2014
ANNUAL REPORT

NOVO BANCO

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

I. MANAGEMENT REPORT

Main Indicators

	04-Aug-14 [(a)]	04-Aug-14 (Pro forma)[(b)]	31-Dec-2014
ACTIVITY (millions of Euros)			
Total Assets [(1)]	84,200	83,970	74,801
Net Assets	72,383	72,383	65,417
Gross Loans	43,818	41,663	40,060
Customer Deposits	25,102	24,617	26,626
Total Equity	6,100	6,100	5,410
SOLVENCY [(2) (3)]			
Common Equity Tier I / Risk Weighted Assets	10.3%	-	9.5%
Tier I / Risk Weighted Assets	10.3%	-	9.5%
Total / Risk Weighted Assets	10.3%	-	9.5%
LIQUIDITY (millions of Euros)			
ECB Funds (net) [(4)]	8,871	8,768	7,812
Eligible Assets for repo operations (ECB and other)	16,111	15,892	14,171
(Total Credit - Credit Provisions) / Customer Deposits [(3)]	144%	140%	126%
ASSET QUALITY			
Overdue Loans > 90 days / Gross Loans	7.5%	7.7%	8.7%
Overdue and Doubtful Loans / Gross Loans [(3)]	8.9%	9.2%	9.9%
Overdue and Doubtful Loans net of Impairments / Total Net Loans [(3)]	-3.5%	-3.0%	-3.4%
Credit at Risk / Gross Loans [(3)]	13.8%	13.5%	16.5%
Credit at Risk (net) / Net Loans [(3)]	2.1%	1.6%	3.6%
Credit Provisions / Overdue Loans > 90 days	160.6%	153.7%	147.9%
Credit Provisions / Gross Loans	12.0%	11.9%	12.8%
Cost of Risk [(5)]	-	-	2.3%
PROFITABILITY			
Net Income (M€)	-	-	-497.6
Income Before Taxes and Minorities / Average Net Assets [(3) (5)]	-	-	-1.0%
Banking Income / Average Net Assets [(3) (5)]	-	-	2.8%
Income Before Taxes and Minorities / Average Equity [(3) (5)]	-	-	-11.3%
EFFICIENCY			
Operating Costs + Depreciation / Banking Income [(3)]	-	-	45.4%
Staff Costs / Banking Income [(3)]	-	-	22.7%
Operating Costs / Total Assets [(5)]	-	-	1.2%
EMPLOYEES			
Total	8,689	7,887	7,722
- Domestic	7,195	6,950	6,832
- International	1,494	937	890
BRANCH NETWORK			
Total	674	674	675
- Domestic	631	631	631
- International	43	43	44

(a) Information considering the opening Balance Sheet after the resolutions of 22 December 2014 and 11 February 2015
(b) Information considering the classification of Banco Espírito Santo de Investimento as a unit being discontinued under IFRS 5
(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised Credit
(2) Calculated according to IRB Foundation
(3) According to Instruction no. 16/2004 of the Banco de Portugal
(4) Includes funds from and placements with the European System of Central Banks (ESCB); positive = net borrowing; negative = net lending
(5) Annualised data

Message of the Chairman of the Board of Directors

NOVO BANCO was created on 3 August 2014, when the Banco de Portugal (the Portuguese Central Bank) applied a resolution measure to Banco Espírito Santo, S.A., with a share capital of Euros 4.9 thousand million, fully subscribed by Fundo de Resolução (the Resolution Fund), the Bank's sole shareholder.

The current Board of Directors took office on 17 September, with a clear mandate to add value to the shareholder, while the latter was preparing NOVO BANCO to be sold to a stable shareholder with the capacity to control a universal commercial bank with relevance in the Euro area.

The dramatic events affecting the Espírito Santo Group, which preceded the resolution measure, as well as the successive changes in the Bank's management team, seriously affected the image and credibility of a centenary financial institution, with immediate negative impacts in the business activity, namely in customer deposits and the consequent worsening of the loan to deposit ratio (which stood at 155% in September).

In this extremely adverse scenario, it was essential to mobilise staff and focusing them in recovering the Bank. On 18 September, we approached the best commercial banking team in Portugal, securing their commitment to retake the leadership position by increasing activity levels and creating value («This is our mandate and not the permanent discussion about the date and / or the sale process»).

The Board of Directors met locally with the commercial teams to strengthen the commitment and the team's confidence. Clear priorities and the re-establishment of the Bank's governance, increased the teams confidence and gradually that of the customers.

Deposits increased by Euros 4.2 thousand million from 30 September to 31 December, above the 4 August level, which combined with a selective disinvestment of non-core assets, allowed the loan to deposit ratio to reach 126% by the end of the year.

NOVO BANCO brand was gradually establishing itself in the market, as a reference. The "Campanha 5 estrelas" and the marketing campaigns aimed at corporate clients, as well as some strategic events, reinforced NOVO BANCO's role as the third largest domestic bank by assets, with a 16.2% market share, and as the reference Bank for the Corporate segment.

The solutions proposed in September, allowing clients to convert their investments in debt instruments placed with retail clients into deposits, and similar solution proposed in October for the discretionary portfolio management (GDC's) product, clearly helped to reinstall client's confidence and retention levels.

The release of the opening balance sheet placed NOVO BANCO as the third-largest bank in the market, with a core equity tier 1 (CET1) ratio of 10.3%, above the minimum regulatory requirement.

After reaching a solution for Angola and agreeing the sale of BESI, the Bank was able to increase its focus on the domestic commercial banking market.

We implemented a cost reduction policy and strengthened the governance of the Bank and created the credit and capital management departments.

The above-mentioned and the approval of a set of principles that are to guide NOVO BANCO's teams (announced at our Convention on 17 January 2015) leave us optimistic as to our ability to attain the five priorities we have defined for 2015:

- Deposits growth above 10% (excluding the 3 major customers);

- Loan to deposit Ratio below 120%;

- Loan Growth of Euros 450 million to Corporate Winners;

- CET1 above 8.5%;

- Gross Operating Income over Euros 350 million.

I would like to thank the employees of NOVO BANCO for their attitude, character and dedication.

Finally, a special word to our clients, without whom several of the objectives would not have been met.

Eduardo Stock da Cunha

Chairman of the Board of Directors

1. NOVO BANCO

Origin

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

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

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

As a transition bank, NOVO BANCO has a limited period of two years, renewable for periods of one year, under significant reasonable grounds of public interest, up to a maximum of five years, under article 145-G/12 of the RGICSF. Nevertheless, according to the commitments undertaken by the Portuguese State before the European Commission, the sale of NOVO BANCO must occur within a maximum period of two years from its incorporation.

Corporate Bodies

NOVO BANCO's corporate bodies are appointed by Banco de Portugal, based on a proposal submitted by the Management Committee of the Resolution Fund (article 145-G/11 of the RGICSF and article 8 of Notice no. 13/2012 of Banco de Portugal). Therefore NOVO BANCO's governing bodies are the General Meeting, the Board of Directors and the Statutory Supervisory Board.

Board of Directors

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

Besides the normal management role, granted by the law and by the Bank's bylaws, and taking in consideration the limitations arising from transition bank status, the Board of Directors of NOVO BANCO's is specially responsible for stimulating the operational activity in order to preserve value, selling certain assets, considering the main activity guidelines and market circumstances, and complying with the regulatory rulings of Banco de Portugal, namely:

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

On 3 August 2014, the Board of Directors of the Banco de Portugal appointed the following members for the Board of Directors of NOVO BANCO:

- Chairman: Vítor Augusto Brinquete Bento
- Vice-Chairman: José Alfredo Almeida Honório
- Member: João de Almada Moreira Rato
- Member: João Eduardo Moura da Silva Freixa
- Member: Jorge Alberto Carvalho Martins
- Member: João Maria de Magalhães Barros de Mello Franco

On 7 August 2014, the Board of Directors of Banco de Portugal appointed António Miguel Natário Rio Tinto as a member of the Board of Directors of NOVO BANCO.

Given the resignation of the aforementioned members, on 16 September 2014, the Board of Directors of the Banco de Portugal, under the article 145-G (11) of the RGICSF and based on a proposal by the Management Committee of the Resolution Fund, appointed, in an ordinary meeting, a new Board of Directors for NOVO BANCO. The appointed Board of Directors would be in charge as from 17 September 2014, with the following members:

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

On 10 March 2015, based on a proposal from the Management Committee of the Resolution Fund and recommendation of the Board of Directors of NOVO BANCO, Banco de Portugal appointed Francisco Ravara Cary and Francisco Marques da Cruz Vieira da Cruz as members of the Board of Directors of NOVO BANCO. These members took office from 12 March 2015.

The Board of Directors of NOVO BANCO usually meets once a week and extraordinarily whenever called by the Chairman or two members of the Board.

Additional in depth details and powers of the Board of Directors is provided in Point 7. Corporate Governance.

Board of the General Meeting

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

Statutory Supervisory Board

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

Statutory External Auditor

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

Company Secretary

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

2. NOVO BANCO Group

NOVO BANCO Group's activity covers private, corporate and institutional segments. The Group's market approach is developed through a multispecialist model. NOVO BANCO offers a wide range of products and services including deposits, loans, investment fund management, brokerage and custodian services, and also the sale of life and non-life insurance.

Besides its domestic activity, NOVO BANCO Group develops an international activity focused on countries with economic and cultural affinities with Portugal.

The know-how developed in the domestic market in corporate and private banking allows NOVO BANCO Group to export its skills to serve local clients as well as those who develop transnational economic activities, namely through the monitoring and support of the internationalisation of Portuguese companies. In this regard, the main focus has been assisting clients on the access of strategic markets that offer business opportunities.

Mission

As a transition Bank, NOVO BANCO's main purpose is to create value for its shareholder and at the same time satisfying its clients' needs, as well as promoting professional achievement of its employees. Its first and foremost mission is to align a sustained reinforcement strategy of its competitive position in the market, fully respecting the interests and welfare of its clients and employees, minimising risk levels and maximising the value of the assets received, on the date of the incorporation of the Bank.

NOVO BANCO Group is a universal financial group, present in four continents, but with its decision centre in Portugal.

Strategy

NOVO BANCO Group's main pillar for development and strategic differentiation lies in the offer of premium services, permanently oriented to meet each client's needs, no matter whether individual, corporate or institutional.

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

The circumstances involving the creation of NOVO BANCO Group generated a challenging environment that called for the mobilisation of the employees to face the exceptional and complex situation resulting from the application of the resolution measure to the original financial institution.

Amongst the challenges faced, given their reach and relevance, the following should be pointed out:

- To restore the clients confidence, aiming at the increase of deposits, thus stabilising the Bank's funding;
- To sustain future profitability, leveraging NOVO BANCO's positioning in the corporate segment, enabling the Bank to contribute to the development of the domestic economy and, in turn, benefit from the expected recovery of the Portuguese economy;
- To maintain the deleverage of the balance sheet through the selective disposal of assets, as to improve liquidity and solvency levels, without reducing the support to domestic SME's (Small and Medium sized companies), particularly to the exporters;
- To reduce funding from the European Central Bank (ECB) through the recovery of customer funds and liquidity generated by the disposal of assets;
- To fully cooperate with the Supervisory Authorities and comply with all the regulatory rulings in the context of the management of a transition bank.

Domestic and International Activity

- ### Domestic Activity

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

The Group has a reference positioning in Corporate Banking and Private Banking segments, offering as well Asset Management Services through GNB Gestão de Ativos (officially still ESAF - Espírito Santo Ativos Financeiros SGPS, SA) and Bancassurance through GNB Seguros Vida and GNB Seguros.

Distribution channels

The distribution capacity is a key factor in the Bank's competitive positioning. At 31 December 2014, NOVO BANCO Group had a domestic retail network of 631 branches and a network of 44 branches abroad (including 35 in Spain and 2 in Cape Verde). This is complemented by specialised centres fully dedicated to the Corporate and Private segments. At the end of 2014, the Group had 23 Private Banking centres (19 in Portugal and 4 in Spain) and 30 Corporate Centres (23 in Portugal and 7 in Spain).

NOVO BANCO Group has developed a multi-channel approach in its relationship with its clients, essentially through the internet. In 2014, NOVO BANCO has consolidated its leadership position in Internet Banking, with the number of individual clients frequently using the Internet Banking service – NB NET - having increased. This multi-channel approach has been progressively enhanced and widened through, with the implementation of a CRM (Customer Relationship Management) system that ensures the integration of the several interaction channels, as well as the progressive dematerialisation of processes.

NOVO BANCO offers a wide range of communication channels and accesses to allowing a permanent contact with the Bank, through the most recent technologies:

- **NBapp (smartphone):** service developed specifically for use through Android or iOS (iPhone) smartphones with access to various banking operations. NBapp smartphone is the Bank's fastest growing channel, providing a range of mobile options that may be accessed by clients at any time and in any place;
- **NBapp (tablet):** software developed to take full advantage of the Android and iPad tablets. An innovative solution and very different from other solutions available in the domestic and international market, given the ease of operation submissions, the possibility of selecting favourite operations or homepage customisation settings, amongst other possibilities offered;
- **NBdirecto:** call centre service that allows the execution of banking operations and provides advice on products. NBdirecto offers lines adjusted to the client's profile: NBdirecto Internacional (International), NBdirecto Boas-Vindas (Welcome), NB Private Phone, Linha NB 360º (360º Line), Linha Informativa T (Informative) and NBdirecto Seguros (Insurance);
- **NBcall:** messaging service via NBnet that allows the client to contact the Bank at no cost: "send us a message and we will call you directly";
- **NBchat:** online chat service: "talk to us".

International Activity

NOVO BANCO Group is present in 20 countries (in addition to Portugal), in four continents. The internationalisation of Portuguese companies, the growing interdependence between economies and the large communities of Portuguese communities established across various continents have provided the basis for the international presence of the Group.

Spain

In Spain, NOVO BANCO Group operates through a network of 35 branches, 7 Corporate Centres and 4 Private Banking Centres. Taking advantage of the geographical proximity, NOVO BANCO has an Iberian vision of the market, facilitating and promoting exports and direct investment by Portuguese companies in Spain, and by Spanish companies in Portugal.

United Kingdom

In the United Kingdom, NOVO BANCO operates through a branch in London, in wholesale banking, especially in the origination of institutional funding and the management of a portfolio of bilateral and syndicated credit operations, including acquisition finance and project finance.

Luxembourg

NOVO BANCO has a branch in Luxembourg, an important international financial centre and home to a large community of Portuguese residents. The main mission of the unit is to serve both this community and the Group's international clients. Its activity is concentrated on the corporate, private and affluent banking segments, as well as in providing financial services to the Portuguese residents in Luxembourg who are also NOVO BANCO clients in Portugal.

Venezuela

NOVO BANCO Group operates in Venezuela through NOVO BANCO Sucursal Venezuela, Banco Universal. This unit operates in the corporate, private and affluent banking segments, mainly targeting the large Portuguese community in the country as well as the Venezuelan companies doing business in Portugal.

United States of America

NOVO BANCO branch in New York concentrates its activity on wholesale banking, primarily in the USA and Brazil. Given the strong decrease in activity in this market, resulting from the sale of BESI, NOVO BANCO took the decision to close this branch in 2015.

France

In France, NOVO BANCO holds 87.5% of Banque Espírito Santo et de la Vénétie, S.A. which provides financial and corporate banking services.

Cape Verde

The activity of Banco Internacional de Cabo Verde, S.A. is focused on the local corporate market, particularly in the public sector and affiliates of Portuguese Companies with economic ties with Cape Verde, and it also operates in the local affluent market. In March 2015 NOVO BANCO closed its Offshore Branch in Cape Verde.

Mozambique

NOVO BANCO Group holds 49% of Moza Banco, S.A., whose activity is concentrated on the corporate, private and affluent banking segments. At the end of 2014 MOZA BANCO had 30 branches, as the result of an expansion plan aimed at covering all the provinces of the country. The stake in Moza Banco reinforces the Group's presence in Africa, positioning NOVO BANCO to take advantage of Mozambique's growth, both as a partner of its local business community as well as by supporting the Portuguese companies operating in that country. The Group offers a wide range of financial products, namely trade finance, financing for investment projects, cash and savings management services and trade transactions in the domestic and international markets.

Angola

In November 2014 Banco Nacional de Angola (Angolan Central bank) deliberated the restructuring process of BES Angola. Following this deliberation BES Angola was renamed Banco Económico, S.A. and was subject to a shareholder restructuring, whereby NOVO BANCO holding stood at 9.7%. Banco Económico has 70 branches and sub-branches distributed by fifteen provinces, a private centre and 11 corporate centres in

Luanda. Complementing this offer, Banco Económico also offers services in the corporate and investment banking segments.

Macao

The presence in the Macao Special Administrative Region through NOVO BANCO Ásia, S.A. is to support the business operations developed by the Group's clients in the region, as well as the Bank's wholesale funding activity. Simultaneously, it takes advantage of business opportunities leveraged on the initiative of the Central Government of the People's Republic of China that considers Macao a platform for economic cooperation with Portuguese-speaking countries.

Other Presences

NOVO BANCO Group has representative offices in South Africa, China, Mexico and Switzerland. Additionally, it has financial holdings in local banks such as Banco delle Tre Venezie, Spa. (20.0%) in Italy, Banque Marocaine du Commerce Extérieur, S.A. (2.6%), in Morocco and Ijar Leasing Algérie (35% in partnership with Banque Extérieure d'Algérie), in Algeria.

International Presence of NOVO BANCO Group

International Branches
Branch in Spain; Branch in London (United Kingdom); Branch in Luxembourg, Branch in Venezuela, Banco Universal (Venezuela); Branch in New York (USA); Branch in Nassau (Bahamas); SFE Cabo Verde (Cape Verde), Branch in the Cayman Islands
International Subsidiaries and Associates
Banque Espírito Santo et de la Vénétie, S.A. (France); Banco Internacional de Cabo Verde (Cape Verde); Moza Banco, S.A. (Mozambique); Banco Económico, S.A. (Angola); NOVO BANCO Asia, S.A. (Macao / People's Republic of China); ES PLC (Ireland); BES GMBH (Germany); Banco Delle Tre Venezie, Spa (Italy); Banque Marocaine du Commerce Extérieur, S.A. (Morocco); Ijar Leasing Algérie (35% in partnership with Banque Extérieure d'Algérie)
Representative Offices
South Africa, China, Mexico, Switzerland (Geneva, Lausanne, Neuchatel, Sion and Zurich)

Commercial and Business Activity

NOVO BANCO Group is a universal financial group that serves private, corporate and institutional segments. Product innovation and quality oriented services positioned NOVO BANCO Group as a reference in the domestic market.

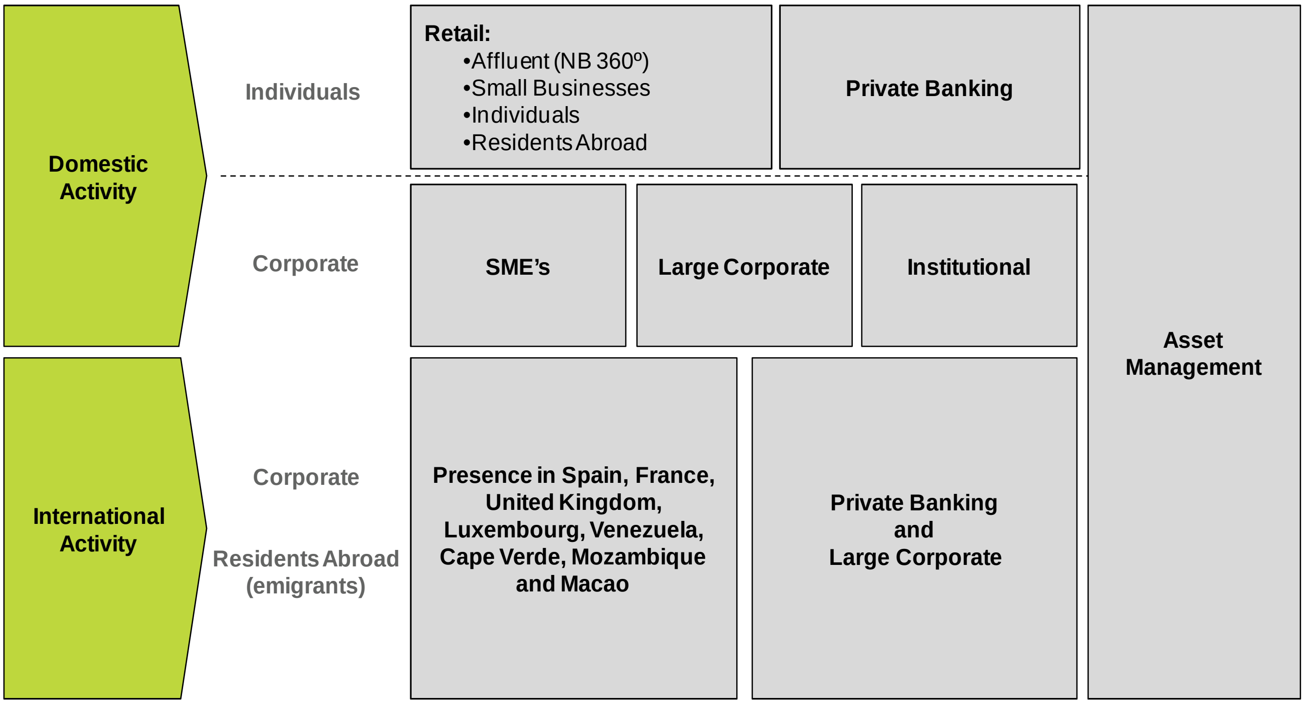
When monitoring the performance of each business areas, the following operational segments are considered:

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

Each segment is directly supported by NOVO BANCO's dedicated structures as well as by Group units whose activities identify most with the above mentioned segments. Each operating unit of the Group is individually monitored (each unit is considered as an investment centre).This monitoring process is complemented by the definition of strategies and commercial programmes specific for each operational segment by the Board of Directors of NOVO BANCO.

Additionally, the Bank uses a second segmentation of its activity and results according to geographical criteria, separating the performance of the units located in Portugal (Domestic Area) from those located abroad (International Area).

NOVO BANCO has a segmented approach to the market so as to offer a wide range of products and financial services addressing client's needs.



- **Retail Banking**

NOVO BANCO Group approach to retail clients is focused on a diversified and distinctive offer focusing on the client's financial needs. The creation of differentiated value propositions is based on the constant development of solutions and services, on the adoption of segmentation criteria adjusted to clients' characteristics, on the high quality of service and on the communication effectiveness.

NOVO BANCO has been creating innovative value propositions for Retail, namely for affluent clients ("NB 360º"), for small-sized companies and independent professionals (Small Businesses - "Negócios"), for individual retail clients (Individuals – "Particulares de Retalho") and for Emigrants (Residents Abroad - "Residentes no Estrangeiro"). These clients are currently served by a network of 631 branches in Portugal.

NB 360º: Excellence in Customer Service

The NB 360º service is a reference proposition in financial counselling and client monitoring, for the affluent segment. NB 360º guarantees a high standard of quality through a permanent monitoring by a specialised and dedicated account manager and exclusive proposals adjusted to the client's specific needs.

The NB 360º service presents a set of strategic initiatives that guarantee the competitiveness of the value proposition of this service, namely:

- The new remote approach to affluent clients, which together with the specialised units, the 360º Centres, widen the scope of the value proposition to this segment, allowing for a significant growth in share-of-wallet and customer loyalty;
- The NB 360º Commitments, which transform the excellence of service into real objectives, ensure a professional, strict and dedicated way of solving problems and a proactive approach in the presentation of the best proposals for the needs of each clients;
- A broad-based and competitive offer of products and services including a wide range of financial investment options as well as health protection and leisure solutions that provide a comprehensive response to the affluent clients' needs;
- The use of innovative tools, such as the NBnet Trading platform for stock market trading, allows full coverage of the clients' needs.

As at 31 December 2014 this segment represented over 55% of Retail's total customer funds representing a stable source of funding for the Group.

Banco Best, innovation leader in financial products and services offered in Portugal, launched its new website in 2014, a bold new development that incorporates the latest technological trends and most up-to-date Web surfing habits. More intuitive, easier to navigate and with new functionalities, the new website has a responsive design. Having added three new fund managers, Neuberger Berman, MFS and Muzinich to its portfolio, the bank maintains the leadership in sales of foreign investment funds, with a 25.3% market share. In online derivatives trading instruments, Best is market leader in online futures trading, with a market share of 27%, according to data disclosed by the CMVM (the Portuguese Securities Market Commission). The volumes achieved translate the performance of the various business areas, namely the stock of foreign investment funds, which grew by 29%, to more than Euros 1,000 million. This dynamics stresses the independent nature of the offer as well as the client's demand for assets unrelated to sovereign risk to diversify their investment portfolios. Furthermore, Banco Best increased the number of clients by 5.2%.

Small Businesses: Focus on the effective management of Clients' working capital needs

The Small Businesses segment priority for its commercial activity is to offer innovative solutions, payment / receipt and cash management solutions which allow clients to manage their working capital needs more effectively, streamlining costs and the need to resort to bank credit.

Accordingly, in 2014 this segment:

- Reinforced the offer of Cash Management Solutions ("Soluções NB Negócios") and Point of Sale Terminals ("*Packs* NB Negócios") adapted to the requirements of micro companies and independent professionals, which resulted in the number of clients with active POS terminals reaching more than 15 thousand, further raising NOVO BANCO's market share in this product.
- Boosted the usage of the NB Express Bill solution, an innovative system for payments and receipts allowing the issue of electronic forward payment orders, guaranteed by NOVO BANCO.

The support provided by specialised and dedicated account managers, at a personal and professional level, is one of the more distinctive features of NOVO BANCO's approach to the Small Businesses segment. An integrated vision of the clients' needs, considering the interconnected impacts between personal and business events and a genuine interest in seeing them succeed over the various phases of their life, makes NOVO BANCO the partner of choice in the Small Businesses segment, while also furthering the Bank's ambition of achieving a high level of penetration in companies whose partners have opted to concentrate a substantial part of their assets and day-to-day management with NOVO BANCO.

