changes made during the financial year 2018 to risk parameters (PD, LGD and EAD); iv) on a test basis, comparison of the data used in the calculation of the risk parameters with source information; v) inquiries to management's experts responsible for models and the previous auditors and inspection of reports from internal audit, regulators and previous auditors vi) inspection of the reports with the results of the operational assessment of the model (back-testing); ► We have obtained the understanding and evaluated the design of the model used to calculate the expected loss, we tested the calculation, we compared the information used in the model with the source information, through the reconciliations prepared by the Bank staff, evaluated the assumptions used to fill gaps in data, we compared the parameters used with the results of the estimation models, we compared the results with the values in the financial statements; ► Analysis of disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

2. Contingent capital mechanism

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In line with the conditions agreed, in the sale process of the majority of the share capital of the Novo Banco, S.A., between Nani Holdings, SGPS, SA (Lone Star) and the Resolution Fund, a mechanism of contingent capital ("CCA") was established, which requires the Bank to be compensated, up to a limit of 3,890,000 K€, for (i) losses incurred in assets, which had an initial net value of approximately 7,836,623 K€ (with reference to 30	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular:

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
June 2016), (ii) certain costs associated with the financing structure of the Bank, and (iii) lower profitability associated to assets covered by the CCA. The payments from the Resolution Fund under the CCA will be made, each period, up to the amount required to meet the minimum level of Common Equity Tier 1 ratio ("CET1") and TIER1, as defined in the conditions for the operation of the CCA. For 2018, the decrease of equity and consequently of the TIER1, led to a claim under the CCA of 1,149,295 K€, which will be subject to a validation by the verification agent. This value is presented on the caption reserves, retained earnings and other comprehensive income of the balance sheet and on the line reserve of contingent capital facility of the statement of changes in equity and more fully disclosed in the notes to the financial statements (Note 38). Calculating the CCA is complex, since it requires the computation of the regulatory capital requirements that follow the prudential rules in conjunction with the determination of the accounting results of a defined set of assets. Additionally, the CCA is significant in the Bank's performance and is relevant for its solvency. For this reason, we consider this topic as a key audit matter.	► we obtained the understanding and evaluated the design of the existing internal control procedures in the process to quantify the CCA; ► We analyzed the movements for the year and inspected the support documentation to these movements, including the reports from the verification agent; ► Read the minutes of the monitoring commission and correspondence with the Resolution Fund to identify any matters susceptible of judgement; ► Evaluated the methodology used and tested the calculation for the year based on this methodology. We compared the values used for the calculation with the source information in accounting and prudential reporting; ► With the support of auditor's experts in international financial reporting standards, we evaluated the accounting of the amounts claimed under the CCA; ► We have examined the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

3. Recoverability of deferred tax assets

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet presents assets for deferred taxes on the amount of 1,179,272 K€ and the result for the period included the value of 660,596 K€ on income taxes. The notes to the financial statements disclose the detail of these assets and movements (Note 34), the adopted accounting policies (Note 2.15) and the main assumptions used (Note 3.3). Deferred tax assets include 903,769 K€ in respect of temporary differences in the tax treatment of impairment losses for loans and advances to customers and 138,030 K€ for tax losses carried forward, a portion of which are protected by the special regime applicable to deferred tax assets. With reference to the requirements of IAS 12 - income taxes, deferred tax assets are recognized to the extent of the management's expectation of future recoverability, which is based primarily on the determination of the Bank's capacity to generate sufficient future taxable profits and the interpretation made of the legal framework in force in the relevant period of analysis. Management prepared a recovery plan in which are estimated future results, which includes several assumptions on the activity and future macroeconomic performance. Based on this recovery plan, in the interpretation of what could be the legal framework in force in the relevant period and the estimated income tax due in each period, management evaluated the recoverability of the deferred tax assets. The Bank's ability to recover deferred tax assets, is, accordingly, dependent on the execution of the recovery plan and on the fiscal framework being enacted as estimated by management. As the value is relevant in the context of the financial statements and its recoverability is dependent on the materialization of assumptions in a complex estimation process, we consider this topic to be a key audit matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of estimating the recoverability of deferred tax assets; ► Understanding of the key assumptions and judgments used by management in the preparation of the recovery plan, on which the future evolution of the results before tax was based; ► We inquired the people in charge of the area of taxation and the management about the assumptions used; ► With the support of auditor's experts in tax matters, we assessed the reasonableness of the interpretations of the relevant tax legislation and reviewed the calculations with the computation of the profit before tax, future taxes and the Bank's ability to recover tax assets deferred; ► Analysis of disclosures included in the explanatory notes to the financial statements related to this issue, based on the requirements of international financial reporting standards and in the accounting records.