Individuals

NOVO BANCO continued to reinforce its offer of savings products.

In terms of savings, there was a continued focus on saving solutions adjusted to the prevailing economic environment, such as term deposits, in order to recover clients' confidence.

In the current economic environment, NOVO BANCO's insurance offer continued to focus on the essential protection of families from events liable of jeopardising their financial stability.

The **Direct Channels** continued to play a key role in the relationship with the clients, providing the following: (i) access to the entire range of services, account enquiries and transactions which can be done remotely; (ii) sale of a range of products, namely saving and insurance products, which can be acquired directly through the internet, with the support of a phone operator, or by scheduling a meeting with the branch or account manager; (iii) integration and centralised management of the CRM platforms (branch, NBnet and NBdirecto), where the success of the customised offers provided at the time the client interacts with the remote channel confirms their adjustment to the clients' needs; (iv) new solutions adjusted to the clients' mobility needs, namely through smartphone and tablet (NBapp) applications, allowing safe, convenient and permanent access in any circumstance.

According to Marktest's latest data on user satisfaction with internet banking systems, NBnet achieved the highest level of compared satisfaction, remaining the undisputed leader in the annual averages for all the eight assessment criteria (security, design, available services, ease of use, availability, page loading speed, transaction execution speed and global satisfaction with the service).

NBapp smartphone maintained strong growth, being the fastest growing channel in day-to-day clients usage, with over 10,000 clients using only this channel, deactivating their other channel usage. This number has continued to rise, due to the growing rate of smartphone ownership and to the continued investment in improving the available mobile solutions offered by the Bank.

NBapp tablet offers innovative solutions that sharply stand out from the comparable offer not only in the domestic market but also at the international level. Since its launch, NBapp tablet has led client assessment classification in the Apple app store, with an average score of 4.5 out of 5.

Client satisfaction with the NBdirecto service is also high, with 80% of clients saying to be 'very happy' with the service.

NOVO BANCO DOS AÇORES' main development focus and strategic differentiation is the offering of services of excellence and a permanent orientation to each clients' needs. The Bank serves the retail, corporate and institutional segments, offering them a wide range of financial products and services through differentiated value propositions, aimed at satisfying its needs in a distinctive way. NOVO BANCO DOS AÇORES' positioning is supported by three pillars: (i) a deep knowledge of the different segments' needs, (ii) the development of the offer in order to adjust it to the identified needs and (iii) the proposal of solutions most suited for each segment. Distribution capacity is one of the fundamental factors underlying the competitive positioning of the Bank in the Azores. At 31 December 2014, NOVO BANCO DOS AÇORES had 17 branches. The branch network is, complemented by a corporate centre, a 360º centre and Private Banking centre and a Municipal and Institutional Department.

NOVO BANCO DOS AÇORES has followed a strategy of consistent, clear organic growth in the regional market and renewal of its branches. The Bank's strategy is based on a multi-specialist model in its approach to the regional market and on a strong commercial dynamic in the retail, corporate and institutional segments, which has led to consecutive market share gains.

NOVO BANCO DOS AÇORES has also developed a multichannel approach for its relationship with clients, in particular through the internet. This approach has been progressively widened and improved, for example, through the adoption of a CRM (Customer Relationship Management) methodology that supports the integration of the various customer interaction channels and the progressive resort to the dematerialisation of processes.

Residents Abroad: an increasingly close relationship

NOVO BANCO has a wide offer of products and services for its clients residing abroad. The Bank has an innovative service that provides a long-distance relationship with an account manager who attends to all the financial needs of a client anywhere in the world, from the day-to-day management of their accounts to financial investments. This service complements the Group's network of commercial units in the main destinations of Portuguese emigration, namely France, Switzerland, Luxembourg, amongst others.

To meet the day-to-day management needs of its clients living abroad, NOVO BANCO has created the 'NB 100% Gold RE' account, which offers numerous advantages, including, amongst others, monthly direct payments, credit and debit cards with no annual fee, and a protection and insurance package.

Specialised Offer

The main principle of NOVO BANCO in its approach to clients is to set a balance between supply and demand. Therefore, the Bank seeks to adjust its offer to the client's needs, favouring and reinforcing the social and financial inclusion of people and organisations through the offer of specialised products and services, namely:

- Savings Products;
- Microcredit;
- Senior Citizens;
- New Residents;
- Universities; and
- Environmental Products and Services (Account NB 18.31).

Savings Products

With the increased cost of living resulting from the current social-economic context, it has become increasingly more urgent to adjust the family budget to its respective income. Attentive to this reality, NOVO BANCO provides a number of savings solutions that are adequate for the needs of its customers.

The Planned Saving (Poupança Programada), Micro Saving (Micro Poupança) and Impulse Saving (Poupança por Impulso) solutions continued to be strongly promoted by the commercial network during 2014, allowing the bank to help its customers hoard savings amounting to ca. Euros 706 million. This amount represents about 4% of the total term deposits and savings accounts held by the Bank's Retail clients.

Type of Saving	Description	Performance in 2014
Planned Saving	The Planned Saving allows for planned savings from as low as Euros 10/month, through the subscription to a monthly savings plan, in which the client sets the amount and the time of month, allowing the adjustment of the savings to the family budget. Clients can subscribe to three Planned Saving options, with maturities of 3, 5 and 10 years.	• 10 thousand clients • Euros 208 million in savings
Micro Saving	The Micro Saving is a solution that allows any client to start saving small amounts, through the rounding up of the day-to-day expense charges, which is transferred to a savings account (examples: mortgage loan repayment, personal loan repayment, insurance premium, direct debits, amongst others).	• ca. 43 thousand clients • Euros 22.8 million in savings
Impulse Saving	The Impulse Saving is innovative as allows clients who have the "Poupe" application for smartphones to reinforce a savings account with small amounts at a time (between Euros 5 and Euros 50). The client only has to open the application and hit the button, and at that moment, a transfer is made from the account selected as origin account to the new account created on the subscription, with the description "Impulse Saving"	• 4 thousand clients • Euros 26.5 million in savings
Micro Donate	The Micro Donate service facilitates Private Social Solidarity Institutions' (IPSS) access to clients' donations. Using the same concept as Micro Saving, this service allows the client to decide to round up some or all of his debits, with the rounding up amount being transferred to the savings account of the institution selected by the client. In addition to the rounding up amount, for every customer that subscribes to the Micro Donate service, NOVO BANCO donates Euros 10 to a Private Social Solidarity Institution selected by the client	• 13 Private Social Solidarity Institutions benefited from donations from 162 clients, in a total amount of ca. Euros 2 thousand

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

Microcredit

In the current social-economic context, NOVO BANCO offers microcredit solutions designed to foster self-employment and the creation of microbusinesses, promoting the initiatives of entrepreneurs seeking to add value to the domestic economy.

Through microcredit, NOVO BANCO provides solutions that are adjusted for the needs of entrepreneurs in risk of social exclusion, offering two financing mechanisms:

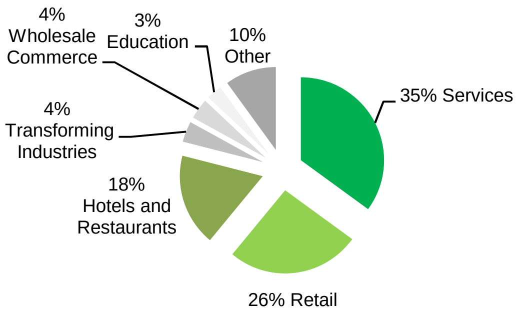
- NOVO BANCO's own solutions – Microcrédito NB;
- protocols signed with the Associação Nacional de Direito ao Crédito (ANDC) – National Association for the Right to Credit - and Instituto de Emprego e Formação Profissional (IEFP) – Institute of Employment and Professional Training (the latter via the Microinvest and Invest+ credit lines).

In 2014, NOVO BANCO financed 94 projects, allowing the creation of 140 jobs, representing ca. Euros 1.7 million of credit granted.

Currently, NOVO BANCO's Microcredit portfolio (*) holds 998 financed projects, with a total of Euros 17.1 million of credit granted.

The services sector shows the largest demand for this type of financing, representing 35% of the total, followed by the retail sector with 26%, as shown in the graph:

Financing / Activity Sector



(*)Includes Microcredit and the protocoled credit lines established with the Associação Nacional de Direito ao Crédito (ANDC) and the Instituto de Emprego e Formação Profissional (IEFP) (Microinvest and Invest+)

Senior Citizens

NOVO BANCO offers a range of financial services adapted to the needs of senior citizens, easing their integration in the financial system.

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

- **Medical assistance at home** – NOVO BANCO has doctors available round the clock to pay visits to its senior clients at home, who pay the medical fees only, while the travel cost is paid by NOVO BANCO;
- **Technical assistance at home** – NOVO BANCO provides qualified technicians (plumbers, electricians, locksmiths, carpenters, glaziers, painters, bricklayers, amongst others), round the clock. The travel costs is paid by NOVO BANCO;
- **Authorised Salary Overdraft** – possibility of using an overdraft, the limit being set in accordance with the pension and subject to commercial approval;
- **Protection Pack Service** – in case of loss or theft of debit cards, NOVO BANCO allows cash advances abroad up to the credit limit established for the 'Salary Overdraft'.

In December 2014, customer funds of Senior Citizens totalled ca. Euros 896 million and their loan portfolio amounted to ca. Euros 291 million.

New Residents

NOVO BANCO has developed a specialised offer of financial products and services adapted to the needs and integration cycles of the immigrant communities in Portugal, designed to facilitate their integration. This offer covers the welcome, full integration, credit and small business solutions cycle.

In 2014, NOVO BANCO launched the FamilyLinks card, with which family members of foreign residents in Portugal may access their bank account and withdraw cash from an ATM anywhere in the world.

Despite the socioeconomic context, which motivated the exit of immigrants, in December 2014, the total resources of this segment reached Euros 120 million, and the loan portfolio amounted to Euros 348 million.

Universities

NOVO BANCO maintains partnerships with several higher education institutions that are references in their areas in terms of the excellence of the training they provide, their students' future potential or their impact on the dynamics of the area they integrate.

The Bank has an independent specialised central structure that coordinates these partnerships and the approach to their students.

To ensure a strong presence within the higher education establishments and their public – students, lecturers, employees and researchers- numerous initiatives are developed, namely:

- **Patronage and Sponsorships:** granting of a number of donations and sponsorships that allow for the implementation of important activities in education, research and innovation, such as the creation of new professorships, the acquisition of equipment, the implementation of campus management systems or the realisation of congresses, amongst others;
- **Internships:** various internships for university students are offered – curricular, introduction to working life and summer internships, giving them a meaningful experience during their higher education period;
- **Social initiatives**: participation in a number of social initiatives promoted by higher education institutions, including support funds for students struggling to pay their tuition fees;
- **Grants and merit awards:** within the scope of the existing partnerships with higher education institutions, in 2014, NOVO BANCO awarded 80 grants and merit awards to students who distinguished themselves through the excellence of their results;
- **NOVO BANCO National Innovation Awards:** this initiative publicises and rewards research projects applied to critical sectors for the future of the Portuguese economy, such as renewable energies, health, industrial processes, amongst others, and relies on a strong involvement of the higher education institutions, both in the submission as well as in the evaluation of the projects competing.

Environmental Products and Services

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 customers.

NB 18.31 Account – carbon neutral

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

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

The greenhouse gas emissions (GHG) 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 lifecycle of GHG emissions associated to products and services. This analysis concluded that each new NB 18.31 Account has an estimated impact of 1.6 kg CO2eq/year, which is 20% less than a conventional account.

At 31 December 2014, NOVO BANCO had 133,852 NB 18.31 Accounts with offset emissions.

In 2014, the carbon emissions were offset through the support provided to the Velotex Project, a fuel replacement project at ceramic mills in the State of Rio de Janeiro, Brazil.

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

- **Private *Banking***

This sub-segment offers NOVO BANCO's high net worth individual clients customised solutions for managing their wealth, with the assistance of a Private Account Manager.

The Private Account Manager teams are distributed over 19 Private Centres, located in the main district capitals of Portugal, guaranteeing personal proximity to the client.

The Private Banking of NOVO BANCO offers a service of wealth management that analyses the specificities and needs, risk profile and service expectations of each client, allowing best asset allocation for each specific situation.

The Private Account Manager team monitors the customer's account, with the support of investment experts.

NOVO BANCO's Private Banking wealth management service is independent and has a global reach, offering a wide range of investment solutions in financial assets.

This segment also offers the following solutions: Private Account (Conta Private), Money Market Funds and the Platinum credit card of the American Express and Visa networks.

In 2014 NOVO BANCO's Private Banking assets under management totalled Euros 5,406 million.

- **Corporate Banking and Institutional Clients**

The clients of this area are medium-size and large companies, as well as institutional and municipalities. NOVO BANCO Group has an important presence in this segment, due to its support to the development of the domestic corporate sector, focusing on companies with good risk, innovative nature and exporting orientation.

Support to Internationalisation

Since 2009, Portuguese exports grew ca. 51.9% in accumulated terms. NOVO BANCO kept abreast of this process, suiting its range of products and services to meet the needs of companies in their internationalisation projects.

The International Premium Unit (DIP – Departamento Internacional Premium) offers Portuguese companies specialised support services with exports and / or direct investment in the international markets. The IPU operates through teams of specialised fully dedicated managers, who ensure effective support from the initial identification of each company's exporting potential, to the search of adequate countries as destinations for its exports, the selection of the right partners, the execution of international trade operations and the investment in the destination markets. The international business managers are supported by a network of local Cross-Border Managers in the countries where NOVO BANCO is present. In the remaining geographies, where NOVO BANCO is not present, this support is provided by a solid network of correspondent banks, created over the years.

Until December 2014, the international managers supported ca. 400 companies in different stages of internationalisation. On the other hand, NOVO BANCO's dynamic international offer and constant concern to reduce internationalisation risks, brought important market shares to the Bank, namely in the trade finance activity reaching 28.0% and in the financial support to exporting companies staying at 22.5%.

At the Iberian level, the strong articulation between the domestic commercial network and the Group's network on Spanish territory has allowed a growing commercial activity and the development of the business: 106 new Iberian customers were won, representing an additional financial movement of Euros 173 million, up till December 2014.

The export and entrepreneurship support initiatives developed by NOVO BANCO created a positive dynamics of engagement with innovative export-oriented companies dealing in tradable goods, with a good risk profile (Winners SMEs). Client acquisition of Winner SMEs reached 126 as at December 2014, while credit granted by the Group to this important segment increased by 7.15%.

Support to Innovation and Entrepreneurship

Corporate innovation and entrepreneurship are a key factor for economic growth. For that reason NOVO BANCO's promotes the National Innovation Award in order to contribute for the development of the Portuguese productive sector.

In the 2014 edition of NOVO BANCO's National Innovation Award, 88 projects competed, in the areas of 'Health, Services and Information and Communication Technologies', 'Industrial Competitiveness' and 'Natural & Environmental Resources'. A total of Euros 205 million in prizes were attributed in these awards.

The jury of NOVO BANCO's National Innovation Award –composed by deans and vice-deans of the main Portuguese universities – attributed the main prize to the category 'Health, Services and Information and Communication Technologies' to the project 'Leishmaniasis Veterinary Detection System' (LEVDS), a simple, rapid and reliable test to diagnose leishmaniasis, a parasitic disease affecting humans and dogs.

In the 'Industrial Competitiveness' area, the project 'Betão UHPFRC' (Ultra High Performance Fibre Reinforced Concrete) won and in the 'Natural & Environment Resources' area the proposal for a new biological biocide for marine paints was distinguished.

In scope of the support to Innovation and Entrepreneurship, NOVO BANCO Group also promotes the proximity between the Bank's commercial areas and ES Ventures' team of innovation specialists, who have been increasingly gaining a relevant role in the support to domestic Start-ups, and to their entire ecosystem. An example of this support is the Management Programme for Entrepreneurs and Innovators, in partnership with EDP Inovação.

Support to Investment

NOVO BANCO actively promotes the various PME Investe, PME Crescimento and Investe QREN credit lines, all of them important tools to support the national SMEs' investment and growth. A total of ca. Euros 3,400 million in credit has been approved through these lines, representing a market share of 17.2%.

In the PME Crescimento 2014 line, NOVO BANCO approved ca. Euros 156 million in new credit.

The Credit lines agreed with the European Investment Bank (EIB) and the European Investment Fund (EIF) ccontribute to the execution of important investment projects and the fulfilment of working capital needs, given the favourable terms settled. Until December 2014, Euros 303 million had been contracted under these new instruments.

Support to Cash Management

In the current market context one of NOVO BANCO's main priorities is the support to companies' cash management. Based on data reported by ALF - Associação Portuguesa de Leasing, Factoring e Renting (Portuguese Leasing, Factoring and Renting Association) in November 2014, the Bank had a leading role in factoring solutions, with a market share of 18.1%, representing Euros 989 million in credit under management.

Through the **NB Express Bill** solution, the Bank continues in the forefront of financial innovation for the corporate sector, actively promoting the economic activity, the adoption of good financial practices and contributing to the improvement of corporate financial health.

NB Express Bill networks all the companies - micro, small, medium-size and large – guaranteeing payments and advancing collections. This solution has increasingly gained more importance amongst cash management solutions, contributing to greater trust and a boosting of commercial transactions between companies.

The ca. 19,000 customers that have adhered to this innovative service have, on aggregate, some Euros 2,300 million in credit limits, allowing for the guaranteeing and advancing of about Euros 12 thousand million in payments per annum. Hence, in 2014, NB Express Bill was expanded to Spain, Portugal's main commercial partner, allowing for the guaranteeing and advancing of payments online between companies of both countries.

Continuing the joint efforts that aim to stimulate the development of the sector dedicated to the delivery of social benefits by companies to their employees, NOVO BANCO and Edenred manage a portfolio of 281,739 meal cards, having issued, in 2014 alone, 46,434 new cards.

The role of Venture Capital in NOVO BANCO

ES Ventures invests, through venture capital funds, in technology-based companies and innovative business projects with high-growth potential, original business products and concepts targeting the international market.

ES Ventures has around Euros 250 million in assets under management, invested in ca. 45 companies that are developing world leading products and services in the areas of Clean Tech, Health Care & Wellbeing and IT.

Until the end of 2014 no new investments were made in companies, but the capital of 8 companies in the portfolio was reinforced in a total amount of Euros 2.4 million.

Small and Medium-size Companies

In the support provided to small and medium-sized companies, NOVO BANCO offers the following solutions:

- NOVO BANCO Agricultura – NOVO BANCO Agriculture Solutions;
- FAME – Support Fund to Small and Micro Companies;

NOVO BANCO Agriculture Solutions

In line with its strategy of supporting the Portuguese business sector, and taking into account the impact of the agricultural sector on the Portuguese economy, NOVO BANCO actively promotes its NB Agriculture Solutions. This solution offers medium and long-term credit lines under partnerships with leading suppliers of agricultural material, allowing the replacement of agricultural equipment under very favourable credit conditions, with the possibility of financing up to 100% of the investment, with a maximum maturity of ten years and a grace period of three years for the capital. NOVO BANCO also supports the cash management needs of agricultural firms, namely through the NB Express Bill innovative solution, which is perfectly adapted to help farmers buy the products they need for the agricultural season.

More information on NB Agriculture Solutions may be found at www.novobanco.pt/empresas.

Support Fund to Small and Micro Companies (FAME)

Support Fund to Small and Micro Companies **(**FAME) is a tool created to support local development through the financing of small and micro companies. FAME is integrated in the IAPMEI (the Portuguese Institute to Support Small and Medium-size Companies and Investment) in Axis III of the Finicia programme, which involves Mutual Guarantee Companies, City Councils, the IAPMEI and Regional Development Societies, increasing the effectiveness of the support given, while lowering the funding risk.

This product offers extremely competitive and innovative financial conditions and credit of up to Euros 45,000 per project.

In 2014, NOVO BANCO had a portfolio of 125 projects with a global amount of Euros 4 million, of which Euros 3.2 million were granted by NOVO BANCO and Euros 800 thousand by the municipalities with which NOVO BANCO signed protocols.

Municipalities and Institutional Clients

NOVO BANCO's Institutional clients (Municipalities, Municipal Companies, Universities, Public Hospitals, Foundations, Associations and third sector Institutions and others) have the support of expert teams based in Porto, Viseu, Lisbon, Évora, Setúbal and Algarve (Albufeira and Faro). The specialisation of NOVO BANCO's teams and the close links established allow the development of long-term partnerships with the institutional customers.

In the third sector (e.g. Social Economy) NOVO BANCO has signed the following protocols:

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

These protocols establish valuable commercial conditions for these institutions, their associates and employees.

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

In addition, and given the nature of the social economy organisations, the Bank takes a responsible attitude, referring requests for donations or for assistance in the development of new social entrepreneurship solutions to the competent bodies within its organisation

• International Commercial Banking

This segment integrates the business units located abroad, whose banking activity is focused both on companies and individuals, excluding the asset management business. Similarly to what happened in Portugal, the international activity of NOVO BANCO Group was strongly affected by the events associated with the resolution measure, with significant impacts on the units' commercial volumes, particularly at the Spain Branch.

The activity of **NOVO BANCO Spain Branch** was impacted by the effects of the events associated to the resolution measure. Main highlights in the period of 4 August to 31 December 2014 were related to: (i) reduction in customer deposits, which however recovered at year-end to their level on 3 August; this, combined with the loan book contraction, enabled an improvement in the Branch's self-sufficiency in terms of funding; (ii) off-balance sheet activity volume decreased to ca. Euros 1.1 thousand million at the end of the year; (iii) the international corporate activity volume decelerated, with the number of active clients in the period falling by 8.6%. (iv) despite the reduction in the number of clients, the number of private banking clients increased; (v) continued implementation of the prudent credit risk management policy, involving a reinforcement of provisions in light of the evolution and direct effects.

NOVO BANCO London Branch (United Kingdom) concentrates its activity in wholesale banking in the European market. Reflecting the effects of the deleveraging plan a well as the reduction in the amount of short- and medium term debt issuance programmes, at the end of 2014 Total Assets amounted to Euros 4.6 thousand millions.

NOVO BANCO Luxembourg Branch has been acting as a platform for business with the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe.

NOVO BANCO Venezuela Branch has been focusing its activity on the Portuguese resident community and the local large companies and institutions. For the branch, the year was also influenced by the events associated to the resolution measure, and also by the adverse economic situation in Venezuela, which is suffering from hyperinflation.

NOVO BANCO New York Branch (USA) concentrates its activity in wholesale banking, mainly in the US and Brazil. 2014 continued to be marked by difficulty of access to market liquidity, penalising the placement certificates of deposit and commercial paper.These constraints continued to demand extreme prudence in business development and focus on risk monitoring and management. Undermined by the adverse scenario NOVO BANCO decided to close the branch in 2015.

The activity of **Banque Espírito Santo et de la Vénétie, S.A. (France)** was likewise impacted by the events occurred with its majority shareholder, which affected its corporate image and caused a reduction in client deposits. The contraction of activity combined with the increase in operating costs hindered the performance of the gross operating income, notwithstanding a lower cost of risk.

The activity of **Banco Internacional de Cabo Verde (Cape Verde)** focuses on local corporate banking, where it mainly targets public sector companies, subsidiaries of Portuguese companies with economic interests in Cape Verde, and the local affluent market. This subsidiary's commercial volumes decreased in 2014, though consistently recovering during the last quarter of the year.

The activity of **NOVO BANCO Ásia, S.A. (Macao / People’s Republic of China)** focuses on supporting its clients' business operations in the Asian region, providing banking services and attracting funding from institutional, affluent and private banking clients. At the same time, the Bank seeks to seize business opportunities leveraged by the expressed intent of the central government of the People’s Republic of China to consider Macao as a platform for economic cooperation with Portuguese speaking countries. The deployment of the strategic plan entailed the replacement of the IT system, which had been in use since the creation of the Bank, by a new modular system. The new system is more flexible, making it easier to expand the offer and introduce new products and also better address the clients' and the Bank's needs. The Bank launched the bases to boost the development of the personal banking business for private and affluent clients, and also to develop a new business line intended to support the retail segment. The activity of NOVO BANCO Ásia was penalised both by the effects of the events associated to the resolution measure and by the deceleration of the Macao economy due to the cooling down of the gambling/leisure and tourism sectors.

Moza Banco, S.A. (Mozambique), in which the NOVO BANCO Group holds a 49% stake, continued to deploy its commercial expansion plan in 2014, opening 8 new branches that increased the network to a total of 30 units at year-end. The bank continued to see strong growth being the fourth largest bank in Mozambique by Total Assets.

- **Investment Banking**

The investment banking activity is performed by Banco Espírito Santo de Investimento, S.A. (BESI). Its main aim is to provide services to the medium-size and large corporate segment as well as to the institutional segment, and, in certain specific areas, to individual clients jointly with the Private Banking sub-segment.

On 8 December 2014, NOVO BANCO agreed a contract with Haitong International Holdings Limited, a company incorporated in Hong Kong and owned by Haitong Securities Co. Ltd. (a company with shares admitted to trading on the Shanghai Stock Exchange and on the Stock Exchange of Hong Kong, Limited) for the purchase and sale of the entire share capital of BESI for the price of Euros 379 million. The conclusion of the operation is dependent on obtaining of the necessary regulatory approvals.
At the present date, the operation has already received the approval or non-opposition by a number of regulatory entities: the Banco de Portugal, the Autoridade da Concorrência Portuguesa (Portuguese Competition Authority), the China Securities Regulatory Commission and the Shanghai Municipal Financial Service Office of China, the Financial Conduct Authority of the United Kingdom, the Urzad Ochrony Konkurencji I Konsumentów (Competition and Consumer Protection Office) of Poland and the Directorate-General for Competition of the European Union. The operation still requires the approval of the European Central Bank, as well as the confirmation by the Banco Central do Brasil.

BESI's activity during the period from the incorporation of NOVO BANCO, S.A. (4 August) until the end of 2014 was affected by the effects of the resolution measure.

The international area represents 34% of total Operating Income, being Latin America (Brazil and Mexico), the United States of America and, Poland, where it was considered the 2nd best Investment bank in 2014 by *Parkiet* (a Polish newspaper specialised in economic themes), the key contributors for the results.

The **Capital Markets** area completed 12 operations amounting to Euros 846 million. Portugal, Brazil, Mexico and Poland, where it took 1st place in the ranking published by the economic magazine Parkiet, in terms of IPOs ranking by value in 2014 (Prime Car Management – 209.6 million zlotys; Alumetal – 293.2 million zlotys and Skarbiec Holding – 217.3 million zlotys) are the main geographies contributing for the results.

In **Mergers and Acquisitions (M&A)**, BESI remained the leader in M&A activity in Portugal (in the number of transactions announced), having provided financial advisory services to ES Saúde in the tender offer launched by Companhia de Seguros Fidelidade (Euros 479 million) and having also provided advisory services on the sale of 100% of the shareholding of Rioforte Investments, S.A. in Espírito Santo Viagens SGPS, S.A. to Springwater Capital LLC.

Despite the funding restricitions, **Project Finance and Acquisition Finance** remained active with several transactions being completed, both of refinancing and advisory services, mostly in Portugal and Latin America (Brazil and Panama), in a total amount of Euros 465 million.

- ## Asset Management

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

At the end of the year the global volume of assets under management reached ca. Euros 10.7 thousand million.

On a consolidated basis, by business area, Real Estate Investment Funds volumes increased strongly (+35%), while the Discretionary Management (-66%) and Mutual Funds (-28%) posted a decrease in volumes.

At the end of 2014 the international activity represented ca. 32% of the total assets under management, corresponding to approximately Euros 3.3 thousand million, of which over Euros 1.7 thousand million in Spain, and ca. Euros 924 million in Angola. In Luxembourg, the portfolios under management totalled more than Euros 764 million at the end of 2014, which represents a decrease of ca. 40%.

Mutual Funds

Total volume under management of mutual funds reached over Euros 2.7 thousand million at the end of 2014. Domestic mutual funds' assets under management contracted ca. 53% YoY, to Euros 965 million, due to a general drop in volumes, namely in the short-term mutual funds, ES Liquidez and ES Tesouraria Ativa. Furthermore, the settlement of ES Dynaflex Euro, ES Rendimento Dinâmico and Benfica Stars, the latter due to having reached the end of its foreseen duration, also contributed for the abovementioned performance. In Luxembourg, NOVO BANCO Group has several funds under management, targeting customers with a wide range of risk profiles, with a total volume of ca. Euros 764 million. Hence, in addition to NB Fund and Global Active Allocation Fund, comprising various compartments (shares and bonds funds), with a total of Euros 656 million under management, various funds had been launched under the form of SICAVs which, on aggregate, represent a total of Euros 108 million. The NB Eurobond fund has been distinguished as the best fixed-income bond fund in LIPPER EUROPE 2014, for the three, five and ten-year maturities.

The volume of Mutual Funds under management in Spain totalled Euros 1.1 thousand million.

Real Estate Investment Funds

Overall volume under management in real estate funds reached Euros 2.5 thousand million at 31 December 2014. Domestic real estate funds registered a strong 52% increase YoY essentially due to the transfer, to NOVO BANCO, of the funds previously managed by FIMOGES. Regarding the open-end funds performance, volumes dropped in the Fundo de Investimento Imobiliário Aberto Gespatrimónio Rendimento (-29%) and in the Fundo de Investimento Imobiliário Aberto Logística (-56%). In closed-end funds, there was a contraction of 11% in volumes.

In Angola, volume of assets under management in Real Estate Funds increased by 13% YoY to Euros 918 million.

Pension Funds

In Pension Funds, assets under management totalled ca. Euros 1.8 thousand million, with the volume under management of the domestic pension funds decreasing by 3% YoY, to Euros 1.7 thousand million. Open-end pension funds volumes grew strongly (+17%), while closed-end pension funds' volume decreased 6%.

Pension Funds' assets under management in Angola and in Spain stood at Euros 5 million and ca. Euros 133 million, respectively.

Discretionary Management

Discretionary management includes the provision of asset management services to individual and institutional customers, both at domestic and international level, namely the financial management of insurers, pension funds and other entities assets. At the end of 2014, Discretionary Management global volume of assets under management was Euros 3.3 thousand million. Domestic volume under management of GNB – Sociedade Gestora de Patrimónios decreased by 69% YoY, to Euros 2.8 thousand million, due to the transfer to GNB Seguros Vida's internal management, of a set of portfolios. In the individual segment, the volume of assets under management was Euros 333 million.

Responsible Investment Funds

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

In line with international trends, NOVO BANCO Group offers responsible investment funds to individual and institutional clients with an investment strategy that incorporates such funds.

NOVO BANCO Group, through Banco Best, sells responsible investment funds with a diversified investment strategy and geographic allocation.

In 2014, client subscription of Banco Best's available range of 105 responsible investment funds totalled ca. Euros 6.1 million.

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

NOVO BANCO Group has also available the European Responsible Fund – an Equity Fund, managed by ESAF - Espírito Santo Activos Financeiros SGPS, with Euros 3.4 million volume and a return of 0.7%. The European Responsible Fund (ERF) is an ethical fund that respects the responsible investing. This fund invests only in listed companies included in the FTSE4Good index enphasising environmental, social and governance factors in their decisions. This fund's strategy excludes investments in companies whose business practices do not comply with the principles of responsible investment, such as arms companies, tobacco companies, amongst others.

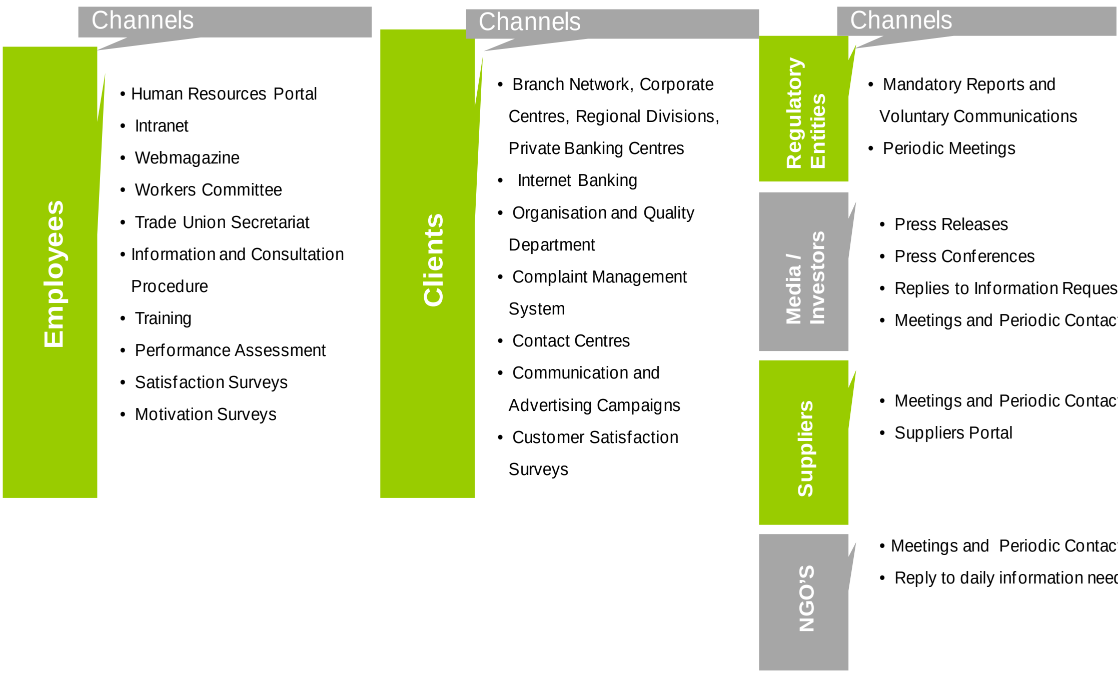
The portfolios managed by the asset manager of NOVO BANCO Group hold shares in the ES Infrastructure Fund in the amount of Euros 6.8 million. Total assets under management in the ES Infrastructure Fund amount to Euros 86.6 million, of which ca. Euros 63 million are invested in renewable energies.

Corporate Responsibility

The relationship with the stakeholders is considered by NOVO BANCO Group to be an essential process in identifying expectations and emerging matters that can be factored into the Group's strategy. Consequently, various consultations were made with stakeholders that were decisive for defining the NOVO BANCO Group strategy, in its various dimensions.

The Group's vision is oriented to the way it interacts with its stakeholders, with society in general and to the impact it has on the creation of value. Hence, NOVO BANCO Group defined guidelines as an answer to what it believes are the expectations of its customers, employees, investors, suppliers and of the communities where it is present.

Main Communication Channels with the stakeholders



Employees

The employees are considered by NOVO BANCO Group to be key drivers to achieve its objective of competitiveness consolidation in the financial sector. NOVO BANCO Group's management is focused on quality performance and constant improvement of its 7,722 employees.

NOVO BANCO Group promotes the professional development of its employees, determined by their commitment, professionalism, ability, dedication and performance, in order to strengthen the bonds of excellence with its clients.

The human resources policies implemented by NOVO BANCO Group value the promotion of human capital. To this end, the Human Resources Committee of NOVO BANCO is responsible for setting policies and practices for the Group's various locations and companies including training programmes, healthcare programmes, support programmes and diversity programmes, amongst others.
This way NOVO BANCO Group ensures a comprehensive and uniform implementation that provides greater transparency of its human resources management practices.

Human Capital

At the end of 2014, NOVO BANCO Group had 7,722 employees spread over four continents, of which 6,832 in Portugal.

Distribution of Employees by region

Country	December 2014
Portugal	6 832
Rest of Europe	732
Spain	494
United Kingdom	28
Other Countries	210
Africa	34
South America	79
North America	22
Asia	23
TOTAL	**7 722**

Human Capital of NOVO BANCO

	December 2014
Gender	
Men	52.8%
Women	47.2%
Employment contract	
Permanent - Male	95.1%
Permanent – Female	93.4%
Average Hours of Training	3.87
Absenteeism Rate (excluding Parenthood)	2.4%

NOVO BANCO Group has as a strategic goal the motivation and retention of its talented employees having, to that end the following instruments / models / management pillars:

- **Training** – to ensure that all employees have access to training that contributes to the development of skills that enhance their development and help them to better perform their function;
- **Performance** – to ensure that the performance of the employees is annually monitored, both at the individual and collective level, ensuring that the team work is in perfect consonance with the 10 Commandments of NOVO BANCO;
- **Benefits** – provide a set of benefits to the employees enabling them to cope with the current domestic macroeconomic environment.

With these instruments the Bank seeks to secure the involvement of its employees in the success of the activity over the long-term.

Training

Regarding Human Resources development policy the focus on the employees training is fundamental in the development of skills and careers of this stakeholder group.

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

1. School Branch

The School Branch is a pioneering project in Portuguese banking that centred its activity on reinforcing the skills of the employees of the Retail Network. This training methodology covers not only employees of the NOVO BANCO 360º and NOVO BANCO Negócios segments but also employees of the Central Departments. The Bank created an internship programme with the objective of showing how the branches operate with the clients, demonstrating the importance of the support and contribution of the various Central Departments to the development of the commercial activity and to the improvement of the quality of the service provided to clients. To support the work carried out by the School Branches, a number of training programmes were developed to respond objectively to the needs identified by the various areas of the Bank and methodologies and processes were implemented that accurately allow the identification of training needs, the evaluation of post-training knowledge gains and the monitoring of the training effectiveness. In addition to the employees of the Retail Network, the School Branch also carries out this training with the employees of the Central Departments, so as to align client attendance and client oriented behaviour, contributing to the quality service improvement. NOVO BANCO has 34 School Branches that are distributed over each of the Retail Regional Divisions and that contribute to strengthen employees' skills.

2. Attitude Programme

This is a training project with two complementary aspects:

- Alignment of leadership culture and team management;
- Continued improvement of client attendance quality.

This training programme is available to all employees of the domestic commercial banking, including those of the segments NOVO BANCO 360º, NOVO BANCO Negócios, Corporate areas, Private Banking, and employees of the Central Departments.

The content developed for this training programme incorporates the results of a survey for training needs made on a regular basis, and includes issues related with internal client satisfaction, motivation and quality service diagnosis. The reformulation of this programme relied on the creation of methodologies that allow the implementation of the gained knowledge, the accompanying monitoring results. With the objective of aligning the Bank culture, consolidating knowledge and sharing good practices NOVO BANCO invested in a permanent and consistent communication policy through the regular issue of different Newsletters for the commercial areas and central departments.

With the Attitude Programme there is an investment in leaders' skills, through training, coaching and the alignment of client attendance and team management behaviour, with the objective of improving customer service quality and developing the relationship with the client.

3. NOVO BANCO University

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

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

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

Consequently for the training programmes aimed at all its employees, NOVO BANCO made an investment of Euros 369,049, having achieved a total of 25,659 hours of training.

Performance assessment and motivation

NOVO BANCO Group's performance assessment system is fundamental to build a culture based on merit, whilst fostering the engagement of all through targets set for each professional category, function and team. This assessment allows the identification of potential talent, merit related promotions and function changes.

In 2014 99% of NOVO BANCO's employees were appraised. This assessment process had the following results:

- Promotion of 8 employees on merit;
- Promotion of 2 employees based on change in function;
- Promotion of 33 employees based on length of service.

Benefits

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

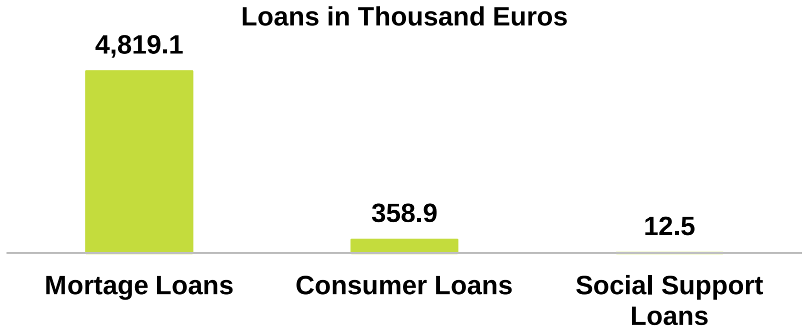
Allowances	Performance in 2014
Education Support	
Attribution of child benefits, school grants, scholarships and support to children and youths with special needs.	- 311 child benefits worth Euros 51,400; - 160 scholarships worth Euros 164,100; - 214 school grants worth Euros 37,500; - 59 special needs allowances worth Euros 37,500.
Senior Support	
Co-payment of expenses with senior residences, day-centres, home support, drugs and other staple goods.	- 47 allowances worth Euros 52,875.
Health Support	
Co-payment of health expenses.	- 40 allowances worth Euros 60,261.
Support in conciliating Work–Family	
Co-payment of transport expenses, Job Search Programme.	- 133 travel allowances worth Euros 20,833; - 40 employees covered by the Job Search Programme.

Since 2014, NOVO BANCO has supported its employees through low-rate loans, namely mortgage loans, consumer loans, and in some cases social support loans. This support summed up Euros 5,191 thousand as follows:

- Euros 4,819 thousand in mortgage loans;

- Euros 358.9 thousand in consumer loans;
- Euros 12.5 thousand in Social support loans.

In 2014 the accumulated total credit granted amounted ca. Euros 414,500 thousand.



Health and Safety in the workplace

For NOVO BANCO Group the health and safety of its employees are of the utmost importance, and it has an integrated management system that allows for the monitoring and reduction of the accident frequency rate and the risk of absenteeism, as well as the frequency of work accidents and illness.

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

Following this Human Resources policy NOVO BANCO agrees to:

- Exercise its activity within a balanced framework of sustainable development, client satisfaction and enhancement of human capital;
- Scrupulously comply with all laws and regulations relevant in terms of products and services, environment, and safety and health in the workplace;
- Monitor the health and well-being of all employees through a health programme in the workplace, formalised in different examination protocols depending on gender, age and function;
- Provide a safe and healthy work environment for its employees, by eliminating or minimizing the risks that may result from the normal operation of its activity;
- Promote training and information to employees on the risks inherent to the work, sensitizing them to comply with the safety standards;

- Ensure the safety of employees, clients and visitors;
- Inform and publicise this policy of health and safety in the workplace, in a responsible and transparent manner, to all stakeholders.

This strategic orientation goes beyond mere compliance with legal obligations since NOVO BANCO Group provides all its employees and Group companies with its own healthcare services through existing clinical services in Lisbon, Porto and in Oeiras (Tagus Park). The clinical services available include occupational and curative medicine and nursing. Since August 2014, 1,556 occupational medical exams (entrance and regular exams), 11,799 medical procedures (appointments and prescriptions) and 2,414 nursing acts were carried out.

As a complement the Bank also provides a number of preventive and risk control programmes, including prevention of cardiovascular and oncology diseases, and regularly performs vision screenings for all employees and medical check-ups of senior management (Executive check-up). Moreover, at the Bank's clinical services, there are several specialised medical appointments, such as:

- Mental Health Appointments (psychiatry and psychology) - since August 2014, there were 311 psychiatric and 141 psychological appointments.
- Smoking Cessation Appointments - since August 2014, there were 10 smoking cessation appointments.
- Nutrition Appointments - since August 2014 and until the end of the year, 315 Nutrition appointments took place at the Bank's Clinical Services.

	Cardiovascular screening	Oncological screenings		Vision screenings	Executive Check up	Vaccines
		Mammography	PSA			
NOVO BANCO	933	115	327	1,390	127	0
NB Açores	3	1	1	5	0	0
Banco BEST	12	0	2	34	2	0
ESAF	6	0	1	17	2	0

In terms of safety at work, NOVO BANCO Group has as its objective to minimise workplace accidents, occupational diseases, and to protect the integrity and the work capacity of its employees.

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

- 70 safety audits of the facilities;
- 6 ergonomic evaluations of workstations;
- 10 identification of hazards and assessments of the activity's risks (HAAR);
- 60 assessments of thermal conditions.

Satisfaction and Motivation

In January of 2015 NOVO BANCO conducted satisfaction surveys of its employees to assess their level of motivation concerning the projects and tasks in which they are involved, as well as their expectations and needs.

3,810 employees answered to the job fulfilment survey and 3,787 answered to the satisfaction survey with the Bank. The results were as follows:

- average satisfaction classification with the job: 73.1%;
- average satisfaction classification with the Bank: 71.4%;
- employees highly satisfied with the job: 66%
- employees highly satisfied with the Bank: 58%

Ethics and integrity in relations with stakeholders

Human Capital Principles and Policies

For NOVO BANCO Group the existence of a framework of values and principles that lead to all actions is fundamental, having for this purpose identified 10 guiding commandments.

According to what is established in these commandments the Group focuses its activity on a set of values and principles – of which ethics and transparency are a part – that are materialised in compliance with laws, internal rules and codes of conduct, seeking to guarantee a transparent management free from conflicts of interest.

Present in 21 countries and 4 continents and focused on regions with high economic and cultural affinity with Portugal, NOVO BANCO Group has a set of principles and policies governing its relationships with its employees, namely:

- Policy for Prevention and Detection of Money Laundering;
- Human Rights Policy;
- Policy of Non-discrimination.

- **Prevention of money laundering and terrorism financing**

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

Given the growing importance that the fight against phenomena such as money laundering and terrorism financing has assumed, is necessary a greater care in identifying weaknesses and areas of greater exposure to ensure the existence of adequate methods to control and mitigate the risks inherent to transactions and counterparties.

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

NOVO BANCO Group has in place an automated risk assessment model that, based on the mandatory characterising elements, ranks the counterpart as to the potential risk it poses, whilst screening the prospective counterparties against exception lists.

The risk assessment model and screening is applied as soon as the account is opened, minimizing the likelihood of the Bank inadvertently starting a business relationship with persons or entities recognisably suspect of involvement in money laundering or terrorism financing. Entities that present increased risk are subject to further review by the Compliance Department that must approve the final acceptance of the counterparty.

The model of risk assessment and filtering is also applied on the inclusion of new persons in existing accounts.

Additionally the entire database of existing clients is regularly screened.

Not limiting itself to the analysis of statistical data the bank also looks at behaviour, monitoring the daily transactional activity.

This transaction monitoring being a responsibility of financial institutions becomes more complex as the volumes in question increase.

To this end the Bank has a software tool that, based on risk principles, analyses the transactional profiles of the accounts, generating automatic triggers for situations that appear not to match the pattern expected for each contract.

International transactions are further monitored for possible violation of international embargoes or sanctions, through an online screening process against the exception lists, covering the full contents of the operations support message, with doubtful situations being suspended for verification.

After analysis and detailed investigation, situations detected that confirm the existence of sustained grounds for suspicion, are duly communicated to the competent authorities who will take the steps they deem appropriate, in strict compliance with the legally established duties.

NOVO BANCO Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorism financing for all its employees (commercial and central structures, including senior management). Training can be online or in person, the latter mainly directed to new employees, in order 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. From the 4 August to the 31 December, there were 2,054 hours of online training and 112 hours of classroom training.

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

In the last five months of 2014, NOVO BANCO examined 4,148 contracts, which resulted in 244 participations to the competent authorities, 1,405 account investigations and in rejecting 17 account opening requests.

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

➢ Diversity and Human Rights

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

Additionally, NOVO BANCO Group has a Human Resources policy which is based on effective high level principles in matters of equal treatment of opportunities between men and women and conciliation of personal, family and professional life, as well as of professional development for workers.

The Human Rights and Non-Discrimination policies of NOVO BANCO Group are available in the institutional website of NOVO BANCO: www.novobanco.pt/institucional.

NOVO BANCO Group's Code of Conduct and Regulations

NOVO BANCO Group's Code of Conduct enters into force in 2015, being currently in the process of analysis and internal verification. This code will apply to all entities integrating NOVO BANCO Group, reflecting the set of best practices to be adhered by employees in their relationship with clients and the Bank itself.

NOVO BANCO Group's Code of Conduct aims to:

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

The Code of Conduct will be available for consultation in Portuguese, English and Spanish, in the Institutional area of NOVO BANCO website.

The Compliance Department will be responsible for the application, monitoring and clarification of the Code of Conduct.

Regarding internal regulations, up till December 2014, several notifications and related questions were received, mainly relating to conflict of interest and professional secrecy issues.

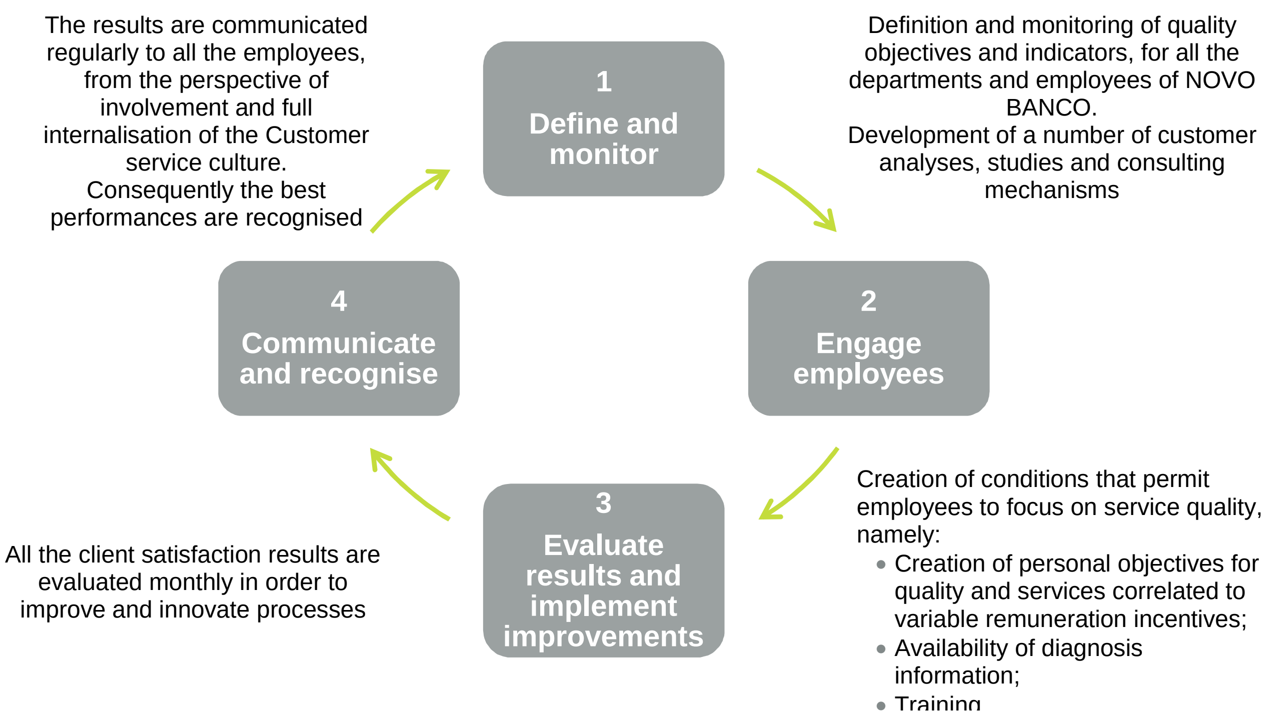
Until 31 December 2014, 10 violations of the Bank's internal regulations were detected, which resulted in the following sanctions:

- 5 Dismissals without any indemnity or compensation;
- 1 Temporary suspension with loss of pay and seniority;
- 4 disciplinary warnings registered.

Clients

For NOVO BANCO, the client is the centre of gravity of all the activity, being one of the Bank's main objectives to meet and live up to client's expectations, providing appropriate solutions and promoting a relationship based on trust, through the development of mechanisms to assess the quality of services provided and client's satisfaction.

From an operational perspective NOVO BANCO's "Client Oriented Strategy" comprises four dynamic and continuous stages:



Through these mechanisms, NOVO BANCO obtains the contributions needed to develop appropriate services to provide to clients, continuously improving processes and service levels.