4. Financial instruments measured at fair value and classified as level 3 under IFRS 13

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the notes to the financial statements (Note 42) on 31 December 2018, the Bank held financial instruments valued at fair value in the amount of 11,444,152 K€ in assets and 771,991 K€ in liabilities, of which 3,053,500 K€ and 2,724 K€ respectively are valued through valuation techniques using unobservable variables in market (level 3). The details of these assets and liabilities are disclosed in the notes to the financial statements (note 19, note 22 and note 32). The results obtained with the changes in fair value of these assets during the 12 months ending in 31 December 2018 was 79,629 K€, as disclosed in note 7, and presented in the lines net losses on financial assets and financial liabilities at fair value through profit or loss and net losses on financial assets and financial liabilities at fair value through profit or loss mandatory of the income statement. The valuation of these financial instruments classified as level 3 is a matter of judgement of the management, given that these financial instruments are valued under an estimation process which is based on internal models that include unobservable market parameters, for which assumptions have to be made. As disclosed in the notes to the financial statements (Note 22), the assets at fair value through results-mandatory include 577,706 K€ in participation units and 508,270 K€ in recovery funds that are valued using the information provided by the managers of these funds. This valuation is based on the NAV which corresponds to the value of the net assets of the fund, as calculated from the financial statements. The management considers that this valuation corresponds to the best estimate of fair value at 31 December 2018 on the assumption that the realization of the participation units of the funds corresponds to its underlying assets. The consideration of this issue as a key audit matter was based on its materiality for the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of financial instruments; ► With the involvement of auditor's experts, we assessed the reasonableness of the assumptions used in internal models of valuation; ► Analytical procedures on the value of the financial instruments, comparing the values with last year and with the expectations formed, which include understanding the variations occurred and the changes in the assumptions and methodologies; ► On the internal models we used the following procedures: i) understanding of the methodology formalized and adopted by the management ii) for a sample of financial instruments, analysis of the data used in the models and iii) on a test basis recalculation of the fair value; ► For the restructuring funds and closed-end funds our analysis was based on a sample for which we inspected the latest financial information available and/or the last NAV (Net Asset value) provided by the manager, the latest audit reports and the fund regulations; ► Analysis of disclosures included in the explanatory notes to the financial statements based on the requirements of international financial reporting standards and in the accounting records.

5. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet account other assets include real estate assets of 660,984 K€ respectively, which were essentially obtained by credit foreclosure. The detail of these assets and the accounting policies are disclosed in the notes to the financial statements (Note 2.10). As disclosed in note 28 to the financial statements, the other assets include real estate for which the management has implemented a plan with a view to immediate sale. However, they are not classified as non-current assets held for sale, due to their age in the portfolio. These real estate are valued at the lower of net book value and the fair value less cost to sell. The fair value is based on assessments prepared by management's experts. Additionally, during 2018, the Bank sold real estate, as described in the explanatory notes to the financial statements (Note 46), having realized a loss of 126,900 K€. The formalities necessary to complete the sale and the derecognition of the remaining of the real estate are still ongoing. The fair value results from a estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted experts. The assumptions considered include the best use that can be given to the asset, which could be a comparable transaction or result from the potential yield that can be obtained. We consider this topic as a key audit matter based on its materiality to the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of the properties received by credit recovery; ► Performance of analytical procedures on the value of the assets included in the investment properties and other assets, compared with last year and with the expectation formed, of which include the understanding of changes that have occurred and changes in the assumptions and methodologies; ► For a sample, we assessed the reasonableness of the assumptions included in the appraisals carried out by management's external experts registered in CMVM, as well as evaluating the adequacy of the methodology followed in the appraisals; ► Inspection of real estate sale contracts and assessment of the derecognition requirements and the calculation of gains and losses recorded; ► Analysis of the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

6. Disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The notes to the financial statements disclose the contingent liabilities (Note 39) that may represent a possible obligation to the Bank resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Bank. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 2.16 and the main estimates and assumptions in note 3.5. The main contingent liabilities arise from various situations, most notably: ► Notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Bank; ► The incorporation of the Bank resulted from a resolution measure applied to BES, which impacted third parties, leading to several disputes which, in spite of existing guarantees, may lead to effects or impacts in the Bank which not possible to determine or quantify; ► Following the closing of the sale and purchase agreement of the Bank and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Star, there were lawsuits contesting these contracts; ► The Bank is one of the participating institutions in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Bank will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. In spite of the management consideration that it is not likely that the situations described above materialize in impact on the Bank's financial statements, the magnitude of these impacts would be quite significant. The risk assessment and the assumptions are matters of judgement by the management which requires complex analysis using both external and internal legal experts by the Bank. Given the relevance of these contingencies for the Bank, we consider this topic as a key audit matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of quantification of provisions and contingent liabilities; ► We read the minutes of the Bank's management bodies, the correspondence with regulators and with the Resolution Fund; ► Analysis of responses to external confirmations from external legal experts of the Bank; ► Inspection of the documentation of the Resolution Fund, in particular the annual report of 2017 and the public communications from the Resolution Fund; ► Inquiries to the Board of Directors, legal consultants and the previous auditors on contingent liabilities of the Bank; Review of the disclosures in the notes to the financial statements on this matter, based on the requirements of international financial reporting standards.

Other matters

We were appointed as Auditors of Novo Banco, S.A. on December 21, 2017. The financial statements for the year ended December 31, 2017 were examined by another statutory auditor, who issued an audit report, dated April 19, 2018, without any qualification.

In the case of a first-year audit, we performed a set of transition procedures with the previous auditor in accordance with ISA 510 - Initial audit work - opening balances.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Bank´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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:

- 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;
- 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- 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;

- 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;
- communicate with those charged with governance, including the supervisory body, 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;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code, as well as verifying that the non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Bank, we have not identified any material misstatement.

As described in article 451, nr. 7 of the Commercial Companies Code, the opinion on the preceding paragraph does not apply to the non-financial statement included in the Management Report.

On the Non-financial Statement in the terms of article 66-B of the Commercial Companies Code

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Bank included the non-financial information in accordance with the article 66-B of the Commercial Companies Code in its Management Report.

On the Corporate Governance Report

In our opinion, the chapter 10. Corporate Governance of the Management Report includes the information required to the Bank to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of the said article.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Bank for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;

- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Board on 4 April 2019; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Bank in conducting the audit.

Lisbon, April 4, 2019

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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Report of the General and Supervisory Board and the Opinion of the Financial Affairs (Audit) Committee on the Management Report and on the Separate and Consolidated Financial Statements of NOVO BANCO, S.A. for the year ended 31 December 2018

Pursuant to the mandate we have been given and in compliance with the provisions of h) and q) of paragraph 1 of article 441° and article 444.º of the Commercial Companies Code and the bylaws of NOVO BANCO, S.A. ("NOVO BANCO" or the Bank), the General and Supervisory Board is required to issue the Annual Report on the activity developed and the Financial Affairs (Audit) Committee is required to issue an opinion on the management report and the separate and consolidated financial statements of NOVO BANCO, which comprise the separate and consolidated income statement and separate and consolidated statement of comprehensive income, separate and consolidated balance sheet, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows and the respective Annexes, as well as on the proposed application of Results, presented by the Executive Board of Directors.

1. Report of the General and Supervisory Board for the year 2018

1.1. Composition and scope

In accordance with the applicable law, NOVO BANCO's bylaws and best practices at the date of this annual report, five of the nine members who comprise the General and Supervisory Board, including the Chairman, are independent. The General and Supervisory Board has the powers given by law, by the Bylaws and by own regulation, including the supervision of all matters related to risk management, compliance and internal audit.

During 2018, we have monitored the activity of the Bank and its more significant subsidiaries. The activity of the General and Supervisory Board is directly supported by 5 (five) committees, in which were delegated some of its powers, namely the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, as provided for in articles 6 and 16 of the Bylaws of NOVO BANCO and the Regulation of the General and Supervisory Board.

These Committees are chaired and composed by members of the General and Supervisory Board and can also have the presence of the Executive members of the Executive Board of Directors or other managers responsible for the areas covered by the activities of these Committees.

The General and Supervisory Board meets monthly, performing the duties assigned to it by law, by the Bylaws of the Bank and by own regulation. The Executive Board of Directors informs the General and Supervisory Board on all relevant matters, timely and on a comprehensive written or verbally manner.