Aware of the importance of the feedback from clients regarding the activity performed, NOVO BANCO carried out different studies, namely satisfaction with customer service, with the service relating to the opening and closing of accounts, measurement of service levels, and product satisfaction surveys. These studies enable the Bank to listen to this stakeholder, enabling a continuous dialogue that allows clients to transmit positive aspects, and those that need to be improved.

In 2014 to assess the service quality of the NOVO BANCO made the following visits and surveys:

Mystery Client	Assessment of quality of customer service in the commercial network	237 visits (monthly)
Customer Service surveys	Evaluation of customer service quality in the various segments of the bank	5,514 customer surveys (monthly)
Internal customer survey	Assessment of the quality of central services	2,800 surveys (monthly)
Motivation survey	Measures the satisfaction levels of NOVO BANCO employees	3,822 surveys (annual)

Source: Surveys carried out by the Organisation and Quality Department between 4 August and 31 December 2014

Still regarding the strategy of maintaining an ongoing dialogue with the clients, NOVO BANCO offers the following channels:

- NB Net;
- NB Direto – 707 247 365;
- NOVO BANCO Branches, Corporate Centres and Private Centres.

According to the satisfaction surveys carried out in 2014, 8.7 in every 10 retail customers and about 8.2 in every 10 medium-size companies are very satisfied.

Weight of very satisfied clients

Source: Organisation and Quality Department satisfaction surveys on customer service carried out between 4 August and 31 December

Complaints' management, another of the processes used by NOVO BANCO in client's assessment, made an important contribution to this result. Complaints' management handles the following:

- analysis of the causes originating the complaint;
- quantification of the losses resulting from the complaint;
- to implement corrective and preventive measures, to avoid the recurrence of the complaint.

In 2014, the rate of complaints per 1,000 active customers stood at 1.1.

Suppliers

NOVO BANCO Group views the engagement with its approximately 5,000 suppliers as a factor of extreme importance, since more than trading partners they are also active agents in the dissemination of good practices. Through the acquisition of goods and services, the Bank has the opportunity to influence the social and environmental performance of the value chain, cooperating with suppliers in developing the most appropriate solutions.

NOVO BANCO Group is very receptive to applying the best practices transmitted by its suppliers, but also tries to act determinedly to promote the defence and protection of the environment and the conditions of employment and business ethics.

It is in this environment of good practices that the pillars of sustainable development programme are built.

NOVO BANCO Group Suppliers' Relationship Principles

This is a space shared by the Group and its suppliers where all contribute to a mutually beneficial and successful relationship, based on respect for principles of good conduct (impartiality, transparency, quality and efficiency).

Within this space, NOVO BANCO Group formally invites all its suppliers (current and potential) to endorse these principles and to adopt respectful behaviours in matters of environment, good conditions of employment and ethics.

NOVO BANCO Suppliers' Relationship Principles are available in the Sustainability area of the NOVO BANCO website through the link: www.novobanco.pt/fornecedores.

NOVO BANCO Group Supplier Platform

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

The registration process in the Platform is both a qualification and a presentation process. On registration, all relevant information is collected, including capabilities and valences, marketed goods and services, economic and financial structure, customer structure and the more relevant service references, certificates issued by the Tax Authority and Social Security confirming the inexistence of overdue debts, amongst other aspects.
On 31 December 2014 from the universe of identified suppliers, 428 had submitted their registration application of which 246 had completed their process.

The degree of suppliers' coverage, in terms of billing, that had completed their registration or were in the process of registering (pre-registered) in the Supplier Platform was 93.4% at 31 December 2014.

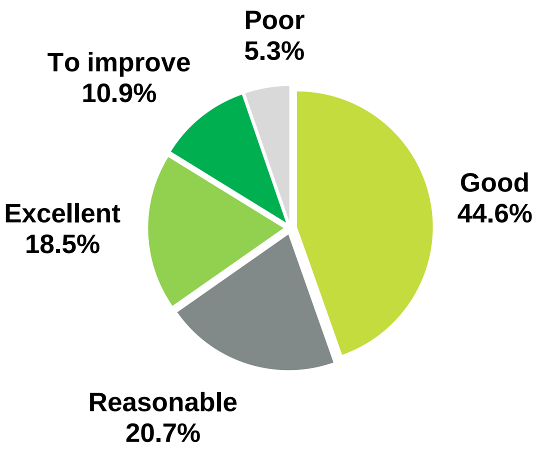
NOVO BANCO will continue to make every effort to alert its suppliers to the importance of the registration process and the advantages arising from it, including the possibility of online access to the status of the billing documents sent to NOVO BANCO, as well as the respective electronic payment notices issued by the Bank.

The NOVO BANCO Group Supplier Platform is available via the Internet: https://fornecedores.novobanco.pt/).

Sustainability Scoring

Based on information provided by each supplier NOVO BANCO Group calculates the "sustainability score" which takes into consideration labour and ethical aspects, aspects of hygiene and safety at the workplace and environmental aspects. This indicator is a decisive factor for contracting, preference being given to suppliers that share the same principles and best practices of the Bank. About 18.5% of NOVO BANCO Group's suppliers registered in the Platform have a score of excellent and 63.1% have a score of Good or Excellent cumulatively,

Sustainability Scoring



Supplier payment period

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

- Negotiation of reduced payment periods, in line with good market practices. With regard to payment periods contracted with suppliers, the standard payment period is 30 days.
- Payment guaranteed on established deadlines, cautioning 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 2014, the "average supplier payment period" was 19 days.

Environmental Footprint

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

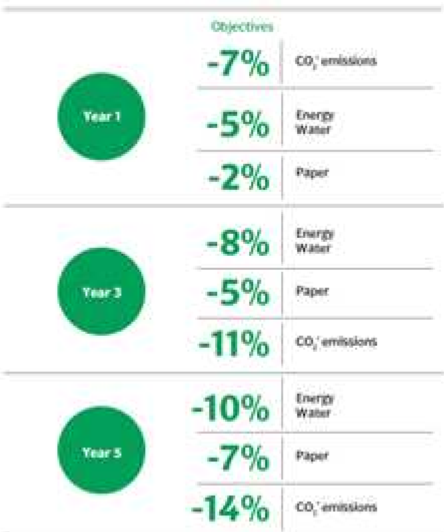
Following World Bank guidelines NOVO BANCO Group recognises that climate change is one of the major concerns worldwide, and therefore it has been incorporating these concerns in its products. Similarly, the Bank conducts its own activities in a manner that minimises its environmental footprint, through the continuous improvement of resource consumption efficiency.

Environmental Targets

Environmental targets assumed by NOVO BANCO Group are intended to consolidate its responsible management, reducing the environmental footprint of its activity.

In order to achieve the defined targets, measures and actions have been established for implementation, as well as a half-yearly monitoring of their results.

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



* Electricity consumption in kWh by employee

Energy Consumption

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

- Reduction of the number of consumption locations;
- Installation of energetically more efficient lighting and equipment (ex: HVAC).

NOVO BANCO uses an energy management software application, an innovative solution that combines the energy and environmental monitoring equipment in order to improve the supervision and reduction of energy consumption. In addition to implementing automatic savings mechanisms, the energy management software also includes training and awareness programmes for employees. This solution allows for the centralisation of information, the analysis of consumption and trends, the detection of energy saving opportunities, the determination of energy waste, and the evaluation of compliance with the targets.

NOVO BANCO is able to monitor in real time the energy consumption of about 50% of its branches and 18 central buildings.

From the 4 August to 31 December 2014, NOVO BANCO Group consumed about 23,412,744 kWh of electricity, of which 4,573,909 kWh relating to the electricity data centre. Consumption per employee stood at 3,883 kWh, in 2014.

CO2 Emissions

Aware of the importance of monitoring CO2 emissions, NOVO BANCO considered fundamental the drawing up of an inventory of the emissions resulting from its activity, through external experts who calculate all direct and indirect emissions (issues 1, 2 and 3), according to the guidelines of the Intergovernmental Panel on Climate Change (IPCC), of the WRI/WBCSD's Greenhouse Gas Protocol.

From August to December 2014 the inventory of CO2 emissions totalled 9,748 tonnes (issues 1, 2 and 3), with the consumption of fossil fuels and the electricity consumption representing the largest sources of greenhouse gas emissions:

Origin	Tonnes	Tonnes / employees
Electricity	2,961	0.49
Employee commuting to work	3,169	0.55

Water Consumption

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

Between the 4 August and 31 December 2014, water consumption stood at 34,242 cubic meters of water, ca. 5.7 cubic meters per employee.

Paper Consumption

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

In terms of internal paper consumption, during the period 4 August to 31 December 2014, the parameters were as follows:

- White paper for internal use - 138 tonnes;
- Finishing forms and extraction - 83 tonnes;
- Recycled paper for internal use - 1 tonnes.

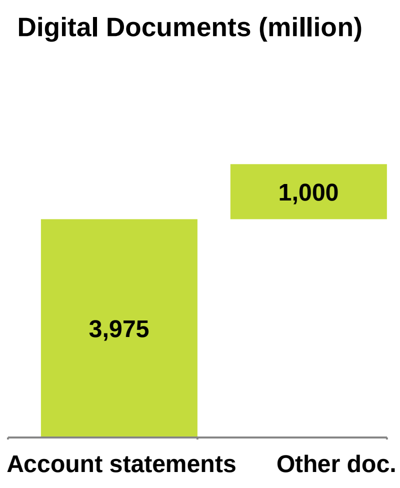
In that period, each employee consumed ca. 23 kilograms of paper.

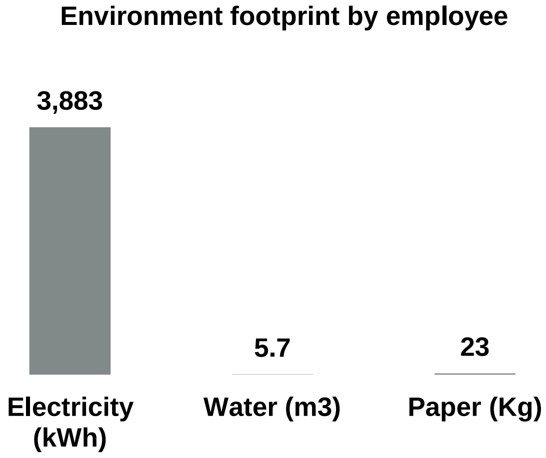
About 94% of the paper consumed in the Group is certified paper, e.g. paper which production reduces environmental impact, protecting and preserving biodiversity.

In the five months of activity mentioned, and taking into account the reduction and reuse of its waste, NOVO BANCO Group sent some 78 tonnes of used paper (ca. 46%) and 47 tonnes of cardboard for recycling.

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

From the 4 August to 31 December 2014, about 15,000 new account statements became digital, ceasing to be sent out on paper. Between August and December of the same year ca. 5 million digital documents were issued.





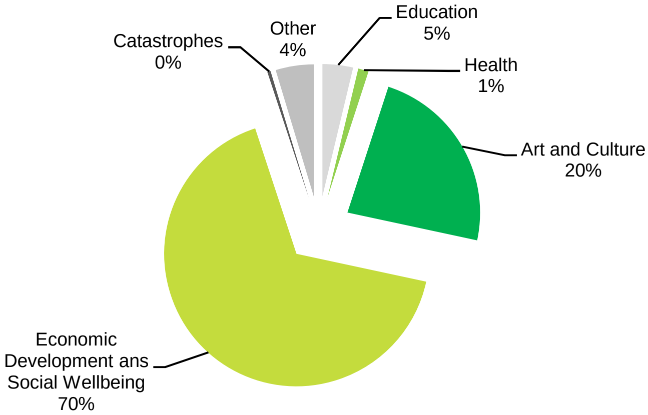
Social Responsibility Architecture

NOVO BANCO develops a solidarity model with the intention to help creating solutions for important issues in the communities in which the bank carries out its activity, namely:

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

NOVO BANCO's social responsibility programme reaches about 94,500 people, with donations applied on: i) investment in the community, using 72% of the donations; ii) solidarity, using 26% of the donations; and iii) commercial actions, with 2% of the donations.

Contributions by area



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

Through its cultural patronage policy, NOVO BANCO promotes public access to national culture, especially to Contemporary Photography.

• **NOVO BANCO Photo** – the most important contemporary art award attributed in Portugal, for artistic production developed by photographers from Portuguese-speaking countries. In partnership with the Berardo Collection Museum, this award promotes an active cultural policy, cultural exchange and the integration of Portuguese-speaking contemporary artists in the domestic scene.

• **NOVO BANCO REVELAÇÂO** - an initiative intended to stimulate the production and artistic creation of young Portuguese talent, which focuses on the disclosure, launch and support of all photographic artists. Conducted in partnership with the Fundação Serralves, NOVO BANCO Revelação annually awards prizes to young artists under the age of 30.

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

• **Espaço NOVO BANCO** - a space located in the financial district of Lisbon, which represents the way the Bank relates to its elected cultural patronage policy: photography. In this space the Bank promotes contemporary art.

• **Contemporary Photo Collection of NOVO BANCO** – located in the Espaço NOVO BANCO, it is currently one of the largest private photography collections of the Iberian Peninsula. In 2014 it was selected as one of best 100 corporate art collections in the world. The Collection includes artists from all over the world and of all generations, consisting of about 1,000 works by over 280 artists of 38 nationalities.

NOVO BANCO's cultural patronage strategy still includes:

• **NOVO BANCO Numismatics Collection** - holds about 13,500 pieces, some of which are unique or very rare coins. Spanning a period of about 2,000 years, it also includes a nucleus of Hispanic-Roman, Suevic, Visigothic and Arab coins that were used as currency on Portuguese territory.

• **Biblioteca Pina Martins** (Pina Martins Library) – comprising over 7,000 volumes, collected over decades in Portugal and abroad, it is one of the most important library collections existing in the Country and one of the most important private libraries on humanistic studies in Europe. The oldest nucleus of the collection includes incunabula, aldine editions and other rare publications from the XV and XVI centuries. Humanist, researcher and bibliophile, Professor José Vitorino de Pina Martins was one of the most important Portuguese researchers and connoisseurs of Renaissance Humanism.

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

• **National Innovation Award** - initiative which promotes and rewards research projects applied to sectors that are critical for the future of the Portuguese economy. This initiative was born of a desire to contribute effectively to the spread of a culture of innovation in Portugal. The 2014 edition, which featured 88 candidates in the areas of 'Health, Services and Information and Communication Technologies', 'Industrial Competitiveness' and 'Natural Resources & Environment', had as ultimate winner the health sector, with a prize valued at Euros 85 thousand.

• **NOVO BANCO Innovation Supplement** - together with Diário Económico newspaper NOVO BANCO published the Innovation supplement, which portrayed the Group's strategy in innovation.

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

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

The programme is based on 3 pillars:

- **Educational Process** - project Mathematics Olympics, organised annually by *Sociedade Portuguesa de Matemática* (Portuguese Mathematics Society) is a math contest which aims to encourage and develop a liking for Mathematics, aimed at students of the 1st, 2nd and 3rd cycles of basic schooling and to all who attend high school.
- **Personal Finance** - Financial Literacy sessions which take place across the country, aimed at users of Caritas Portuguesa that help manage the savings and monthly budgets of families. NOVO BANCO held 20

training session covering some 400 people (both staff of and Caritas users in 12 cities, including in Madeira and the Azores archipelago).

- **Commercial Offer -** see details on page 23 under the point on Microcredit.

Solidarity - Assist organisations that provide social support in areas such as the fight against poverty, social exclusion and health, amongst others In terms of solidarity NOVO BANCO developed its own actions as well as actions in partnership with Social welfare institutions.

- **Own actions**

i) NOVO BANCO Crowdfunding - online platform to collect donations which in December 2014 had more than 3,950 donors and had raised over Euros 140 thousand. NOVO BANCO Crowdfunding and the Portuguese Caritas started a social inclusion project aiming to financially empower unemployed people (preferably) through entrepreneurship;

ii) Volunteering Programme - promotes, in partnership with GRACE, the solidarity and participation of employees in the different social responsibility initiatives. GRACE articulates contacts with the IPSSs (social solidarity institutions) and causes with volunteering needs and accompanies NOVO BANCO in the organisation and execution of the actions;

iii) Emblematic actions involving the collecting of goods to support people / families in need, which include Christmas hampers. NOVO BANCO delivers Christmas hampers with basic goods to needy families identified by the Portuguese Caritas, in mainland Portugal and on the islands.

- **Partnerships**

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

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

iii) Cáritas Portuguesa - partnership that aims to contribute to and support the work of Caritas. This contribution is made through the Social Solidarity Fund, a fund set up by the Portuguese Caritas that aims to reach those living in hardship trhough its' localised structures;

iv) Associação Acreditar (Believe Association) - funding of two bedrooms in the Lisboa nursing home that welcomes children with cancer that require hospital services on an outpatient regime and their families in a cosy space adapted to their needs.

Outlook for NOVO BANCO Group
Main Risks and Uncertainties

The priorities set by the Board of Directors for NOVO BANCO in 2015, are the following:

(i) deposits growth above 10%;

(ii) loan to deposit ratio below 120%;

(iii) CET 1 above 8.5%; and

(iv) Gross Operating Income over Euros 350 million.

The evolution of the Portuguese economy may impact the accomplishment of the above mentioned targets, as Banco de Portugal forecasts a GDP growth rate of 1.7% for 2015 (forecast for 2014: 0.9%). However, unemployment growth registered in the first months of the year suggests that the path to economic recovery is still far from being consolidated.

Additionally NOVO BANCO's performance is still limited further by the effects of the resolution measure applied to Banco Espírito Santo. The implementation of the resolution measure, which has been executed in several stages, must lead to the acquisition of NOVO BANCO by a shareholder that is expected to be stable and able to take control of a relevant universal commercial bank in the Eurozone.

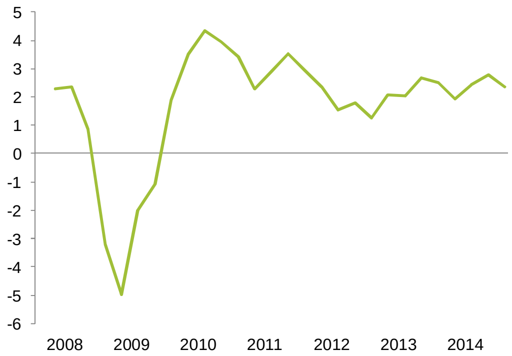
The Board of Directors and the employees will continue to undertake all the efforts to recover NOVO BANCO's image and credibility, increasing activity levels and creating shareholder value.

3. Economic Enviroment

World economic growth remained stable in 2014, with an uneven performance of developed and emerging economies

The world economy expanded 3.3% in 2014, the same growth rate as in the previous year. Underlying this development was the uneven performance of the different economic areas, with a recovery of activity in the main developed economies and an overall slowdown in emerging economies.

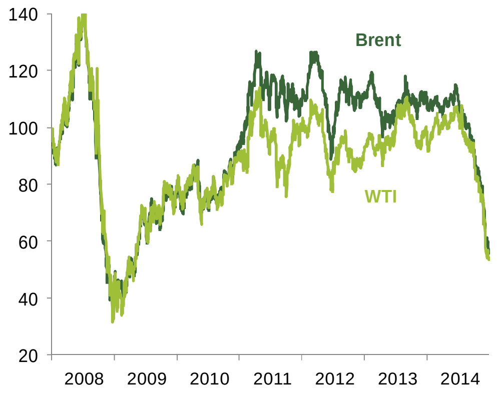
Global GDP Growth (%, Year-on-Year)



Source: Bloomberg

US GDP increased 2.4% in 2014, following a 2.2% reading in the previous year, supported by an expansionary monetary policy, a less restrictive fiscal policy and a significant drop in oil prices. The Federal Reserve kept the Fed funds target rate unchanged at 0%-0.25% and continued a policy of quantitative easing until October, signalling a patient attitude towards a future rise in interest rates. In this context, and in the absence of significant inflationary pressures, the yield on 10 year Treasuries fell from 3.03% to 2.17%. The recovery in activity, in an environment of ample liquidity, led to significant gains in the main equity indices, with the S&P 500, the Dow Jones and Nasdaq rising 11.4%, 7.5% and 13.4%, respectively. The decrease in the unemployment rate, from 6.7% to 5.6% of the labour force, did not translate into wage-related inflationary pressures. Inflation remained very contained, standing at 0.8% year-on-year at the end of the year. The low inflation observed in the main developed economies resulted from the significant drop in oil prices (-49.7%, to USD 55.8/barrel (Brent), and -45.9%, to USD 53.3/barrel (WTI). This fall reflected a moderation of demand but, above all, an expansion of supply, associated with the increased production of shale oil and OPEC's decision not to reduce its output in response to falling prices.

Brent and WTI Prices (USD/Barrel)



Source: Bloomberg

10Y Treasury and Bund Yields (%)

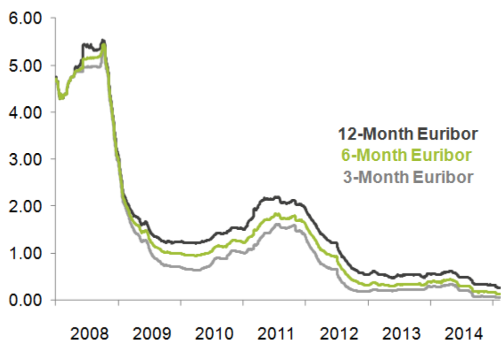
Source: Bloomberg

On the whole, emerging markets were penalised by the early tapering of the quantitative easing by the Fed, by fears about the slowdown in activity in China and by rising geopolitical risks, particularly those linked to tensions between Ukraine and Russia. China's GDP growth fell from 7.8% to 7.4%, mainly due to the slowdown of real estate and manufacturing activity. The slowdown trend was, however, mitigated as from the 2nd quarter, by selective economic policy stimuli. The Shanghai Composite equity index rose close to 53% in 2014, benefiting from the easing of monetary policy and from a strong increase in margin trading.

Euro Area

After a 0.5% fall in 2013, Euro Area GDP increased 0.9% in 2014. Despite signs of stabilisation in the second-half of the year, lending to the non-financial private sector continued declining, especially in the corporate segment, with the different sectors of the economy pursuing a deleveraging process. Credit growth was also constrained by uncertainty about the Asset Quality Review and the stress tests applied to European banks, whose results - generally favourable – were only known in October. The ECB announced, in June and September, two 10 bps cuts in the interest rate of the main refinancing operations, lowering it to 0.05%. In the same period, the interest rate of the deposit facility was reduced from 0% to -0.2%. The monetary authority also introduced Targeted Long-Term Refinancing Operations and a new programme of purchases of asset-backed securities and covered bonds, with the aim of improving the transmission mechanism of monetary policy. Despite this ECB expansionary stance, inflation expectations in the Euro Area recorded a clear downward trend and, in 2014, annual inflation fell from 0.8% to -0.2%. The above mentioned measures and the expectations of a reinforcement of the monetary stimuli (which was to materialise in January 2015, with the announcement of a quantitative easing programme with an initial amount of EUR 1.1 trillion) resulted in a significant decrease in market interest rates in the second-half of 2014.

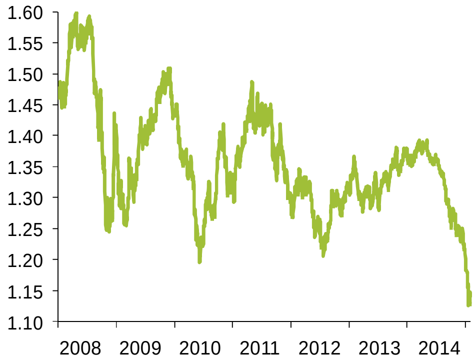
Euribor 3, 6 and 12 month rates (%)



Source: Bloomberg

The 3-month Euribor declined from a peak of 0.347%, at the beginning of the 2nd quarter, to 0.078% at the end of the year, while the yield on 10 year Bunds fell from 1.929% to 0.541% over the year. The Euro depreciated 12.3% against the dollar, to EUR/USD 1.21, and this trend extended into early 2015, to around EUR/USD 1.13. The end of 2014 and early 2015 would be marked by increased political uncertainty, with a deterioration in the perception of risk regarding Greece, giving way to increased volatility in financial markets. Over 2014, the main European equity indices oscillated between losses and moderate gains. The FTSE100 and CAC40 indices fell 2.7% and 0.5%, respectively. The German DAX index increased by 2.65%.

EUR/USD Exchange rate

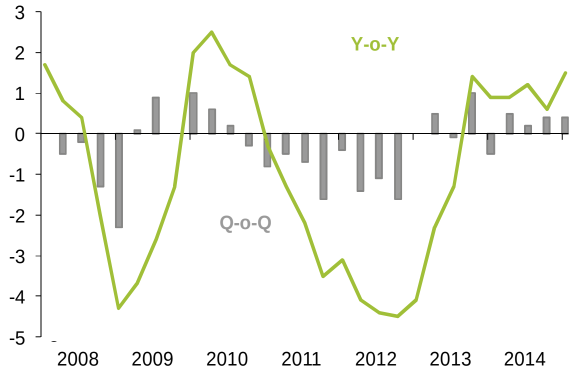


Source: Bloomberg

Portugal and Spain

2014 was marked by Spain and Portugal's exit from their respective financial assistance programmes and by an improvement in the perception of risk regarding these economies. GDP in Spain grew 1.4% over the year, after contracting 1.2% in 2013, with a recovery in domestic demand and a stabilisation of the real estate sector. In this context, despite a fall in the 4th quarter, the IBEX index increased by 3.7% over the year. The yield of 10-year Spanish Government bonds decreased from 4.15% to 1.61%. In Portugal, GDP grew 0.9% in 2014, following three years of contraction. This expansion resulted primarily from the recovery of domestic demand. Private consumption grew by 2.1%, after a contraction of 1.4% in 2013, benefiting from an increase in real disposable income and an improvement in household confidence. The annual average unemployment rate fell from 16.2% to 13.9% of the labour force. Gross fixed capital formation grew 5.2%, due to the increased spending on machinery and equipment and transportation equipment. Construction spending, in turn, softened its downward trend observed in recent years. Tourism performed strongly in 2014, continuing the trend of previous years. Export growth was, however, penalised by non-recurring factors (related to the temporary closure of production units in the automobile and refining industries) and, despite a recovery in the 2nd half of the year, dropped from 6.4% to 3.4 %. In turn, imports increased 6.2%, accelerating from the previous year and reflecting the recovery of domestic demand.

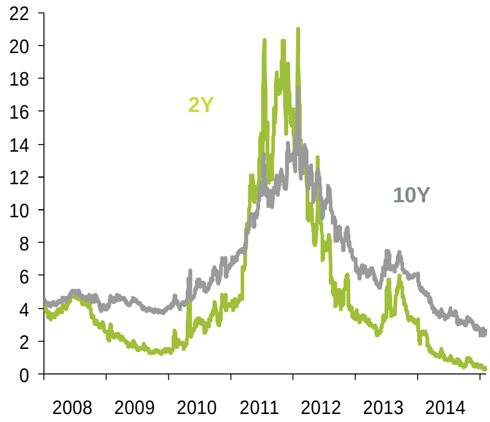
Portugal – GDP Growth (QoQ and YoY, %)



Source: INE

The net lending capacity of the economy, measured as the surplus of the combined current and capital account balances, reached 1.9% of GDP. The budget deficit, in turn, declined to 3.4% of GDP (excluding non-recurring items), below the 4% target. Signs of financial recovery, economic activity growth and the positive impact of the ECB's measures contributed to an improved external perception of the Portuguese economy, which resulted in the early exit from the economic and financial assistance programme (in May) and in an improvement in its access to long-term financing in capital markets. The 10 year OT (Treasury Bonds) yield decreased, over the year, from 6.13% to 2.69%, extending this trend into early 2015.

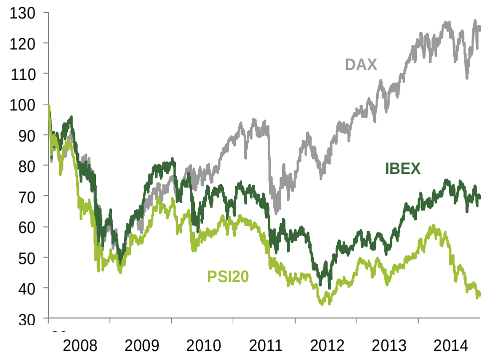
Portuguese Treasury Bonds - 2 and 10 year Yields (%)



Source: Bloomberg

The instability in the financial sector, with the resolution of Banco Espírito Santo in early August, constrained confidence levels and the financing of economic activity, while also hurting the equity market, with the PSI 20 index losing close to 27% in the year. In any event, despite some signs of growth moderation in the last quarter, the Portuguese economy proved resilient in the face of this event, with the majority of indicators supporting a scenario of recovery in 2015. Excess production capacity and falling energy prices pushed inflation down, with the average annual change in prices closing the year at -0.3%. Housing prices, however, followed a positive trend, with an average annual growth of 4.3%, mainly reflecting the increased housing demand by non-residents.

DAX, IBEX and PSI 20 Equity Indexes (January 2008 = 100)



Source: Bloomberg

4. Financial Management and Capital Markets

NOVO BANCO has a conservative approach to liquidity risk management, being its structure designed to ensure that liquidity management complies with the regulatory regulations in force in every geography where it operates and that all its responsibilities are met, whether under normal market conditions, or under stress conditions.

NOVO BANCO’s liquidity risk management comprises the following perspectives:

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

Accordingly, NOVO BANCO implemented internal procedures to increase its resilience under stress situations. Besides measuring accurately the liquidity risks faced by the Bank, these procedures also take in consideration liquidity and funding shortages. The efficiency of NOVO BANCO policy regarding liquidity risk management enabled it to successfully endure the harshest period of the crisis, that took place between early August and mid-October. During this period, the submission of information to the regulators, Banco de Portugal (BoP) and European Central Bank (ECB), was also intensified.

NOVO BANCO Group's funding policy is one of the major components of the Bank's liquidity risk management that focuses on the diversification of funding sources. However, in the last months of 2014, the funding policy main focus was the recovery of customer funds. The success of this policy was materialised by the recovery in deposits, which increased by Euros 4.2 thousand million from the low of Euros 22.4 thousand million registered at end of September 2014.

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

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

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

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

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

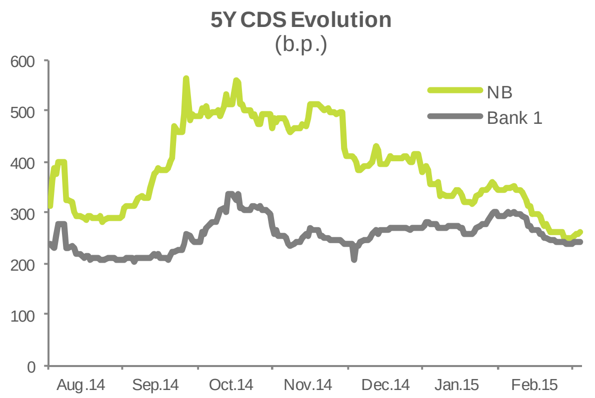
Liquidity Management and Funding in 2014

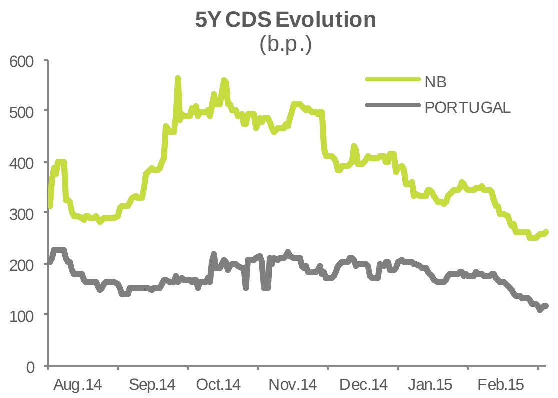
The policies of the central banks were again decisive for the evolution of financial markets in 2014, especially the ECB. During the year, given the growing deflationary risks in an environment of weak economic growth, the ECB reduced the European reference rate to a new historic low (0.05%), and announced at the same time a new liquidity programme (TLTRO - Targeted Long-Term Refinancing Operations) and initiated unconventional liquidity measures.

Increasing deflationary pressures due to the significant drop in oil prices in the second-half of the year, put pressure on the expectations of additional liquidity measures by the ECB, this time materialised through the acquisition of sovereign bonds.

The strong liquidity in the market led to the search for higher yield securities and, consequently, an overall decrease in the yields, in particular the ones of peripheral sovereign debt.

NOVO BANCO's CDSs have been converging with market levels and also with the CDSs of other Portuguese institutions over the last months, although still reflecting the Bank's difficult times, even after the application of the resolution measure.



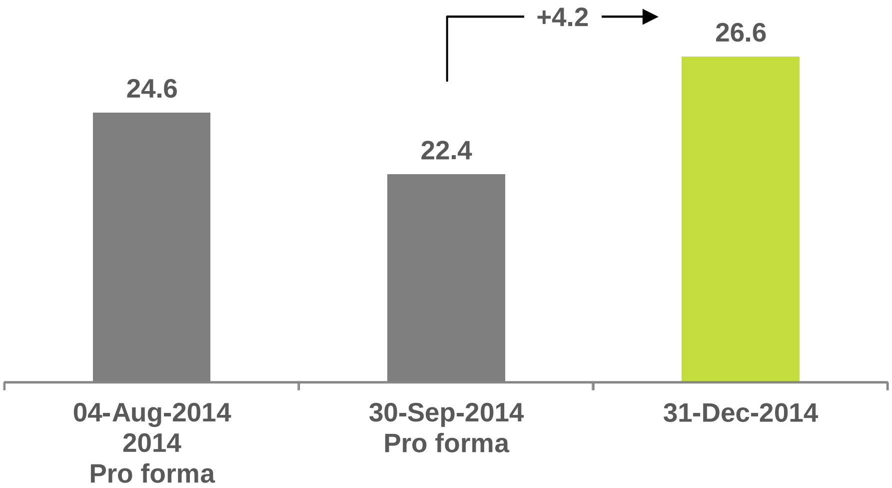


Immediately after the resolution measure, the strong and progressive decrease in customer deposits, combined with the lack of access to financial markets and the impossibility of resorting to additional monetary policy funding operations placed the Bank in a situation of extreme liquidity shortage. Given the significant deterioration in the liquidity position of the Bank, a contingency liquidity plan was put in place to address and minimise the effects of a liquidity crisis, setting out measures of contingent funding. NOVO BANCO was, therefore, forced to resort to the Emergency Liquidity Assistance line ("ELA").

However, the Bank's liquidity situation remained strongly pressured in the months that followed the resolution measure (August and September), with deposits decreasing persistently. After the current Management took office in October, the Bank's liquidity position began to improve, as a result of a recovery in customer deposits and the sale of assets.

In fact, even though following the application of the resolution measure, the Bank's liquidity was strongly pressured by the continuing decrease in customer deposits until the end of September, after this period, there was a stabilisation during the month of October and, from that date, the deposits recovery process began, recording an increase of 18% compared to September (Euros 4.2 thousand million), or Euros 2 thousand million compared to August.

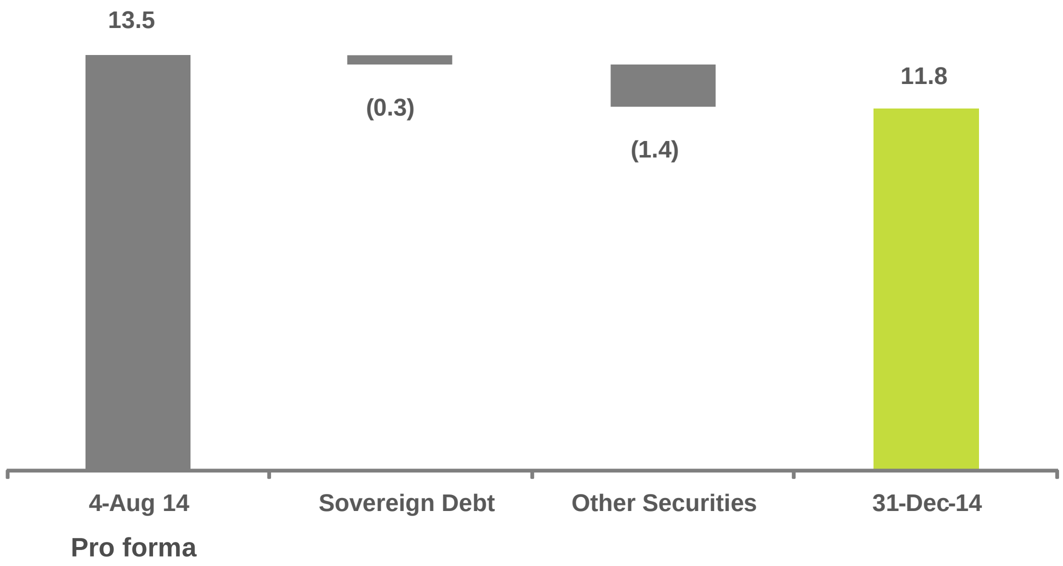
Customer Deposits Evolution
(amounts in Euros 000 million)



Simultaneously to the customer deposit recovery effort, NOVO BANCO continued its deleveraging plan, namely by increasing the pace of the sale of assets.

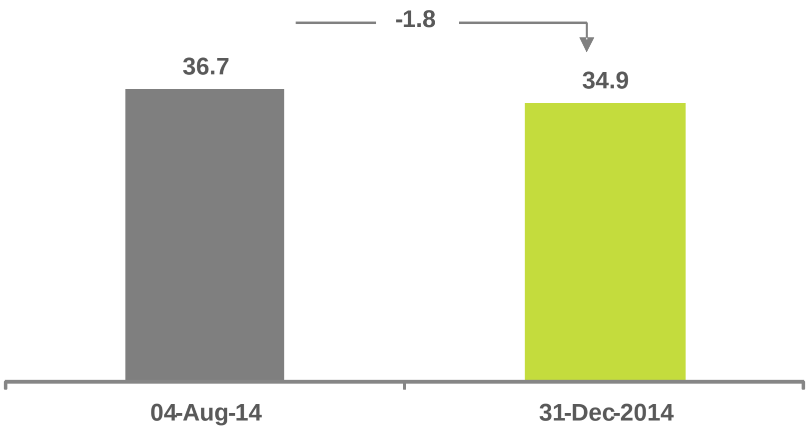
The sale of assets was initially focused only in the securities portfolio, which was reduced by more than Euros 1.7 thousand million since the opening balance sheet, of which 18% corresponded to the sale of sovereign debt.

Securities Portfolio Evolution
(amounts in Euros 000 million)



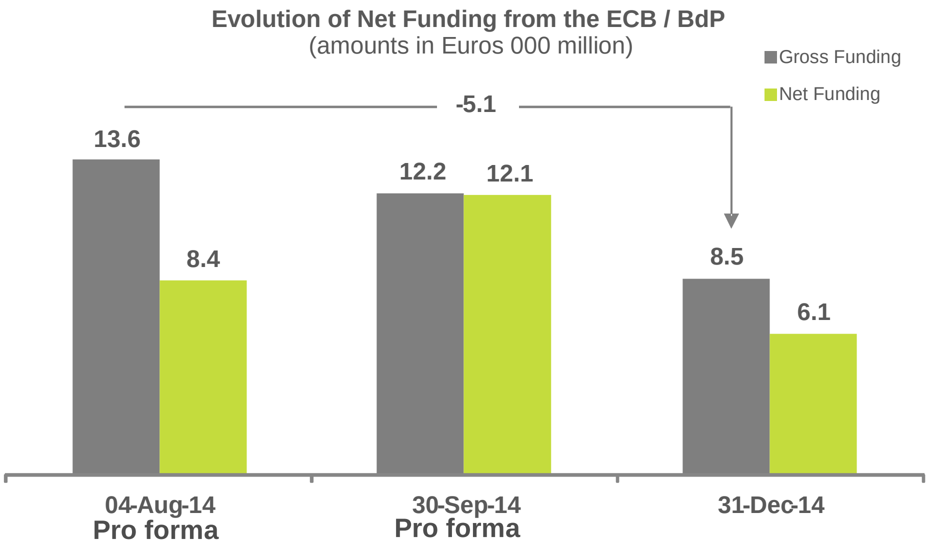
Additionally, the sale of some credits, the amortisation and the non-renewal of credit lines allowed for a reduction of the loan portfolio in circa Euros 1.8 thousand million between August and the end of the year.

Evolution of the Net Loan Portfolio
(amounts in Euros 000 million)



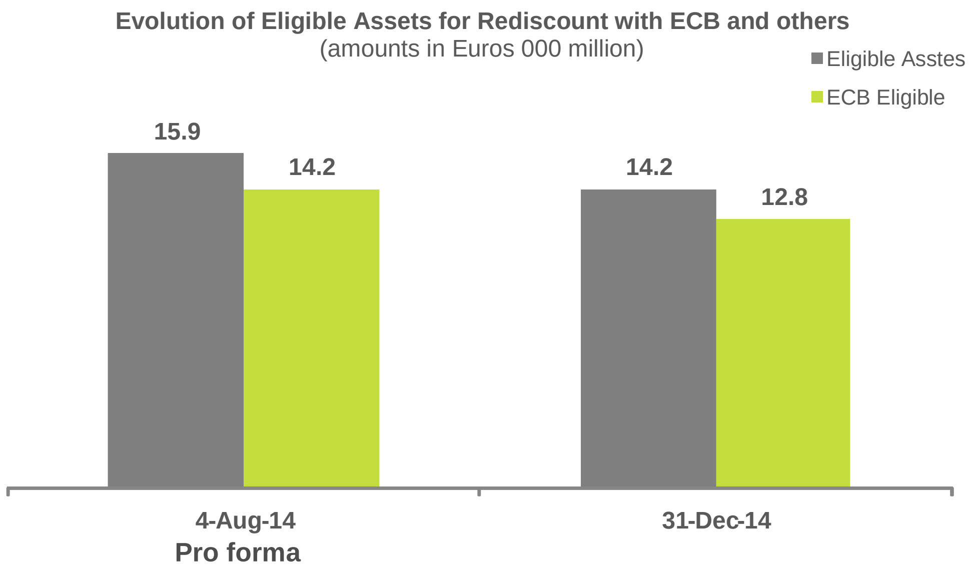
By the end of December, NOVO BANCO's liquidity position had improved considerably. On that date, funding from the ECB was Euros 8.5 thousand million, a Euros 5.1 thousand million decrease from August.

Considering deposits at central banks, the net central bank funding was Euros 6.1 thousand million in December (a decrease of Euros 2.3 thousand million).



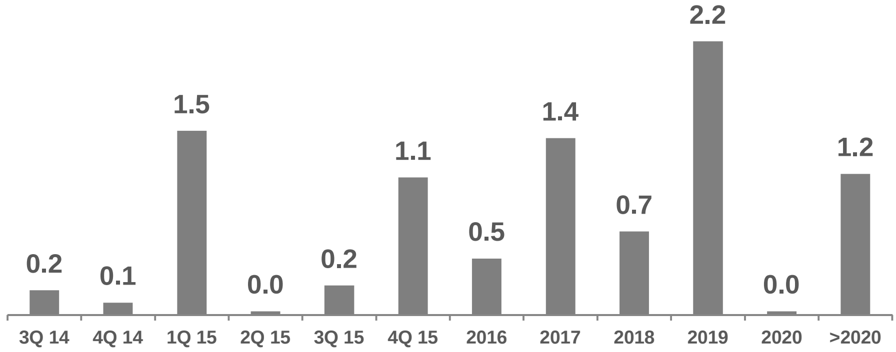
NOVO BANCO tapped the Targeted Long-Term Refinancing Operations (TLTRO), made available by the ECB in September 2014, by an amount of Euros 1.6 thousand million representing 19% of its total funding from the ECB.

As part of its liquidity management policy, NOVO BANCO makes a constant effort to generate and optimise its asset portfolio eligible for rediscounting with the ECB, as well as to identify eligible assets for operations on the market. In December to create an additional liquidity reserve, NOVO BANCO extended the maturity of three bond issued with the guarantee of the Portuguese Republic, amounting to Euros 3.5 thousand million.



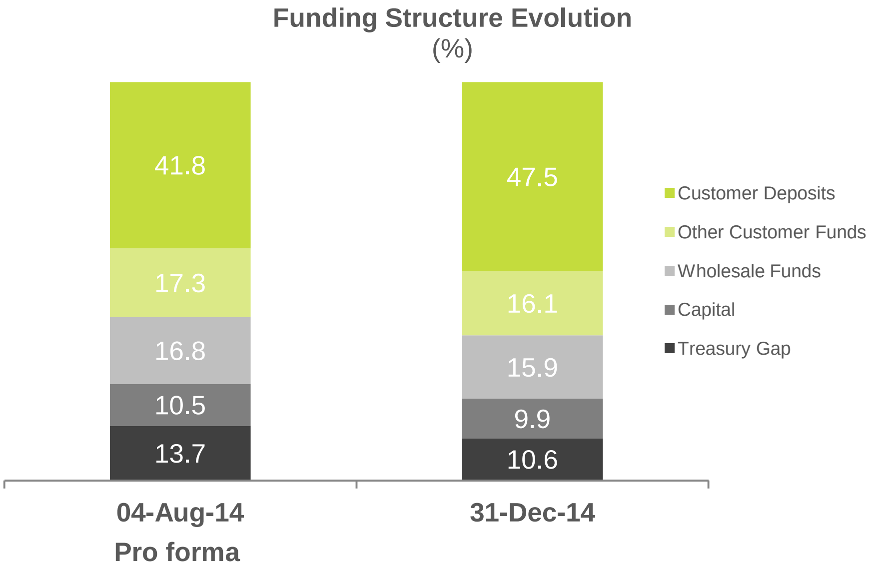
Late 2014, the value of the portfolio of eligible assets for rediscount operations amounted to Euros 14.2 thousand million, of which Euros 12.8 thousand million were eligible for rediscount with the ECB, a decrease of Euros 1.4 thousand million. This value includes exposure to Portuguese sovereign debt (which excludes the position held by GNB Vida), amounting to Euros 0.9 thousand million (of which Euros 0.4 thousand million with a maturity of up to 1 year). As regards the exposure to other peripheral countries' sovereign debt, NOVO BANCO had an exposure of Euros 1.2 thousand million, mostly with a maturity of up to 1 year, split as follows: Euros 1.1 thousand million in Italian sovereign debt, Euros 100 million in Spanish sovereign debt and a residual exposure of Euros 8 million in Greek sovereign debt.

Maturity Profile at 31 December 2014
(amounts in Euros 000 million)



By the end of 2014, NOVO BANCO had repaid Euros 0.3 thousand million of debt, which was replaced by market funding. During 2015, NOVO BANCO will have to repay Euros 2.9 thousand million, of which Euros 1.5 thousand million were already repaid during the first quarter of the year (between January and February). The remaining repayments are concentrated in the last quarter of the year.

In conclusion, the evolution of the Group's funding structure, as at 31 December 2014, stands out due to the significant recovery of its customer resource base that already accounts for 64% of the total funding structure, and the decrease in its treasury gap.



5. Risk Management

NOVO BANCO is naturally exposed to several risks inherent to the banking system, arising from external and internal factors, given the nature of the markets in which it operates. The risks faced by the Bank are 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 material risks faced by the Bank, both internally and externally. The risk management functions independent of the other areas of activity, providing advice on risk management to the Board of Directors. The evolution of risk levels are reported to the Risk Committee, on a monthly basis.

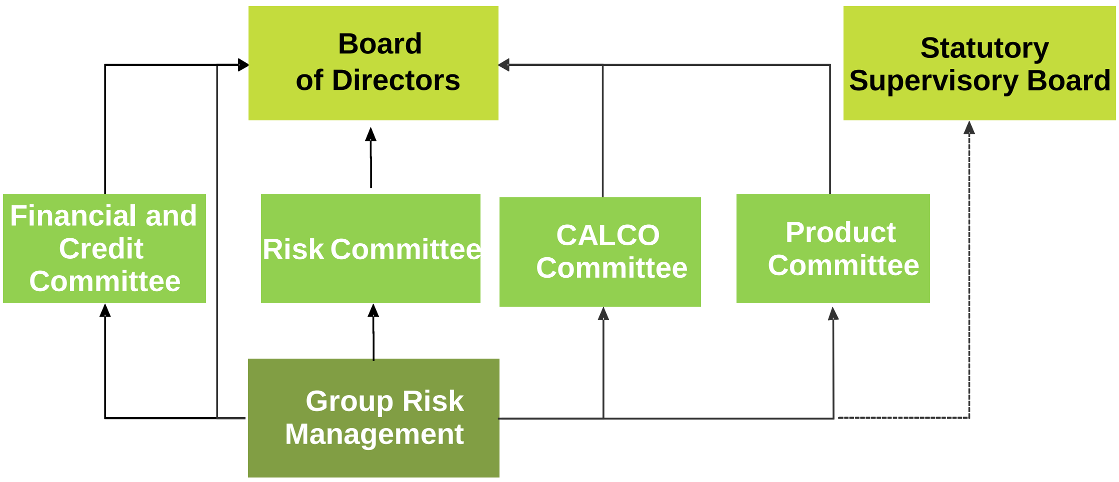
Organisation

Operationally, the Risk Management function is centralised in the Global Risk Department (DRG – Departamento de Risco Global). This function, which is independent from the areas of activity, incorporates risk and capital models within the Group's strategy and business decisions:

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

- To identify, to assess, to control and reporting of the different types of risk assumed, ensuring compliance with internal and regulatory rules, as well as monitoring and promotion mitigating actions;
- To implement the risk policies defined by the Board of Directors;
- To contribute to the value creation targets through the development and monitoring of methodologies for the identification and quantification of risks, such as internal rating models and liquidity ratios, and support tools for the structuring, pricing and approval of operations, as well as internal techniques for performance assessment and for optimisation of the capital base;
- To develop the Internal Capital Adequacy Assessment Process (ICAAP) and stress tests.

The following chart describes NOVO BANCO Group's structure of the relevant risk function committees



Senior Governing Bodies

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

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

Specialised Committees	
Risk Committee	Responsible for monitoring the evolution of the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit and operational, as well as for analysing the evolution of the risk adjusted return and of the value added by the main segments / customers.
Financial and Credit Committee	Responsible for deciding the main credit operations in which the Group participates, in line with the risk policies defined for the Group. At the daily meetings, the committee also monitors the cash position of the Bank and the evolution of the financial markets.
Capital, Assets and Liabilities Committee – (CALCO)	Responsible for monitoring and setting growth targets for customer loans and deposits, defining funding strategy (management of balance sheet mismatch) and price / margin targets, as well as capital optimisation. It also approves the funding products offer and pricing.
Product Committee	Responsible for approving NOVO BANCO Group's units and commercial structures' products and services, including asset and liability products.

Support Committees	
Credit Risk Monitoring Committee (CRMC)	Analysis and assessment of clients creditworthiness, namely if it shows signs of deterioration. Definition of the strategic options for the commercial relationship and the level of active surveillance required by the profile and specific circumstances of each of the entities / groups under analysis, and the analysis and validation of the credit impairment levels established for the group of entities in question, in accordance with objective criteria.
Risk Monitoring Group (RMG)	In-depth analysis and control of credit risk, with the presenc and participation of the Bank's technical areas.
Real Estate Risk Monitoring Group (RERMG)	Monitors clients of the real estate sector given the specific risk inherent to this sector.
IT Risk Committee	Monitors the implementation of the Bank's policies on the risk management of the information systems.

Credit Risk

Adjustment at the Organisational level

A new Credit Department was created in November 2014. The mission of this new Department is to implement NOVO BANCO's credit decision process.

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

This evolution on the Bank's structure reinforces the functional specialisation in order to give a higher weight in the decision making process to the technical and risk analysis.

The credit decision process is carried through the analyses and recommendations of the Global Risk Department (DRG) and by the clients' credit ratings (scorings and ratings). The current credit decision model includes a system of checks and balances that allocates the decision-making process on 3 distinctive areas with well-defined roles (commercial area, credit area and risk area).