1.2. Activity undertaken in 2018

General and Supervisory Board

During the year 2018, the General and Supervisory Board held 14 meetings, were several issues were discussed, analised and approved, including:

- The separate and consolidated financial statements of NOVO BANCO for the year ended 31 December 2017 and the financial statements of the first, second and third quarters of 2018;
- The budget for 2018;
- 2018-2020 strategic plan;
- The strategy and risk appetite;
- The main sale of assets of NOVO BANCO, in particular, the sale of the GNB - Companhia de Seguros de Vida, S.A., the sale of a portfolio of real estate assets, composed of about 9000 assets (Viriato Project), the sale of a portfolio of non-performing loans-NPLs and related assets (Nata Project) and the accomplishment of the sale of BESV, as well as the termination of the activities in the Branches of London and Venezuela;
- The issuance of debt instruments that qualify for capital ratios (*Tier 2*);
- Review of the General and Supervisory Board own regulation and the regulations of their Committees delegating powers to some of the committees;
- Information disclosure policy;
- Whistleblowing policy;
- Outsourcing policy;
- Evaluation and selection policy of the governing bodies and key function holders
- Related party policy;
- Conflict of interest policy;

- Remuneration policies of the governing bodies and the rest of the Bank's staff;
- Succession policy;
- Servicing contract of the CCA;
- Approval of the Internal audit plan May 2018 - April 2019.

Additionally, in all meetings, the General and Supervisory Board, in addition to the analysis of the evolution of the business, monitored, as well:

- the evolution of the legal aspects and specific regulation of the financial sector, in particular the “Regime Geral das Instituições de Crédito e Sociedades Financeiras” ("RGICSF"), the regulations of the European Union and the notice and further instructions of the Bank of Portugal;
- the evolution of the main prudential ratios analyzed in the Executive Board of Directors and presentation of the measures arising from European banking regulation and the specific requirements set by the European Central Bank (SREP);
- the liquidity position and respective regulatory ratios of the Bank, through information presented to the Executive Board of Directors.

Under and for the purposes of analyses and verifications performed, the General and Supervisory Board requested, and obtained, documentation and clarification of several issues raised.

Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee held 16 meetings during 2018 and concentrated its activity in the assessment of the Bank's financial statements, and reports of the statutory auditor for the financial year 2018, discussing and analyzing also the update reports submitted by the Internal Audit. The Financial Affairs (Audit) Committee monitored on a continued form, the independence and the work of the external auditor, including the supervision and approval of the provision for this of other additional services to NOVO BANCO Group. The annual audit process for 2018 was discussed at meetings of the Committee. The meeting agenda included an update on the regulatory aspects of the Bank's activity, the implementation of IFRS 9 and the conclusions of the supervisory review and evaluation process (SREP). The statutory auditor, as well as the person responsible for internal audit and the *Chief Financial Officer* (CFO) participated in the meetings as guests, where necessary.

In addition, Committee members met separately with the statutory auditor and the person responsible for internal audit, without the presence of the members of the EBD.

Risk Committee

The Risk Committee held 14 meetings during the year of 2018. In addition to the approval of loans to individual clients or groups of clients associated with, according to the own Regulation, appreciated and discussed the strategy and risk appetite to 2019, according to the budget for 2019. Other topics discussed by the Risk Committee included the major monthly indicators of risk (credit risk, market and operational) and the provisions and impairments of credit in the financial statements for the financial year of 2018. Non-performing loans of the Bank were also reviewed and compared with the institutions used as reference and with the indicators of the European Banking Authority (EBA). The governance model of risk was also subject to review in the year. The meeting agenda included a report about the regulatory aspects relating to the risks faced by the Bank, particularly in the context of the exercise TRIM (Targeted Review of Internal Models) and of the conclusions of the SREP. The calculation of risk-bearing capacity of the Bank is a frequent subject in the meetings of the Committee. The Responsible for the risk function and the CRO participated in meetings as guests, where necessary.

Compliance Committee

The Compliance Committee held 4 meetings during 2018 and deliberated on issues of Government, regulatory and legal in which the Bank operates, having examined and discussed the issues of regulatory compliance of the Bank, including the MIFID2 implementation and of the law on the prevention of money laundering, the legislation on data protection, and other legal and regulatory affairs and relevant ongoing projects. The Committee reviewed and discussed issues on related-party transactions and conflict of interest, as well as more relevant lawsuits regularly accompanied by the Bank.

Nomination Committee

The Nomination Committee held 6 meetings during the year 2018. With the purpose of supporting its activity, the Committee implemented an independent Office of evaluation of the adequacy and suitability (Fit & Proper), chaired by the head of the Department of Human Capital. The evaluations were conducted (the individual and collective level) the adequacy and suitability of the Executive Board of Directors and of the General Supervisory Board, including the approval of new members of the Board and supervisory bodies and relevant staff.

The Remuneration Committee

The Remuneration Committee held 5 meeting during the year 2018. At this meeting, the Committee monitored the implementation of policies relating to the remuneration of the management and supervisory bodies and adopted a set of decisions related to the variable component of remuneration. Additionally, were also established and approved at this meeting the main individual and collective performance indicators for the Executive members of the Executive Board of Directors for the year 2019, based on the approved budget for this year.

During the year of 2018, the General and Supervisory Board and their Committees have issued several opinions arising from requests made by the Executive Board of Directors, under article 15, paragraph 5 of the Bylaws.

The General and Supervisory Board and the Financial Affairs (Audit) Committee held meetings throughout the year with the audit firm Ernst Young Audit & Associados-SROC, S.A.., both in the context of the audit of the separate and consolidated financial statements for the year ended 31 December 2018, and regular monitoring and discussion of the most relevant aspects resulting from the assessment of the internal control.

Under the existing articulation with the audit firm, the General and Supervisory Board obtained the necessary and sufficient explanations to the questions within the scope of its functions and, in particular:

- The completeness of the accounting records and documents that support them;
- The existence of goods or values belonging to the group NOVO BANCO or received in guarantee, deposit or other title; and

- If the accounting policies and valuation criteria adopted lead to an adequate representation of the assets and of the results of NOVO BANCO.

The General and Supervisory Board reviewed all matters contained in the Legal Certification of accounts and Audit Report on the consolidated and individual financial statements issued by the statutory auditors for the year ended 31 December 2018, having obtained from the auditors all the necessary clarifications, in particular on the relevant matters included under the same audit:

- Impairment losses on loans and advances to customers
- Contingent Capital Agreement;
- Deferred tax assets from tax losses
- Non-current assets held for sale and discontinued operations
- Real estate received by credit recovery;
- Provisions and contingent liabilities;
- Fair value of financial instruments not quoted in an active market, and
- Post-employment benefits.

All these matters were monitored by the General and Supervisory Board and their committees, which, on these matters, kept updated by the Executive Board of Directors, by the relevant Directions and by the external auditors.

In preparing the accounts of the financial year, the General and Supervisory Board analised the management report as well as other documents submitted by the Executive Board of Directors, having proceeded to verifications and obtain the clarifications deemed necessary, which comply with the applicable legal requirements.

The accounts were audited by the audit firm Ernst & Young Audit & Associados SROC, S.A., which issued the Audit Report on the financial information for the year ended 31 December 2018 in 4 April 2019, without qualifications and without emphasis, on which the General and Supervisory Board expresses its agreement.

The General and Supervisory Board reviewed the Additional Report to the Supervisory Board issued by the statutory auditors on the same date, which corresponds in substance to the issues that have been discussed along the year, and for which we have obtained all the necessary clarifications.

2. Opinion of the Financial Affairs (Audit) Committee on the management report and the separate and consolidated financial statements

Within the scope of our work we verified that:

(a) the separate and consolidated balance sheet, the separate and consolidated income statement and separate and consolidated statement of comprehensive income, , the demonstration of changes in individual and consolidated equity, the separate and consolidated cash flow statement and the corresponding Annex, allow a proper understanding of the asset, liabilities and the separate and consolidated financial position of NOVO BANCO, their separate and consolidated results of changes in equity and the separate and consolidated cash flows;

(b) the accounting policies and valuation criteria adopted are appropriate;

(c) the management report is sufficiently clear as to the evolution of the business and the situation of the Bank and all the subsidiaries included in the consolidation, highlighting the most significant aspects, as well as a description of the principal risks and uncertainties that face;

(d) the proposed application of results do not contradict the legal and statutory provisions applicable;

(e) in accordance with paragraph 5 of article 420 of the Code of commercial companies, apply for remission of articles 441, 444, paragraph 2 and paragraph 2, the information about the corporate governance includes the elements required under article 245 of the Code number of the Securities and other applicable legislation.