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

NOVO BANCO holds the IRB certification, using risk models developed internally covering the main corporate and individual credit portfolios: Medium-size Companies, Small Companies, Start-Ups, Entrepreneurs, Mortgage Loans, Consumer Credit and Credit Cards. For the internal assignment of credit rating to Large Companies, Municipalities, Financial Institutions, Project Finance and Acquisition Finance, and other, the Bank uses templates developed and customised by Risk Solutions for the Portuguese context,

NOVO BANCO also developed models of Loss Given Default (LGD) and Credit Conversion Factors (CCF), based on internal data. In 2015, the ongoing Expected Loss Best Estimate (ELBE) process will be completed.

The governance model to monitor the performance of the risk models (PDs, LGDs and CCFs), is supported by an independent, integrated the Internal Audit Department (IAD) since the end of 2014. This transfer of the model validation unit from the Global Risk Department to the Internal Audit Department follows a recommendation of Banco de Portugal. The independent validation unit is responsible for assessing whether each of the internal risk models maintains a good predictive ability and a proper calibration, which are fundamental for the of support business decisions and for the calculation of regulatory capital. The validation exercise is recurrent, and the models' validation occurs at least once a year.

In 2014, the Global Risk Department recalibrated the corporate rating models and made a revision of the internal definition of default. In both cases, the changes followed the Banco de Portugal recommendations.

Monitoring of Credit Risk

The Credit Risk monitoring and control activities implemented at NOVO BANCO Group aim to quantify and control the evolution of Credit Risk and to allow early definition and implementation of precise measures do deal with specific situations indicative of a deterioration of risk – with a view to mitigate potential losses - as well as to outline global strategies for credit portfolio management.

In this context, and with the main aim of preserving NOVO BANCO Group's risk quality and standards, the Credit Risk Monitoring Function and its development are considered as one of the top priorities of the risk management and control system. This function comprises the following processes:

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

Monitoring of Clients with warning signals (CRMC)

Clients with a warning signal are monitored throughout the year in meetings with all commercial structures and chaired by the Credit Risk Monitoring Committee (CRMC) which decides on specific follow-up actions that are reported to the Member of the Board of Directors in charge of the area.

The main functions of the CRMC:

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

Risk Monitoring Group (RMG)

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

The RMG / RERMG process involves a daily classification of clients according to a pre-established risk criteria into three risk categories - Pre-Watchlist, Watchlist and Recovery – Clients are allocated to each one of the risk criteria mentioned above, afterwards a set of structured actions to be executed are prepared, supported by standardised work tools (risk cause questionnaire, mitigating actions to develop or recovery plans).

According to the rating defined by the model, clients who present a higher risk are analysed at the RMG / RERMG monthly meeting. At the meeting, the client's economic and financial characteristics are analysed as well as the required mitigation actions performed and / or developed, and there is a decision on the risk classification and necessary future actions and also on the Bank's structure that must follow up on the implementation of the decisions.

In the period from 4 August to 31 December 2014, 260 clients with liabilities exceeding Euros 1.8 thousand million were analysed at the meetings of the RMG / RERMG.

Global analysis of the risk profile of credit portfolios

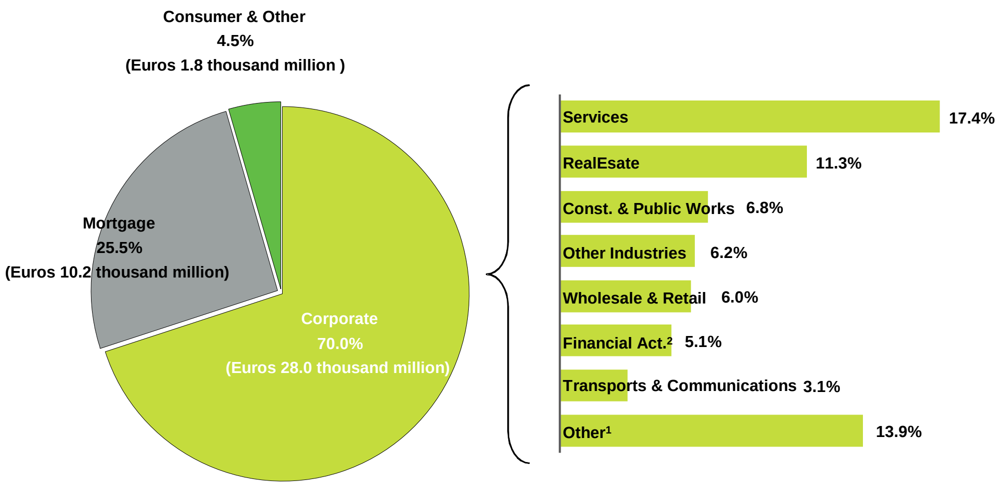
In NOVO BANCO Group, credit portfolio management is an ongoing process that requires interaction among the various teams involved in the management of risk during the different stages of the credit process. The risk profile of credit portfolios, specifically in what concerns the evolution of credit exposure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

Credit Portfolio Breakdown by Industry Sector

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

Total Loan Portfolio in December 2014 (40,1 thousand million, gross exposure)

(excluding securitised Loans)



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

Credit Portfolio Breakdown by Geography

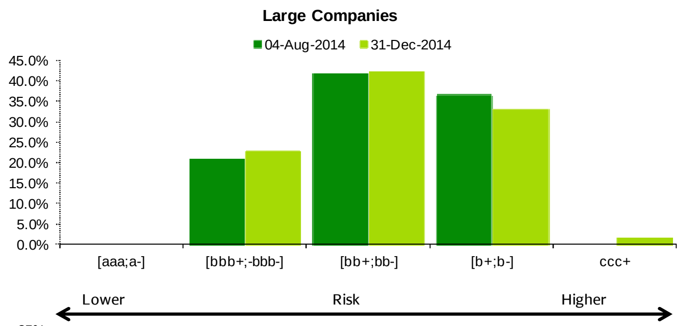
In term of geographical breakdown of the credit portfolio, the international activity, representing 17.5% of the loan portfolio, decreased 5.4% from 4 August to 31 December 2014.

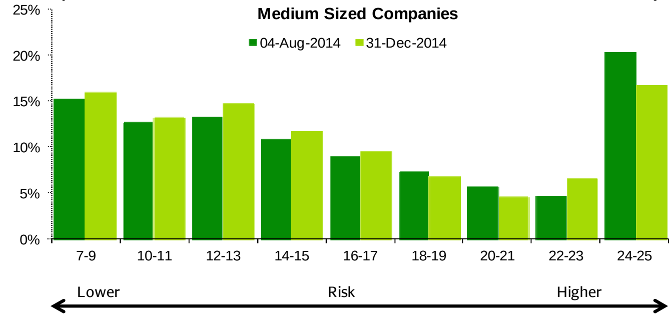
millions of Euros

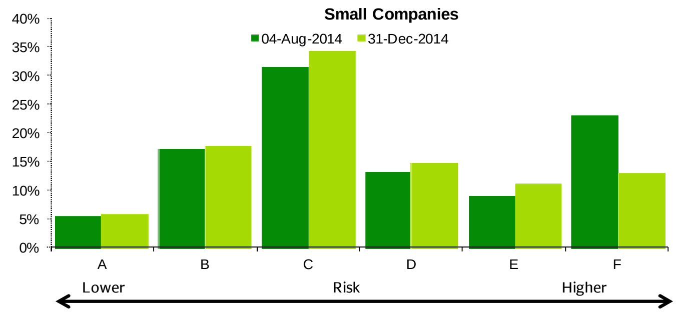
	Domestic Activity			International Activity			Total NOVO BANCO Group		
	4-Aug-14 (Pro forma)	31-Dec-14	weight to total	4-Aug-14 (Pro forma)	31-Dec-14	weight to total	4-Aug-14 (Pro forma)	31-Dec-14	weight to total
Mortgage	10 099	9 873	29.9%	312	357	5.1%	10 410	10 230	25.5%
Individual Other	1 546	1 506	4.6%	398	315	4.5%	1 944	1 821	4.5%
Subtotal	**11 644**	**11 379**	**34.5%**	**710**	**672**	**9.6%**	**12 354**	**12 051**	**30.1%**
Corporate	22 584	21 650	65.5%	6 725	6 359	90.4%	29 308	28 009	69.9%
Total Loans	**34 228**	**33 029**		**7 435**	**7 032**		**41 663**	**40 060**	

Credit Portfolio Breakdown by Rating

NOVO BANCO Group uses internal risk rating systems to support credit decisions and credit risk monitoring. The average probability of default given by the ratings reflects the current economic environment affecting the corporate and retail segments.







Asset Quality

NOVO BANCO started its activity with high provisioning and coverage levels, nevertheless an additional provisioning effort was necessary in 2014 with provisions for credit increasing from 11.9% in August 2014 to 12.8% of the total loan book in December 2014.

Asset Quality

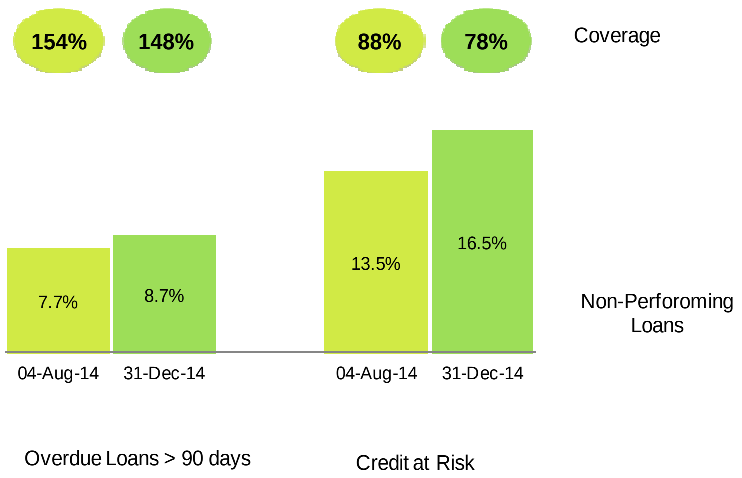
millions of Euros

	4-Aug-14 (Pro forma)	31-Dec-2014	Change absolute	Change relative
(millions of Euros)				
Gross Loans	41 663	40 060	-1 602	-3.8%
Overdue Loans	3 393	3 917	524	15.5%
Overdue Loans > 90 days	3 217	3 468	251	7.8%
Credit at Risk (1)	5 620	6 593	973	17.3%
Restructured Credit (2)	5 403	5 893	490	9.1%
Restructured Credit not included in Cedit as Risk (2)	3 894	4 145	251	6.4%
Credit Provisions	4 945	5 131	186	3.8%
Additional Credit Provisions (accumulated)	-	378	-	-
Indicators (%)				
Overdue Loans / Gross Loans	8.10%	9.8%	1.60 p.p.	
Overdue Loans > 90 days / Gross Loans	7.7%	8.7%	0.90 p.p.	
Credit at Risk (1) / Gross Loans	13.5%	16.5%	3.00 p.p.	
Restructured Credit (2) / Gross Loans	13.0%	14.7%	-	
Restructured Credit not included in Credit at Risk (2)/ Gross Loans	9.3%	10.3%	-	
Coverage of Overdue Loans	145.7%	131.0%	-14.8 p.p.	
Coverage of Overdue Loans > 90 days	153.7%	147.9%	-5.8 p.p.	
Coverage of Credit at Risk (1)	88.0%	77.8%	-10.2 p.p.	
Provisions for Credit / Gross Loans	11.9%	12.8%	0.90 p.p.	
Cost of Risk	-	2.3%	- p.p.	
Provision Charge Net of Recoveries	-	2.2%	- p.p.	

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

The overdue loans > 90 days ratio increased to 8.7% in December 2014 from 7.7% on 4 August 2014. Despite the decrease (-5.8 pp. from 4 August to 31 December 2014), the provision coverage ratio remains at a comfortable level of 147.9% (153.7% on 4 August 2014).

Non-performing Loans and Provisions Coverage



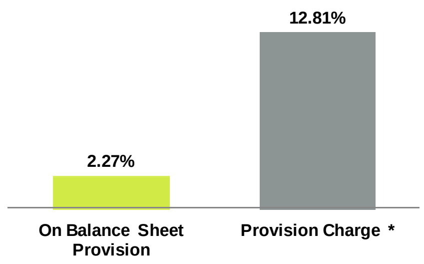
Reflecting the deterioration of the macroeconomic environment, the credit at risk ratio increased from 13.5% to 16.5% in December 2014. This increase was mainly driven by corporate overdue loans (where the ratio rose from 15.6% to 19.2%) due to the weight of this segment in the total portfolio.

Credit at Risk by Type of Credit

	Non-Performing Loans		Coverage		Balance Sheet Provisions	
	4-Aug-14 (Pro forma)	31-Dec-14	4-Aug-14 (Pro forma)	31-Dec-14	4-Aug-14 (Pro forma)	31-Dec-14
Total Loans	**13.5%**	**16.5%**	**88.0%**	**77.8%**	**11.9%**	**12.8%**
Corporate	15.6%	19.2%	99.6%	87.5%	15.5%	16.8%
Mortgage	7.2%	7.5%	24.5%	24.9%	1.8%	1.9%
Individuals (other)	16.3%	24.0%	70.2%	51.2%	11.4%	12.3%

Credit provisions were reinforced by Euros 378 million, representing an average impairment charge of 2.27% in 2014.

Credit Provisions



*On Balance Sheet Credit Provisions / Gross Loans

Exposure to Emerging Markets

As of 31 December 2014, the exposure to emerging markets denominated in foreign currency, as determined under Banco de Portugal country risk criteria was Euros 4,006 million, representing 6.1% of the consolidated assets.

millions of Euros

Countries	BdP Risk Weight	31-Dec-2014					
		Gross Exposure *		Guarantees and Deductions **	Net Exposure		
		Total	Fair Value Reserve		Total	in Foreign Currency	Structure (%)
Latin America		**2 629**	**0**	**234**	**2 396**	**726**	**85**
Bahamas	10%	1	0	1	0	0	0
Brazil	0%	2 143	0	24	2 119	453	75
Mexico	0%	264	0	20	244	240	9
Panama	0%	78	0	51	27	27	1
Venezuela	50%	139	0	135	4	4	0
Other		4	0	2	2	2	0
Eastern-Europe		**185**	**0**	**6**	**179**	**47**	**6**
Croatia	10%	0	0	0	0	0	0
Ukraine	50%	1	0	1	0	0	0
Other		184	0	5	179	47	6
Asia-Pacific		**245**	**0**	**134**	**111**	**110**	**4**
China	0%	25	0	2	23	23	1
India	10%	133	0	130	3	3	0
Macao	0%	81	0	0	81	81	3
Turkey	10%	1	0	0	0	0	0
Other		4	0	2	3	2	0
Africa		**947**	**0**	**825**	**123**	**122**	**4**
South Africa	0%	18	0	12	6	6	0
Angola	10%	797	0	797	0	0	0
Cape Verde	10%	91	0	1	91	91	3
Morocco	10%	1	0	1	0	0	0
Other		40	0	14	26	26	1
Total		**4 006**	**0**	**1 198**	**2 808**	**1 006**	**100**
% Net Assets		**6.1%**			**4.3%**	**1.5%**	

* Exposure net of provisions for country risk
** Includes Trade Finance < 1 year in the amount of Euros 214 million

Market Risk

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

Market risk is monitored on a short-term perspective (ten days) for the trading book and on a medium-term perspective (one year) for the banking book.

- **Trading Book Risk**

A. Management Practices

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. For the calculation of the VaR, NOVO BANCO Group uses 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.

To calibrate the VaR assessment, daily back testing exercises are performed, allowing the comparison of losses foreseen by the VaR model with actual losses. These exercises allow the model to be fine-tuned and its forecasting ability 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 based on a real stress period, and / or by performing individual sensitivity analysis tests applying extreme individual shocks to risk factors.

NOVO BANCO Group's portfolios are subject to VaR and stop loss limits, in order to limit potential losses. In the fourth quarter of 2014, the operational control functions of the market risk (by risk factor and trading desk) and counterpart risk transferred from the Finance Department to the Risk Department. The control of limits is made daily.

During the year 2014, the Value at Risk limit for the trading areas was reduced and a limit associated with sovereign debt in the available-for-sale and fair value portfolios was set.

Market risk compared with its defined limits is reported daily to the business areas and respective managers, and analysed monthly at the CALCO Committee and reported quarterly at the Risk Committee.

B. Market Risk Analysis

NOVO BANCO Group value at risk (VaR) at 31 December 2014 was Euros 50.6 million (including BESI with Euros 9.9 million), in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, commodities as well as FX positions and in sovereign debt booked in the available-for-sale and fair value portfolios. This figure compares with Euros 24.9 million at 4 August 2014, despite the fact that the scope of this calculation was widened and methodology changes were introduced.

millions of Euros

Value at Risk 99% 10 days		
	04-Aug-14	31-Dec-14
FX	8.8	11.5
Interest Rate	1.7	8.4
Equity and Commodities	9.1	33.9
Credit Spreads	10.2	21.9
Volatility	2.3	2.2
Diversification Effects	-7.2	-27.3
Total	**24.9**	**50.6**

Equity, credit spreads and FX risks are the most representative in the total VaR of Euros 50.6 million.

To complement risk measurement, simulated extreme scenarios are also analysed. All risk factors were subject to extreme scenario testing, based on the more and less positive 10-day sifts occurred in the last 20 years.

- **Banking Book Risk**

The banking book risks arises from adverse movements in interest rates, in credit spreads, the market value of equity securities and real estate concerning non-trading exposures in the balance sheet. GNB Vida holdings are independently monitored by this company's risk area.

Interest Rate Risk

Interest Rate Risk may be understood in two different but complementary ways, namely as the effect on the net interest income or on the value of capital, of interest rates movements that affect the institution's banking book.

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

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

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

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

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

Additionally, NOVO BANCO Group measures the banking book interest rate risk based on the one year historical VaR, with a 99% confidence level. On 31 December 2014 this value reached Euros 108 million.

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

Other Banking Book Risks

An asset's credit spread risk reflects the difference between the interest rate associated to that asset and the interest rate of a risk-free asset in the same currency.

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

These risks are measured on the basis of the one year historical VaR at a 99% confidence level, In addition, the simulation of extreme scenarios is analysed.

- **Pension Fund Risk**

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

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

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

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

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

Operational Risk

Operational risk may be defined as the probability of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures, information systems, staff behaviour, or external events, including legal risks.

A. Management Practices

Operational risk is managed through a set of procedures that standardise, systematise and regulate the frequency of activities for the identification, monitoring, controlling and mitigation of this risk. The priority in operational risk management is to identify and mitigate or eliminate risk sources, even if these have not resulted in financial losses.

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

The operational risk management model implemented is supported by a specific structure within the Global Risk Department exclusively dedicated to designing, monitoring and maintaining the model. This structure works in close coordination with the operational risk representatives from the Group's departments, branches and subsidiaries, and their teams, who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of Operational Risk, their participation being crucial.

Other departments, with a comprehensive role in NOVO BANCO Group, also take part in the Management Model, such as the Compliance Department, namely its Internal Control Management System Unit, and the Internal Audit Department.

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

- Identification and reporting of operational risk incidents in NOVO BANCO Group's corporate IT platform. This database not only considers loss-originating events, but also events with positive impacts or others with no accounting impacts. Knowledge of these situations is essential to allow the mitigation of risk;
- Execution of procedures to control the registration of events, in order to verify the effectiveness of the processes of risk identification implemented in each financial institution and at the same time ensure the recording and conformity of the information on incidents with financial impacts. The main control process consists in checking the financial movements booked under certain items against the incidents recorded in the database;
- Identification and systematisation of risk sources of and potential incidents in order to define incident reporting responsibilities within the institutions and thus promote risk awareness culture and further improve the established identification process;
- Regularly carrying out self-assessment exercises to identify major risks, as well as corresponding mitigation actions;
- Monitoring of risk factors trough Group-wide Key Risk Indicators (KRI), allowing a comparative analysis, and specific indicators to meet risk control needs of certain business units;
- Analysis of one-off scenarios for certain sources of risk;

- Definition and monitoring the implementation of measures to remove or mitigate risk sources identified, through the analysis of incidents, self-assessments, KRI or workshops with several unit managers;
- Reporting of consolidated management information for NOVO BANCO Group's senior management, as well as specific reports for certain business units;
- Training and sharing of experiences in a "lessons learned" perspective and adoption of best practices by NOVO BANCO Group's several business units;
- Calculation of capital requirements according to the Standardised Approach. An approach that considers the sum of last three year's average of the relevant indicators weighted by the risks (calculated on each year) regarding the regulatory activity segments.

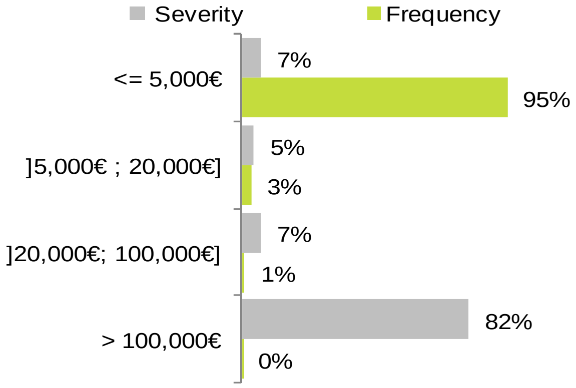
In 2014, efforts to consolidate the operational risk management processes were maintained, namely the implementation of projects in new areas such as the Luxembourg Branch. For the consolidation of the Operational Risk several awareness, sensibilization and training actions were performed in several units of NOVO BANCO Group.

At the same time, the development and implementation of an IT Risk Model in several business units has allowed a risk assessment of the severity of incidents identified.

B. Analysis of Operational Risk

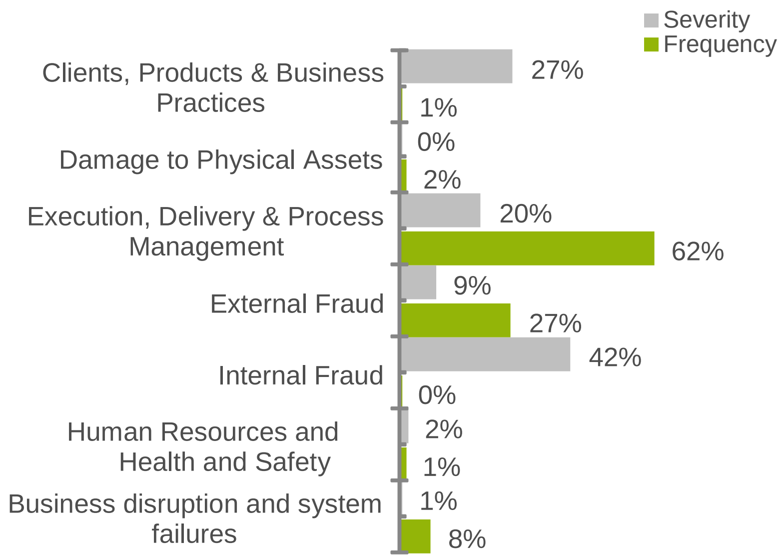
NOVO BANCO Group's operational risk profile demonstrates a high frequency of incidents with low financial impact, while incidents with a material impact are very few.

95% of the incidents with a financial impact below Euros 5 thousand represented 7% of total reported losses related to operational risk. Incidents with an impact above Euros 100 thousand represent 82% of the total impact, and measures were taken to solve the problems which were identified.



The operational risk incidents indentified are duly reported by the financial units, on the NOVO BANCO Group's Operational Risk IT application (AGIRO), which fully characterises and systematises them and controls the defined mitigation actions. Every incident is classified according to the Risk Categories defined by the Banco de Portugal's Risk Assessment Model, and in the Basel's Business Lines and Risk Types.

The Execution, Delivery and Process Management incidents registered the highest score in terms of frequency with 62% of the incidents representing 20% of the lost amount. Incidents of this kind are very frequent and usual in the banking system, given that a large number of transactions are processed daily.



Incidents of External Fraud stand out, mostly credit cards fraud, with occurrence rates of 27% and severity rates of 9%, a trend that is in line with the financial system.

Liquidity Risk

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

Liquidity risk can be divided into two types:

- Market liquidity risk - the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid / offer spread or the application of a haircut to its market value.
- Funding liquidity risk - the impossibility to obtain market funding to finance assets and / or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk by virtue of the transformation of maturities (providing long-term loans and receiving short-term deposits) and therefore a prudent management of liquidity risk is crucial.

A. Management Practices

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

Liquidity risk is reported to business areas and its managers on a daily basis, analysed on a monthly basis in the CALCO and quarterly reported to the Risk Committee.

B. Liquidity Risk Analysis

The liquidity position improvement since 4 August 2014 is mainly due to (i) the significant increase in deposits in the fourth quarter of 2014; (ii) the sale of financial assets; and (iii) the decrease in the credit portfolio leading to a Euros 5.1 thousand million decrease in the funding from the ECB to Euros 8.5 thousand million on 31 December 2014. Considering deposits with Central Banks the net funding from the ECB was Euros 6.1 thousand million at the end of the year (a decrease of Euros 2.3 thousand million compared to 4 August). There was also a decrease in the loan to deposit ratio (ratio that measures the relationship between credit and deposits) from 140% at 4 August to 126% at year-end.

At the end of 2014, the portfolio eligible for rediscounting operations was Euros 14.2 thousand million, of which Euros 12.8 thousand million were eligible for rediscounting with the ECB.

Banco de Portugal's Instruction 13/2009 defines the liquidity gap as (Net assets - Volatile liabilities) / (Assets - Net assets) x 100 for each cumulative level of residual maturity, where net assets include cash and liquid securities and the volatile liabilities include cash, debt securities, commitments to third parties, derivatives and other liabilities. This ratio gives an image of an institution's wholesale liquidity risk.

NOVO BANCO Group's liquidity gap up to one year improved from -7.9% at 4 August 2014 to -2.0% at 31 December 2014. This improvement essentially resulted from the increase of deposits as a source of funding.

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

Solvency

- **Capital Management and Regulatory Solvency**

Capital management main goal is to ensure the compliance with NOVO BANCO Group's strategic targets in terms of capital adequacy, respecting and enforcing the Banco de Portugal and ECB's rules regarding the calculation of capital requirements and solvency levels.

The Board of Directors determines the capital management strategy which is part of NOVO BANCO Group's global strategic targets.

NOVO BANCO Group's solvency ratios are determined in accordance with the Basel III framework as laid down in the Regulation (EU) No. 575/2013 and related Portuguese legislation.

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

Solvency

	4-Aug-14	31-Dec-14
Common Equity Tier I Ratio	10.3%	9.5%
Tier I Ratio	10.3%	9.5%
Total Own Funds Ratio	10.3%	9.5%

In December 2014 NOVO BANCO Group's Common Equity Tier I ratio was 9.5% therefore above the regulatory minimum. Considering the Special Regime for Deferred Tax Assets introduced by Law no. 61/2014, of 26 August, in force from January 2015 onwards, the Common Equity Tier I ratio of NOVO BANCO Group would have been 9.7%, if applied on 31 December 2014.

Own Funds

Currently, under the Basel III legal framework, NOVO BANCO Group's solvency ratios calculation considers the following capital elements: Common Equity Tier I, Tier I, Tier II and Total Equity.

Prudential capital is mainly composed of Common Equity Tier I elements.

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

millions of Euros

	Consolidated	
	4-Aug-14[a)]	31-Dec-14
Realised ordinary share capital	4 900	4 900
Reserves and Retained earnings	982	948
Net income / (loss) for the period	-	(498)
Revaluation reserves	84	(70)
Non-controlling interests	125	212
A - Equity	**6 091**	**5 492**
Revaluation reserves	(115)	(214)
Non-controlling interests	(15)	(107)
B - Prudential adjustments to Equity	**(130)**	**(321)**
Goodwill and other intangibles	(414)	(423)
Deferred taxes	(291)	(277)
Equity participations in financial entities	(63)	(101)
Other	(25)	72
C - Prudential deductions	**(793)**	**(729)**
D - Common Equity Tier I (A+B+C)	**5 168**	**4 442**
Eligible instruments for Tier I	2	2
Deductions from Tier I	(2)	(2)
E - Tier I	**5 168**	**4 442**
Eligible instruments for Tier II	143	136
Deductions from Tier II	(128)	(136)
F - Tier II	**15**	**-**
G - Eligible Own Funds	**5 183**	**4 442**

[a)] amounts restated with the resolution of the Board of Directors of Banco de Portugal of 22 December 2014, determining that the liability contracted by Banco Espírito Santo to Oak Finance Luxembourg is not transferred to NOVO BANCO (this decision resulted in an adjustment to the originating reserve, corresponding to a positive change equivalent to Euros 548.3 million) and with the resolution of the Board of Directors of Banco de Portugal of 11 February 2015 which determined that Banco Espírito Santo's responsibilities relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo who had been members of its Executive Committee are not transferred to NOVO BANCO (negative change in the originating reserve equivalent to Euros 25.8 million)

Risk Weighted Assets

As of 31 December 2014, risk weighted assets totalled Euros 46,982 million, of which Euros 44,094 million (94% of the total) resulted from credit and counterparty risk, Euros 1,164 million from market risk and Euros 1,724 million from operational risk.

Credit and Counterparty Risk

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

NOVO BANCO Group's risk weighted assets for credit risk significantly decreased (>Euros 2,000 million) between 4 August 2014 and 31 December 2014 to Euros 44,094 million, due to the strong asset decrease, that resulted from the effort to reduce the Bank's activity.

Risk Weighted Assets as at 31 December 2014
By Risk Class

millions of Euros

	Risk Weighted Assets	Risk Weighting Factor [1]
Central Administrations or Central Banks	83	2%
Institutions	2 835	53%
Companies	31 029	69%
Retail Portfolio	2 600	20%
Other	7 545	59%
Total	**44 094**	**54%**

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

Market Risk

Market risk weighted assets are calculated using the standardised approach.

As of 31 December 2014, market risk weighted assets amounted to Euros 1,164 million, with the main contributors being the interest rate / debt instruments risk (59% of the total) and FX risk (29 % of the total).

Trading Book Risk Weighted Assets

millions of Euros

		4-Aug-2014	31-Dez-14	Change
Debt Instruments	Specific Risk	212	47	-165
	General Risk	564	636	71
	Non-Delta Risk*	0	0	0
	CIE**	0	0	0
Equity Instruments	Specific Risk	56	32	-24
	General Risk	61	85	25
	Non-Delta Risk*	23	24	2
	CIE**	0	0	0
Commodity Risk	General Risk	2	1	-1
	Non-Delta Risk*	1	0	-1
Fx Risk	General Risk	311	337	27
	Non-Delta Risk*	55	1	-54
Total		**1 284**	**1 164**	**-120**

* 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 risk weighted assets for market risk mainly resulted from the decrease in the specific interest rate risk, which was partially offset by the increase in the interest rate risk.

Operational Risk

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

Between August and December 2014, risk weighted assets were reduced by Euros 579 million, mainly as a result of a higher negative contribution from the trading and sales segment.

millions of Euros

	04-Aug-2014		31-Dec-2014	
	Capital requirements	**RWA***	**Capital requirements**	**RWA***
NOVO BANCO Group	**184**	**2 303**	**138**	**1 724**
Corporate financing	9	117	7	94
Trading and sales	-18	-223	-65	-815
Retail brokerage	2	29	2	26
Commercial banking	120	1 498	131	1 638
Retail banking	61	757	53	661
Payment and settlement	0	0	0	0
Agency services	0	4	0	4
Asset management	10	121	9	116

* Risk Weighted Assets

6. Activity and Results

The activity and results for the period ended on 31 December 2014 reflect the particular circumstances that involved the creation of NOVO BANCO.

This chapter describes the main challenges the Bank faced during this period.

6.1 Activity and Results of NOVO BANCO Group

- ### Customer confidence and recovery of customer funds

Winning client confidence and recovering retail customer funds were the key strategic drivers for NOVO BANCO to be able to rely on a stable funding structure and to resume operational normality. The efforts that were carried out to win back the confidence of the clients led to the recovery of customer funds that had been lost during the first two months of activity.

Total Customer Funds

millions of Euros

	4-Aug-14 (Pro forma) (a)	30-Sep-14 (Pro forma) (a)	31-Dec-14	chg. from 4-Aug-14 to 30-Sep-14	4Q14 change
On-Balance Sheet Customer Funds	**34,780**	**32,074**	**35,640**	**-2 706**	**3,566**
Deposits	24,617	22,404	26,626	-2,213	4,222
Other Customer Funds [(1)]	1,538	1,481	1,313	-57	-168
Bonds placed with Customers	2,030	2,161	1,861	131	-300
Life Insurance Products	6,595	6,029	5,841	-566	-188
Off-Balance Sheet Funds	**9,227**	**8,050**	**7,099**	**-1,177**	**-951**
Total Customer Funds	**44,006**	**40,125**	**42,739**	**-3,881**	**2,614**

(a) Data considering Banco Espírito Santo de Investimento as discontinuing operation under IFRS 5

(1) Includes cheques and payment orders, sale and repurchase agreements and other resources

In fact, from 4 August to 30 September, total customer funds decreased by Euros 3.9 thousand million (or 8.8%), of which Euros 2.2 thousand million in the deposits portfolio, Euros 0.6 thousand million in life insurance products and Euros 1.2 thousand million in off-balance sheet customer funds. In the last quarter of the year it was possible to achieve a Euros 2.6 thousand million increase in total customer funds, with deposits growing by Euros 4.2 thousand million.

This increase reflects the effects of commercial marketing campaigns supported by a dynamic commercial franchise, which offer a wide range of deposit solutions that was able to regain customer confidence and reverse the cash outflow of individual and corporate clients.

- **Deleveraging process**

The implementation of the deleveraging plan aimed to reduce the balance sheet, through the reduction of the loan book and securities portfolio and a selective disposal of assets.

Customer Loans

NOVO BANCO conducted a very strict and selective lending policy, which took in consideration the support to both the small and medium-size and exporting companies.

Customer Loans

millions of Euros

	4-Aug-14 (Pro forma)	31-Dec-14	Change	
			absolute	relative
Corporate Loans	**29,308**	**28,009**	**1,300**	**-4.4%**
Loans to Individuals	**12,354**	**12,051**	**-303**	**-2.5%**
Mortgage	10,410	10,230	-180	-1.7%
Other Loans	1,944	1,821	-123	-6.3%
Customer Loans (gross)	**41,663**	**40,060**	**-1,602**	**-3.8%**
Provisions	**4,945**	**5,131**	**186**	**3.8%**
Customers Loans (net)	**36,718**	**34,929**	**-1,789**	**-4.9%**

Net customer loans decreased by Euros 1.8 thousand million in the five months of activity, with reductions at both domestic and international (Euros -1.4 thousand million and Euros -0.4 thousand million respectively) activity, and across all segments: mortgage loans decreased by Euros 180 million (-1.7%), other loans to individuals by Euros 123 million (-6.3%) and corporate loans by Euros 1.3 thousand million (-4.4%).

Securities Portfolio

The securities portfolio, besides providing the main source of eligible assets for funding operations with the ECB, was also managed as an originator of liquidity and the portfolio was reduced by Euros 1.7 thousand million.

Securities Portfolio
(net of impairments)

millions of Euros

	4-Aug-14 (Pro forma)	31-Dec-14	Change	
			absolute	relative
Bonds	4,509	3,558	-951	-21.1%
Other Sovereign Debt	3,175	2,600	-576	-18.1%
Portuguese Sovereign Debt	1,670	1,948	278	16.7%
Other	4,113	3,658	-455	-11.1%
Total	**13,467**	**11,764**	**-1,704**	**-12.7%**

Sale of BES Investimento

On 8 December 2014, NOVO BANCO agreed a sale and purchase agreement with Haitong International Holdings Limited in respect of the entire share capital of BESI, for Euros 379 million. Haitong International Holdings Limited is a Hong Kong based wholly-owned subsidiary of Haitong Securities Co. Ltd (a company whose shares are listed on the Shanghai Stock Exchange and in the Stock Exchange of Hong Kong Limited). The conclusion of the operation is pending the necessary regulatory approvals.
At the present date, the operation has already received the approval or non-opposition of Banco de Portugal, the Autoridade da Concorrência Portuguesa (Portuguese Competition Authority), the China Securities Regulatory Commission and the Shanghai Municipal Financial Service Office of China, the Financial Conduct Authority of the United Kingdom, the Urzad Ochrony Konkurencji I Konsumentów (Competition and Consumer Protection Office) of Poland and the Directorate-General for Competition of the European Union. At the moment, the operation still requires the approval of the European Central Bank, as well as the confirmation by the Banco Central do Brasil (Brazilian Central Bank).

As a result of this operation BESI was excluded from NOVO BANCO's full consolidation scope, being accounted for in the financial statements in accordance with IFRS 5. On 31 December 2014 the assets and liabilities of the discontinued operations totalled Euros 4.2 thousand million and Euros 3.1 thousand million, respectively.

Non-current assets held for sale

Non-current assets held for sale include real estate received through loan foreclosures, discontinued premises and assets of entities held for sale.

The disposal of the non-current assets held for sale was another key focus of the management, as it generates liquidity and positively contributes to streamlining the balance sheet. However, because the process of updating the title deeds of these assets is not yet concluded it was not possible to the Group to achieve significant sales of these assets in the period.

Non-current assets held for sale

millions of Euros

	4-Aug-14 (Pro forma)	31-Dec-14	Change
Property held for sale	2,591	2,768	176
Provisions	(818)	(824)	(7)
Provisions / Property held for sale (%)	*31.6%*	*29.8%*	*-1.8 pp*
Property held for sale (net)	1,773	1,943	170
Equipment and other foreclosed assets	15	16	2
Provisions	(2)	(2)	0
Equipment and other foreclosed assets (net)	12	14	2
Assets of entities held for sale	919	1,192	274
Provisions	(310)	(403)	(92)
Provisions / Assets of entities held for sale (%)	*33.8%*	*33.8%*	*0.0 pp*
Assets of entities held for sale (net)	609	790	181
Non-current assets held for sale	**3,525**	**3,977**	**452**
Provisions	**(1,130)**	**(1,129)**	**(99)**
Provisions / Non-current assets held for sale (%)	*32.1%*	*30.9%*	*-1.2 pp*
Non-current assets held for sale (net)	**2,394**	**2,747**	**353**

Non-current assets held for sale totalled Euros 4.0 thousand million with provisions of Euros 1.2 thousand million, representing a coverage of close to 31%.

- ## Liquidity improvement

The liquidity generated through the significant increase of deposits in the fourth quarter, the sale of financial assets, the contraction of the loan book and the capital proceeds allowed for a substantial reduction in funding from the European System of Central Banks (ESCB) and an improvement in the loan to deposit ratio (the ratio that measures the relationship between credit and deposits).

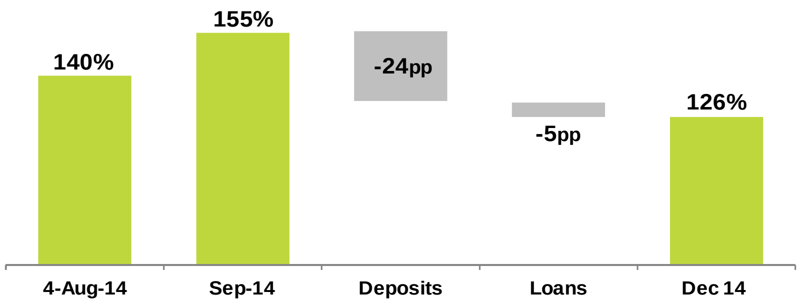
On 4 August 2014 funding from the ESCB totalled Euros 13.6 thousand million, having decreased to Euros 8.5 thousand million at the end of the year.

NOVO BANCO tapped the Targeted Long Term Refinancing Operations (TLTRO) facility created by the ECB borrowing 1.6 thousand million in September 2014. In order to create an additional liquidity buffer, in December NOVO BANCO extended the maturity of three bond issues guaranteed by the Portuguese Republic totalling Euros 3.5 thousand million.

At the end of 2014, the nominal value of the portfolio of repoable securities eligible for rediscount with the European System of Central Banks (ESCB) amounted to Euros 14.2 thousand million, of which Euros 12.8 thousand million were eligible for rediscount with the ECB. This amount includes exposure to Portuguese sovereign debt (excluding the position held by GNB Vida), of Euros 0.9 thousand million (of which Euros 0.4 thousand million maturing in less than one year). NOVO BANCO's other peripheral European sovereign exposures totalled Euros 1.2 thousand million (almost entirely maturing in less than one year), including: Euros 1.1 thousand million of Italian sovereign debt, Euros 0.1 thousand million of Spanish sovereign debt and a residual exposure of Euros 8 million in Greek sovereign debt.

The recovery of deposits and the contraction of the loan book significantly improved the loan to deposit ratio. From 140% on the date of the opening balance sheet, the ratio deteriorated in September to 155%, and improved afterwards to 126% as of 31 December 2014.

Loan to Deposit Ratio Evolution



• Capital Management

On 26 June 2013 the European Parliament and European Council approved Regulation (EU) No. 575/2013 and Directive 2013/36/EU which establish the applicable prudential requirements for credit institutions and investment firms in the European Union, in force as from 1 January 2014. Banco de Portugal's Notice 6/2013, of 23 December, established the transitional regime for own funds, under said Regulation, and laid down measures to preserve own funds, establishing a minimum Common Equity Tier I (CET1) ratio of not less than 7%.

Under the terms of the mentioned rules, the capital ratios of NOVO BANCO Group, as of 4 August and 31 December 2014, were as follows:

Risk Weighted Assets, Eligible Capital and Capital Ratios
BIS III (CRD IV/CRR)

Euros 000 million

		4-Aug-14	31-Dec-14
Risk Weighted Assets	(A)	50.4	47.0
Regulatory Capital			
Common Equity Tier I	(B)	5.2	4.4
Tier I	(C)	5.2	4.4
Tier II		0.0	0.0
Total Own Funds	(D)	5.2	4.4
Common Equity Tier I	(B/A)	10.3%	9.5%
Tier I	(C/A)	10.3%	9.5%
Solvency Ratio	(D/A)	10.3%	9.5%

The balance sheet deleveraging process implied a reduction of risk weighted assets (RWA) to Euros 47.0 thousand million on 31 December 2014, which is Euros 3.4 thousand million less than on 4 August 2014. For prudential effects, BESI, presented in the balance sheet as assets from discontinued operations, is still being accounted for the RWA's.

In addition, eligible own funds decreased compared to the opening balance sheet, mainly due to the following reasons:

- Reduction from 3.5% to 2.5% of the discount rate used to forecast retirement pension liabilities, which, together with the unfavourable performance of the fund's assets led to an actuarial deviation of Euros 270 million (which does not include the impacts from the 11 February 2015 decision by the Banco de Portugal[1]); and
- Booking of the net loss for the period amounting to Euros 497.6 million.

The Regulatory Capital and RWA's at the end of 2014 resulted in a CET 1 ratio of 9.5%.

Special Regime for Deferred Tax Assets

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

Considering the Special Regime for Deferred Tax Assets, the CET 1 pro-forma ratio is 9.7% as of 31 December 2014.

Loan to BES Angola / Banco Económico

Banco de Portugal's resolution measure determined that the loans granted to BES Angola plus accrued interest, totalling Euros 3,438 million, should be transferred to NOVO BANCO and duly provisioned for.

On 20 October 2014 the Banco Nacional de Angola (the Central Bank of Angola) took a set of decisions aimed at financially healing BES Angola, which impacted NOVO BANCO's loan and entailed the following new operations:

[1] On 11 February 2015, Banco de Portugal Board of Directors, in accrodance with the provisios of paragraph 1of article 145- G and paragraph 2 – a) and b) of article 145- H of the RGICSF determined the following: "a) For purposes of executing Banco de Portugal's resolution, it is hereby clarified that the liabilities of Banco Espírito Santo not transferred to NOVO BANCO under the terms of subparagraph i) of paragraph b) of Point 1 of Annex 2 to Banco de Portugal's Board of Directors resolution of 3 August 2014 (20:00 hours), drafted according to this Board of Directors resolution of 11 August 2014 (17:00 hours) include the Banco Espírito Santo's liabilities for the pension retirement and survival pensions and retirement and survival pension complements of the members of the Board of Directors of Banco Espírito Santo who were members of the Executive Committee and fall under subparagraph i) of paragraph b) of point 1 of Annex 2 of said resolution, as defined by the Corporate Bylaws of Banco Espírito Santo and the Regulations of the General Meeting of Banco Espírito Santo, to which the bylaws refer back to, and therefore were not transferred to NOVO BANCO, without loss to the liabilities arising exclusively from the employment contracts with Banco Espirito Santo. b) NOVO BANCO and Banco Espirito Santo shall adjust their accounting records to the present resolution, taking the execution measures required for its proprer application."

- Loan agreement in the amount of Kwanzas 41,596 million (equivalent to Euros 317 million), with 50% of the loan secured by Angolan Treasury bonds; this loan matures on 30 April 2016;
- Subordinated loan agreement in the amount of Kwanzas 41,595 million (equivalent to Euros 317 million) with reimbursement of principal up to 30 November 2024; and
- Subscription of shares representing 9.7% of the share capital of Banco Económico for the amount of Kwanzas 7,000 million (equivalent to Euros 54 million).

As a result, the remaining amount of the former debt of BES Angola was derecognised against the use of Euros 2,750 million of provisions existing in the opening balance sheet of NOVO BANCO.

• Results and Profitability

NOVO BANCO Group's income statement includes income and costs for the period from 4 August to 31 December 2014.

The performance of NOVO BANCO Group in the first five months of existence was conditioned by the exceptional circumstances that led to its creation and impacted several of its areas of its activity, and also by the Portuguese environment, characterised by sluggish economic activity, high unemployment and interest rates at very low levels.

Income Statement

millions of Euros

	from 4-Aug to 31-Dec-14
Net Interest Income	265.5
+ Fees and Commissions	178.2
= **Commercial Banking Income**	**443.7**
+ Capital Markets and Other Results	339.6
= **Banking Income**	**783.3**
- Operating Costs	355.4
= **Net Operating Income**	**427.9**
Gross Commercial Income	***88.3***
- **Net Provisions**	**699.1**
Credit	378.1
Securities	199.7
Other	121.2
= **Income before Taxes**	**-271.2**
- Income Tax	215.5
- Special Tax on Banks	13.0
= **Income after Taxes**	**-499.6**
- Minorities	-2.0
= **Net Income**	**-497.6**

NOVO BANCO Group's net income for the period was negative in Euros 497.6 million and the following should be highlighted:

- Commercial banking income reached Euros 443.7 million, with a contribution of Euros 265.5 million from net interest income and Euros 178.2 million from fees and commissions;
- Operating costs of Euros 355.4 million which do not reflect entirely the efforts carried out in its reduction;
- Net operating income before provisions and impairments totalled Euros 427.9 million;
- Provisions reached Euros 699.1 million, which together with the impact in tax costs related with the change of the corporate income tax rate applicable in the calculation of the deferred taxes, have pressured the results of NOVO BANCO Group.

Excluding non-recurring items, the net income was negative at Euros 270 million.

Non-Recurrent Results
(net of taxes)

millions of Euros

	from 4-Aug to 31-Dec-14
Reported Net Income	**-497.6**
Income Tax Change [1]	129.4
Impairment on Portugal Telecom / Oi	108.4
Loan impairments	48.7
Losses in companies held for sale	101.3
Liability revaluation	-210.6
Provisions for other assets and contingencies	29.9
Operating costs (includes early retirements)	20.5
"Recurrent" net profit / (loss)	**-270.0**

[1] adjustments in the corporate income tax (IRC) rate from 23% to 21% and in the deferred taxes related to temporary differences to 29%

Net Interest Income

The performance of net interest income was impacted by the historical lows reached by benchmark interest rates and the need to stabilise the customer funding component of the funding activity, allowing the reduction of funding from the ESCB. As a consequence, net interest income increased to Euros 265.5 million, accounting for 34% of banking income. The annualised net interest margin was 1.21%, underpinned by an average interest rate on financial assets of 3.39% and an average rate on liabilities of 2.18%, which compare with an average 3-month Euribor in the same period of 0.09%.

Net Interest Income and Net Interest Margin

millions of Euros

	from 4-Aug to 31-Dec-14		
	Average Balance	**Avg Rate (%)**	**NII**
Interest Earning Assets	53,469	3.39%	745
Customer Loans	41,009	3.38%	570
Money Market	5,525	0.54%	12
Securities and Other Placements	6,936	5.71%	163
Other Non-Interest Earning Assets	-	-	-
Interest Earning Assets & Other	**53,469**	**3.39%**	**745**
Interest Bearing Liabilities	52,149	2.24%	480
Deposits	24,622	1.48%	150
Debt Securities and Other	13,778	5.28%	299
Funds from ECB	11,023	0.26%	12
Other Liabilities	2,726	1.74%	20
Other Non-Interest Earning Liabilities	1,321	-	-
Interest Bearing Liabilities & Other	**53,469**	**2.18%**	**480**
NIM/NII		**1.21%**	**265**
Euribor 3 M - average		**0.09%**	

Customer loans account for 76.7% of the financial assets and have an average annualised rate of 3.38%. As to customer funds, the average balance of deposits was Euros 24.6 thousand million with an average annualised rate of 1.48%, while debt securities and other interest bearing liabilities reached Euros 13.8 thousand million, carrying an average rate of 5.28%.

The fact that benchmark interest rates remains close to zero or are even negative represents an unprecedented challenge to profitability.

Fees and Commissions

In December 2014, i.e. five months after NOVO BANCO Group started to operate, fees and commissions on banking services amounted to Euros 178.2 million. The breakdown of fees and commissions is as follows:

Fees and Commissions

millions of Euros

	from 4-Aug to 31-Dec-14
Collections	3.0
Securities	9.9
Guarantees	22.2
Account Management and payment processing	28.0
Commissions on Loans and other[1]	28.3
Documentary Credit	14.3
Asset Management[2]	29.9
Cards	10.0
Bancassurance	21.8
Advisory, Servicing and Other[3]	10.9
TOTAL	**178.2**

[1] Includes commissions on loans, project finance, export financing and factoring
[2] Includes investment funds and discretionary management
[3] Includes costs State Guarantees

In the activity of NOVO BANCO Group the following should be highlighted:

- Cross selling services - bancassurance and asset management, products placed by the Group's insurance and investment fund management firms in the branch network – these account for nearly one third of total fees and commissions and as from September are showing the positive impact of the gradual consolidation of customer confidence on the NOVO BANCO brand;
- Support services to companies - including guarantees provided, documentary credits, and loan management and similar services (more than 36% of the total);
- Commissions on payment services - cards (Euros 10 million) and payment processing (Euros 28 million), namely cheques, transfers, payment orders, POS and ATMs, and also account management fees.

NOVO BANCO Group considers that the provision of quality services represents one of the most important sources of income, and invests in the launch of innovative products (namely the "Express Bill" service, which combines a credit component with the ensurance of efficient payments management) and permanently seeks to add value to its services as a differentiating factor.

Capital Markets and Other Results

Capital markets and other results were positive in Euros 339.6 million.

Capital Markets and Other Results

millions of Euros

	from 4-Aug to 31-Dec-14
Interest Rate, Credit and FX	**420.5**
Interest Rate	26.5
Liability Revaluation	296.6
Credit	-47.0
FX and Other	144.4
Equity	**-9.1**
Trading	-13.9
Dividends	4.8
Other Results	**-71.8**
Total	**339.6**

The resolution measure was followed by a complex period where liquidity and foreign exchange management were the main concerns of financial management.

The foreign currency positions generated by balance sheet adjustments and the transfer of assets and liabilities to NOVO BANCO required a review of the foreign exchange risk coverage mechanisms, within an environment of low liquidity and restricted access to markets. However, the position in US dollars allowed the Bank to reap the benefits of this currency's appreciation against the Euro, leading to the booking of positive foreign exchange results.