Therefore, we are of the opinion of the:

(a) Approval of the management report as well as other documents of account, for the year of 2018, presented by the Executive Board of Directors, considering the aspects highlighted in the Audit report on the consolidated and separate financial statements of the Bank of that year issued by the audit firm;

(b) Approval of the proposed application of results submitted by the Executive Board of Directors in Executive Management report.

Finally, the General and Supervisory Board would like to express its appreciation to the Management Board, to the Executives in charge for the several areas of the Bank and to other employees, as well as the auditors, the cooperation and the support for the completion of your work.

Lisbon, 4 April 2019

General and Supervisory Board and the Financial Affairs (Audit) Committee

Byron James Macbean Haynes
Chairman of the General and Supervisory Board and member of the Financial Affairs (Audit) Committee

Karl-Gerhard Eick
Vice-Chairman of the General and Supervisory Board and member of the Financial Affairs (Audit) Committee

Kambiz Nourbakhsh
Member of the General and Supervisory Board and member of the Financial Affairs (Audit) Committee

Mark Andrew Coker
Member of the General and Supervisory Board

Benjamin Friedrich Dickgiesser
Member of the General and Supervisory Board

John Herbert
Member of the General and Supervisory Board

Donald John Quintin

Member of the General and Supervisory Board

Robert A. Sherman

Member of the General and Supervisory Board

Carla A. da Silva

Member of the General and Supervisory Board

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(Free translation from the Original Independent Limited Assurance Report in Portuguese. In case of any discrepancy, the Portuguese version always prevails)

Independent Limited Assurance Report of the Non-Financial and Sustainability Information Disclosed in the 2018 Annual Report

To the Board of Directors of
Grupo Novo Banco, S.A.

Introduction

1. We were contracted by the Board of Directors of Grupo Novo Banco, S.A. to proceed with the independent review of the non – financial and sustainability information included in the "2018 Annual Report", hereinafter the "2018 Sustainability Report"), relating to the sustainability performance from 1 January to 31 December 2018.

Responsibilities

2. The Board of Directors is responsible for preparing the "2018 Sustainability Report" and to maintain an appropriate internal control system that allows the information presented to be free of material misstatements due to fraud or error.

3. It is our responsibility to issue a limited assurance report, professional and independent, based on the procedures performed and described in the "Scope" section below.

Scope

4. Our review procedures have been planned and executed in accordance with the International Standard on Assurance Engagements (ISAE 3000, Revised) – "Assurance engagements other than Audits and Reviews of Historical Financial Information", for a limited level of assurance.

5. The procedures performed in a limited assurance engagement vary in timing and nature from, and are less in extent than for, a reasonable assurance engagement, therefore, the assurance provided by these procedures is lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our independent review procedures comprised the following:

   - Conducting interviews with Management, in order to understand how the information system is structured and assess their level of knowledge of the topics addressed in the report;
   - Review of the processes, criteria and systems adopted to collect, consolidate, report and validate the data for the year 2018;
   - Review, on a sample basis, of the data calculated by Management, and of quantitative and qualitative information disclosed in the report;
   - Confirmation on how collection, consolidation, validation and report procedures are being implemented in selected operating units;
   - Verification of the conformity of the information included in the "2018 Sustainability Report" with the results of our work.

6. Regarding sustainability reporting standards of the Global Reporting Initiative – GRI Standards 2016, we performed a review of the self-evaluation made by Management of the adopted option to apply the GRI Standards 2016 and conformity with Article 508-G of the Portuguese Companies Act (Código das Sociedades Comerciais) (disclose of non-financial information).

Quality and independence

7. Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable and we comply with the independence and ethical requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics and the Code of Ethics of the Order of Chartered Accountants (OROC).

Conclusion

8. Based on our work, nothing has come to our attention that causes us to believe that the systems and procedures for the collection, consolidation, validation and reporting of the "2018 Sustainability Report" are not operating appropriately and the information disclosed is not free from relevant material misstatements. Additionally, nothing has come to our attention that causes us to believe that the "2018 Sustainability Report" do not include all the required data and information as defined by the Article 508-G of the Portuguese Companies Act.

Lisboa, April 5, 2019

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(signed)

Manuel Ladeiro de Carvalho Coelho da Mota – ROC nº 1410
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NOVO BANCO