Given the reduction of NOVO BANCO's senior bond yields there was a reduction in the Special Purpose Entities' (SPEs) liabilities included in the consolidated balance sheet, as the assets of those SPEs are essentially composed by bonds issued by the Group.

Other Results include the costs of insurance premiums and the impact of the reclassification of BESI as a discontinued operation following the sale and purchase agreement entered into.

Operating Costs

Reducing operating costs has been a key objective since the Board of Directors took office, and it is set to be pursued into the future. Operating costs during the five months of activity totalled Euros 355.4 million, posting a 12.0% decrease QoQ in the 4Q2014 on a comparable basis.

Operating Costs

millions of Euros

	from 4-Aug to 31-Dec-14
Staff Costs	178.0
General Administrative Costs	139.5
Depreciation	37.9
Total	**355.4**
TOTAL excluding non recurrent costs [1]	**329.5**

[1] Namely costs with early retirements, costs with the Asset Quality Review (AQR) and consulting

In what concerns staff costs, which totalled Euros 178.0 million, it is worth noting that it included Euros 22.0 million in early retirement costs with 53 employees. Since 4 August umtil the end of 2014, NOVO BANCO reduced its payroll by 121 employees on an individual basis, and by 165 at group level. Excluding non recurrent costs, staff costs amounted to Euros 156.4 million.

Staff Costs

millions of Euros

	from 4-Aug to 31-Dec-14
Wages and Salaries	130.7
Pension Costs, Social Security and Other Social Costs	47.3
TOTAL	**178.0**
TOTAL excluding non recurrent costs[1]	**156.4**

[1] Namely costs with early retirements

The general administrative costs, which totalled Euros 139.5 million, are broken down by nature in the table below.

General Administrative Costs

millions of Euros	from 4-Aug to 31-Dec-14
Rentals	18.3
Communication costs	9.3
Travelling and Representation expenses	2.7
Advertising	7.8
Maintenance and Repair	7.8
Transportation of valuables	2.1
IT Services	24.1
Cleaning Services	2.6
Temporary Work	1.7
Legal Costs	8.8
Electronic Payment Systems	3.1
Consulting and Auditing	17.8
Other Services	33.4
Total	**139.5**
TOTAL excluding non recurrent costs (1)	**134.2**

(1) namely costs with the Asset Quality Review (AQR) and consulting

Provisions

Given that the Portuguese and European economies have so far failed to enter a vigorous growth cycle and produce an environment likely to attract investment and reduce unemployment, it has not been possible to reverse the curb of risk indicators and achieve a significant reduction in provision charges.

Provisions

millions of Euros	from 4-Aug to 31-Dec-14
Customer Loans	378.1
Securities	199.7
Non-current assets held for sale	57.7
Other assets and contingencies	63.6
Total	**699.1**

Total impairment costs reached Euros 699.1 million, with the following relevant items:

- Customers Loans - Euros 378.1 million provision charge, impact of the devaluation of certain financial collaterals due to the sharp fall in equity prices, particularly in the domestic market, and to the change of the emergence period (period of time between the occurrence and the observation of the loss event) used in determining the impairment at the loan portfolio basis;
- Securities – in addition to the overall sharp fall of the PSI 20 index, there was the impact from the devaluation of the stakes held in Portugal Telecom and Oi; the NOVO BANCO Group recognised impairments for the entire securities portfolio of Euros 199.7 million;
- Non-current assets held for sale - Euros 57.7 million provision charge; and
- Other assets and contingencies - Euros 63.6 million provision charge.

6.2 Activity and Results of NOVO BANCO on a Individual Basis

- **Activity**

NOVO BANCO's activity from 4 August to 31 December 2014 was developed in the same environment already referred to for the Group.

Despite the challenges brought by the resolution measure, its complexity and extraordinary status, NOVO BANCO was able to recover client confidence and stabilise its funding sources, which was materialised in the positive evolution of deposits.

Deposits increased by Euros 4.4 thousand million in 4th quarter of 2014, offsetting the Euros 3.4 thousand million decrease up to 30 September and leading to an overall increase of Euros 992 million since the creation of the Bank up to 31 December 2014.

Activity Indicators

millions of Euros

	4-Aug-14	30-Sep-14	31-Dec-14	chg. from 4-Aug to 30-Sep-14	4Q14 change
Net Assets	**62,709**	**57,112**	**56,291**	**-5,587**	**-831**
Customer Loans (gross)	**38,092**	**37,719**	**36,269**	**- 373**	**-1,450**
Loans to Individuals	9,590	9,502	9,344	- 88	- 158
- Mortgage	7,800	7,733	7,666	- 67	- 67
- Other Loans to Individuals	1,790	1,769	1,679	- 21	- 90
Corporate Loans	28,501	28,217	26,924	- 284	-1,293
On-Balance Sheet Customer Funds	**28,297**	**24,952**	**29,087**	**-3,345**	**4,135**
- Deposits	26,847	23,472	27,839	-3,375	4,367
- Debt Securities placed with Customers	1,450	1,480	1,248	30	-232

The implementation of the deleveraging plan to reduce the balance sheet led to a 10.2% decrease of the Net Assets from 4 August 2014 to 31 December 2014. At the end of 2014 Net, Assets amounted to Euros 56.3 thousand million.

Regarding the loan portfolio a very strict and selective policy was implemented, without ceasing to support the small and medium-size companies in general and the exporting companies in particular.

Gross customer loans fell by Euros 1.8 thousand million, with reductions seen across all segments, namely in corporate loans, which were reduced by Euros 1.6 thousand million.

In 31 December 2014, overdue loans > 90 days increased to 8.7% while the coverage ratio stood at 165.7% revealing a worsening of the asset quality. Nevertheless the Provisions for Credit / Gross Loans ratio have been improving, staying at 14.5%, a 140 basis points increase from 4 August 2014.

Asset Quality

millions of Euros

	4-Aug-14	31-Dec-14	Change absolute	Change relative
millions of Euros				
Gross Loans	38,092	36,269	-1,823	-4.8%
Overdue Loans	3,056	3,509	453	14.8%
Overdue Loans > 90 days	2,893	3,168	275	9.5%
Provisions for Credit	4,966	5,251	284	5.7%
(%)				
Overdue Loans / Gross Loans	8.0	9.7	1.7 p.p.	
Overdue Loans >90 days / Gross Loans	7.6	8.7	1.1 p.p.	
Coverage of Overdue Loans	162.5	149.7	-12.9 p.p.	
Coverage of Overdue Loans > 90 days	171.6	165.7	-5.9 p.p.	
Provisions for Credit / Gross Loans	13.0	14.5	1.4 p.p.	

- **Results**

NOVO BANCO reported an accumulated net loss between 4 August and 31 December 2014 of Euros 648.6 million. Provision charges (Euros 514.5 million) and operating costs (Euros 309.3 million) were the main contributors for these results offsetting the banking income (Euros 334.3 million).

Income Statement

	Millions of Euros **from 4-Aug to 31-Dec-14**
Net Interest Income	173.6
+ Fees and Comissions	141.4
= **Commercial Banking Income**	**315.0**
+ Capital Markets and Other Results	19.3
= **Banking Income**	**334.3**
- Operating Costs	309.3
= **Net Operating Income**	**25.0**
- Net Provisions	514.5
Credit	409.1
Securities	231.3
Other	-125.9
= **Income before Taxes**	**-489.5**
- Income Tax	146.1
- Special Tax on Banks	13.0
= **Net Income**	**-648.6**

Banking income totalled Euros 334.3 million, with net interest income and fees and commissions weighting 52% and 42% of that figure, respectively. The fact that banking income and operating costs were close impacted the efficiency indicators that recorded values above 90%. Staff costs, amounting to Euros 147.7 million, include Euros 19.8 million related to early retirements, which represent 48% of operating costs.

- ## Activity of the International Branches

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

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

Information on Corporate Governance

A - Qualified holdings in NOVO BANCO's share capital

Qualified holdings in NOVO BANCO's share capital as at 31 December 2014

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

B - Equity holders with special rights

Identification and description of shareholders with special rights

There are no shareholders with special rights.

C - Restrictions on voting rights

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

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

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

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

The members of the Board of Directors are appointed by Banco de Portugal, based on a proposal by the Management Committee of the Resolution Fund ("Comissão Diretiva do Fundo de Resolução") (under the article 145-G, no.11 of the RGISF - Regime Geral das Instituições de Crédito e Sociedades Financeiras and article 8 of Banco de Portugal's Notice no. 13/2012).

The members of the Board of Directors may, at any time, be removed from office by resolution of Banco de Portugal, and the Banco de Portugal will appoint new members of the Borad of Directors under a proposal by the Management Committee of the Resolution Fund,

Under the terms of the law, changes to NOVO BANCO's Bylaws are subject to a resolution of the General Meeting.

Detailed information about the members of the Board of Directors and the Statutory Supervisory Board is presented under point 1. NOVO BANCO.

E - Powers of the Board of Directors

Powers of the Board of Directors, namely regarding share capital increases

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

Accordingly, in addition to normal management powers, under the Articles of Association of NOVO BANCO and the provisions of the Banco de Portugal's Notice no. 13/2012, which regulates transition banks, the Board of Directors is specifically empowered to:

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

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

c) Sell certain assets of NOVO BANCO, S.A., always mindful of their guiding principles and market conditions;

d) Boost operational activity such that business value is preserved;

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

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

The Board of Directors does not have the power to decide on share capital increases.

F - Internal control and risk management systems

Main details of the internal control and risk management systems implemented at the company regarding the procedure for reporting financial information

NOVO BANCO has an internal control system (ICS), which is managed by the Compliance Department. The Compliance Department mission is to manage the ICS efficiently and effectively, monitor the risks and controls, prepare external reports to the supervisory entities and, internal reports to the Board of Directors, to the Statutory Supervisory Board, to the other structures responsible for monitoring the ICS of NOVO BANCO and to the sponsors of the business, support and technological processes.

NOVO BANCO's risk control comprises the management of credit risk, market risk, liquidity risk, interest rate risk, foreign exchange rate risk, operational risk and compliance risk. The Risk Committee, the Credit Risk Monitoring Committee, the Risk Monitoring Group, the Global Risk Department, the Compliance Department and the Internal Audit Department are the main units dedicated to the prevention and control of risks within the activity.

Detailed information on risk management at NOVO BANCO is presented under point 5. Risk Management.

8. Financial Statements

8.1 Consolidated Financial Statements

NOVO BANCO, S.A.
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

thousands of euros

	04.08.2014 (b)	04.08.2014 restated incl. deliberations of 22.12.2014 e 11.02.2015 (a)	31.12.2014
ASSETS			
Cash and deposits at Central Banks	5 401 256	5 401 256	2 747 077
Deposits with banks	673 488	673 488	490 856
Financial assets held for trading	2 258 854	2 258 854	1 062 517
Financial assets at fair value through profit or loss	2 567 297	2 567 297	2 230 388
Available-for-sale financial assets	11 498 253	11 498 253	9 478 469
Loans and advances to banks	1 100 617	1 100 617	1 044 286
Loans and advances to customers	38 569 431	38 569 431	34 929 314
Asstes with repurchase agreement	-	-	-
Held-to-maturity Investments	-	-	-
Hedging derivatives	391 761	391 761	404 582
Non-current assets held for sale	2 399 063	2 399 063	2 747 168
Assets from discontinued operations	-	-	4 209 800
Investment properties	305 493	305 493	297 133
Other tangible assets	427 067	427 067	397 088
Intangible assets	335 938	335 938	253 732
Investment in associates and subsidiaries excl. from consolidation	428 053	428 053	402 289
Current income tax assets	30 137	30 137	29 962
Deferred income tax assets	2 865 379	2 858 194	2 505 608
Technical reserves of reinsurance ceded	9 197	9 197	8 038
Other assets	3 203 952	3 129 175	2 179 173
Debtors from insurance and reinsurance operations	20 890	20 890	1 263
Other	3 183 062	3 108 285	2 177 910
TOTAL ASSETS	**72 465 236**	**72 383 274**	**65 417 480**
LIABILITIES			
Deposits from central banks	13 824 376	13 824 376	8 611 709
Financial liabilities held for trading	1 404 249	1 404 249	1 045 648
Financial liabilities at fair value through profit or loss	-	-	-
Deposits from banks	4 180 247	4 180 247	2 623 864
Due to customers	27 281 015	26 657 915	27 938 053
Debt securities	11 153 571	11 153 571	9 032 956
Financial liabilities to transferred assets	-	-	-
Hedging derivatives	121 187	121 187	104 140
Investment contracts	4 889 337	4 889 337	4 379 442
Non current liabilities held for sale	215 244	215 244	330 903
Liabilities from discontinued operations	-	-	3 072 720
Provisions	567 250	567 250	409 723
Technical reserves	1 705 871	1 705 871	1 461 070
Current tax liabilities	82 898	82 898	34 273
Deferred tax liabilities	80 765	80 765	50 309
Equity Instruments	-	-	-
Other subordinated debt	75 251	75 251	54 794
Other liabilities	1 306 580	1 325 201	858 063
Creditors from insurance and reinsurance operations	24 753	24 753	10 132
Other	1 281 827	1 300 448	847 931
TOTAL LIABILITIES	**66 887 841**	**66 283 362**	**60 007 667**
EQUITY			
Capital	4 900 000	4 900 000	4 900 000
Share premium	-	-	-
Other equity instruments	-	-	-
Treasury stock	-	-	-
Fair value reserve	83 617	83 617	(70 255)
Other reserves and retained earnings	459 869	982 386	948 267
(Loss) / Profit for the period	-	-	(497 645)
Dividends paid	-	-	-
Minority Interests	133 909	133 909	129 446
TOTAL EQUITY	**5 577 395**	**6 099 912**	**5 409 813**
TOTAL LIABILITIES AND EQUITY	**72 465 236**	**72 383 274**	**65 417 480**

a) The opening balance sheet is restated with the resolution by the Board of Directors of the Banco de Portugal dated 22 December 2014, deciding that the liabilities contracted by Banco Espírito Santo to Oak Finance Luxembourg are not transferred to NOVO BANCO (this decision resulted in adjusting the originating reserve, corresponding to a positive change equivalent to Euros 548.3 million) and with the resolution by the Board of Directors of the Banco de Portugal dated 11 February 2015, deciding that the responsabilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo that have been members of its Executive Committee are not transferred to NOVO BANCO (corresponding to a negative change in the originating reserve equivalent to Euros 25.8 million).

b) Opening balance sheet as determined by the resolutions of the Board of Directors of the Banco de Portugal dated 3 and 11 August 2014 communicated by the Banco de Portugal to NOVO BANCO, in accordance with no.7 of article 11 of Notice 13/2012, pursuant to letter NºADM/2014/0121, of 3 December 2014 (as published in www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=752397&fext.=.pdf).

The Chief Accountant

The Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 4 AUGUST TO 31 DECEMBER 2014

	thousand Euros from 4-Aug-14 to 31-Dec-2014
Interest and similar income	781 667
Interest expense and similar charges	(516 207)
Net Interest Income	**265 460**
Dividend income	4 774
Fee and Commission income	225 331
Fee and Commission expense	(56 423)
Net gains from financial assets at fair value through profit or loss	(21 207)
Net gains from available-for-sale financial assets	34 213
Net gains from foreign exchange differences	75 119
Net gains/ (losses) from sale of other assets	5 642
Insurance earned premiums net of reinsurance	17 799
Claims incurred net of reinsurance	(273 706)
Change on the technical provision net of reinsurance	239 264
Other operating income and expense	248 777
Operating Income	**765 043**
Staff costs	(178 055)
General and administrative expenses	(139 496)
Depreciation and amortisation	(37 850)
Provisions impairment net of reversals	35 163
Loans impairment net of reversals	(378 120)
Impairment on other financial assets net of reversals	(262 500)
Impairment on other assets net of reversals	(93 594)
Negative consolidated differences	-
Associate Income and joint ventures (equity method)	5 221
Net Income before income tax and minorities	**(284 188)**
Income tax	
Current tax	(28 885)
Deferred tax	(186 575)
Net Income after taxes and before minorities	**(499 648)**
o.w. : Income after taxes from discontinued operations	143
Income after taxes from operatings being discontinued	(46 612)
Minority Interests	(2 003)
Net Income / (Loss) for the period	**(497 645)**

The Chief Accountant　　　　The Board of Directors

8.2 Separate Financial Statements

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2014

thousands of Euros

	31.12.2014			04.08.2014 restated incl. deliberations of 22.12.2014 and 11.02.2015	04.08.2014
	Amount before provisions, impairment and depreciation	Provisions, impairment and depreciation	Net amount		
ASSETS					
Cash and deposits at Central Banks	2 724 884	-	2 724 884	5 361 395	5 361 395
Deposits with banks	214 258	-	214 258	369 414	369 414
Financial assets held for trading	1 295 491	-	1 295 491	1 274 803	1 274 803
Financial assets at fair value through profit or loss	1 245 882	-	1 245 882	1 541 803	1 541 803
Available-for-sale financial assets	8 389 418	824 748	7 564 670	8 287 546	8 287 546
Loans and advances to banks	2 939 598	108 813	2 830 785	2 598 473	2 598 473
Loans and advances to customers	36 268 522	4 926 735	31 341 787	33 484 839	33 484 839
Held-to-maturity investments	-	-	-	-	-
Assets with repurchase agreements	-	-	-	-	-
Hedging derivatives	405 235	-	405 235	353 090	353 090
Non-current assets held for sale	2 172 925	459 196	1 713 729	1 167 172	1 167 172
Investment properties	-	-	-	-	-
Other tangible assets	1 068 452	763 563	304 889	315 311	315 311
Intangible assets	733 153	633 235	99 918	102 043	102 043
Investments in associates and subsidiaries excl. from consolidation	2 025 538	642 863	1 382 675	1 798 817	1 798 817
Current tax assets	14 928	-	14 928	14 818	14 818
Deferred tax assets	2 532 431	-	2 532 431	2 856 746	2 863 931
Other assets	2 919 591	300 305	2 619 286	3 101 138	3 175 914
TOTAL ASSETS	**64 950 306**	**8 659 458**	**56 290 848**	**62 627 408**	**62 709 369**
LIABILITIES					
Deposits from Central Banks	8 471 659	-	8 471 659	13 472 827	13 472 827
Financial liabilities held for trading	1 078 260	-	1 078 260	1 087 235	1 087 235
Financial liabilities at fair value through profit or loss		-	-	-	-
Deposits from banks	4 347 939	-	4 347 939	5 365 817	5 365 817
Due to customers	27 838 824	-	27 838 824	26 223 970	26 847 070
Debt securities	7 785 141	-	7 785 141	7 927 383	7 927 383
Financial liabilities associated with assets transferred	230 555	-	230 555	271 802	271 802
Hedging derivatives	104 669	-	104 669	83 307	83 307
Non-current liabilities held for sale	-	-	-	-	-
Provisions	825 947	-	825 947	1 265 053	1 265 053
Current tax liabilities	25 537	-	25 537	18 326	18 326
Deferred tax liabilities	77 096	-	77 096	245 080	245 080
Equity instruments	-	-	-	-	-
Other subordinated loans	-	-	-	-	-
Other liabilities	687 540	-	687 540	976 537	974 796
TOTAL LIABILITIES	**51 473 167**	-	**51 473 167**	**56 937 337**	**57 558 696**
EQUITY					
Share Capital	4 900 000	-	4 900 000	4 900 000	4 900 000
Share premium		-	-	-	-
Other equity instruments		-	-	-	-
Treasury stock		-	-	-	-
Fair value reserve	(200 696)	-	(200 696)	-	
Other reserves and retained earnings	766 997	-	766 997	790 071	250 673
(Loss) / Profit for the period	(648 620)	-	(648 620)	-	-
Dividends paid	-	-	-	-	-
TOTAL EQUITY	**4 817 681**	-	**4 817 681**	**5 690 071**	**5 150 673**
TOTAL LIABILITIES AND EQUITY	**56 290 848**	**-**	**56 290 848**	**62 627 408**	**62 709 369**

a) The opening balance sheet is restated with the resolution of the Board of Directors of the Banco de Portugal dated 22 December 2014, deciding that the liabilities contracted by Banco Espírito Santo to Oak Finance Luxembourg are not transferred to NOVO BANCO (this decision resulted in adjusting the originating reserve, corresponding to a positive change equivalent to Euros 548.3 millions) and with the resolution of the Board of Directors of the Banco de Portugal dated 11 February 2015 deciding that the responsabilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo that have been members of its Executive Committee are not transferred to NOVO BANCO (corresponding to a negative change to the originating reserve equivalent to Euros 25.8 millions).

b) Opening balance sheet as determined by the resolutions of the Board of Directors of the Banco de Portugal of 3 and 11 August 2014, communicated by the Banco de Portugal to Novo Banco, in accordance with no.7 of article 11 of Notice 13/2012, pursuant to letter NºADM/2014/0121, of 3 December 2014 (as published in www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=752397&fext=.pdf).

The Chief Accountant — The Board of Directors

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT FOR THE PERIOD 4 AUGUST TO 31 DECEMBER 2014

	thousands of Euros **from 04.08.14 to 31.12.14**
Interest and similar income	639 666
Interest expense and similar charges	466 030
Net interest income	**173 636**
Dividend income	7 474
Fee and commission income	178 534
Fee and commission expense	43 803
Net gains from financial assets at fair value through profit or loss	(29 023)
Net gains from available-for-sale financial assets	22 375
Net gains from foreign exchange differences	32 466
Net gains from sale of other assets	(896)
Other operating income and expense	(19 354)
Operating Income	**321 409**
Staff costs	147 747
General and administrative expenses	126 219
Depreciation and amortisation	35 353
Provisions impairment net of reversals	(369 529)
Loans impairment net of reversals	446 721
Impairment on other financial assets net of reversals	301 237
Impairment on other assets net of reversals	136 078
Net income before income tax	**502 417**
Income tax	**146 203**
Current tax	16 395
Deferred tax	129 808
Net income before income tax	**648 620**
of which: Net income from operations being discontinued	(1 321)

The Chief Accountant

The Board of Directors

9. Final Notes

Declaration of Conformity with the Financial Information Reported

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

(i) the separate financial statements of NOVO BANCO, S.A., for the period from 4 August to 31 December 2014, were prepared in accordance with the Adjusted Accounting Standards (AAS), as defined by Banco de Portugal's Notice no. 1/2005, of 21 February 2005;

(ii) the consolidated financial statements of NOVO BANCO Group, for the period from 4 August to 31 December 2014, were prepared in accordance with International Financial Reporting Standards (IFRS), adopted in the European Union and transposed into Portuguese law by Decree-Law no. 35/2005, of 17 February;

(iii) to the best of their knowledge the financial statements referred to in (i) and (ii) 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 and were approved at the Board of Directors' meeting held on 17 June 2015;

(iv) the management report describes accurately the evolution of the businesses, the performance and financial position of NOVO BANCO and of NOVO BANCO Group for the period from 4 August to 31 December 2014 and includes a description of the main risks and uncertainties faced.

Proposal for the Distribution of NOVO BANCO Results

Under the terms of Article 66 (5-f) and for the purposes of Article 376 (1-b) of the Portuguese Companies Code, and pursuant to Article 11 (2-b)) of the Bank's bylaws, the Board of Directors of NOVO BANCO proposes, for approval by the General Meeting, that the net loss reported in the separate accounts for the period from 4 August to December 2014, in the amount of Euros 648,619,839.68 be allocated to the "Other Reserves and Retained Earnings" caption on the balance sheet.

• Reading Guide to the Sustainability Information

The scope of the sustainability information reported covers all the companies of NOVO BANCO Group. The specific scope covered by each indicator may be found in the Global Reporting Initiative (GRI) Table.

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

This is the first sustainability report of NOVO BANCO, a transition bank created by resolution of the Banco de Portugal on 3 August 2014.
Despite being recently created, NOVO BANCO Group aims to be aligned with the best reporting practices. Therefore it was decided that the first sustainability report should be in accordance with version 4 of the GRI (GRI 4 "Core"). The GRI4 version helped NOVO BANCO to focus on the communication (social, environmental and economic) considered more relevant to the business and its stakeholders over the period of five months in 2014.

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

Structure of the Sustainability Report

NOVO BANCO Group's sustainability information reporting structure was defined in accordance with the relevance of the various themes, based on a set of values announced by the Board of Directors that should guide NOVO BANCO - the 10 commandments. This report therefore addresses NOVO BANCO's treatment of all the items considered material during this period, with all others considered non-material, being addressed in the GRI Table and in the website. All these documents, as well as more information on sustainability are available at www.novobanco.pt.

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

Material Issues	NOVO BANCO Commandment	Correspondence with GRI4 Material Issues	NOVO BANCO Report	Pages
Customer satisfaction	Commandment 1 and 8 Client and Efficiency	• Labelling of Products and Services	Corporative Responsibility • Clients	49
Financial inclusion of people and companies	Commandment 1,5, 6, 8 Clients, Leadership, Strength, Efficiency	• Indirect Economic Impacts • Portfolio of Products	• Savings Products • Microcredit • Environmental Products and Services	22 23 25
Human Capital development	Commandment 3 and 10 The Team, Pride and Belonging	• Employment • Training and Education • Diversity and Equal Opportunity	Corporative Responsibility • Employees	38
Ethics and Integrity in the relationship with stakeholders	Commandment 2 Ethics and Responsibility	• Ethics and Integrity • Involvement with Stakeholders • Non-discrimination • Combating Corruption	Corporative Responsibility • Involvement with the Stakeholders • Employees • Suppliers • Code of Conduct and Money Laundering	38 38 51 46 e 48
Responsible management / monitoring of suppliers	Commandment 6 Strength	• Procurement Practices • Environmental Assessment of Suppliers • Assessment of Suppliers' Labour Practices • Assessment of Suppliers' Human Rights • Assessment of Suppliers' Impacts on the Community	Corporative Responsibility • Suppliers	51
Product and services Innovation	Commandment 1 and 8 Client and Efficiency		• Support to Innovation	28
Eco-efficiency in the bank's branches, buildings and operations	Commandment 7 Objectivity	• Materials • Energy • Water • Emissions • Effluents and wastes	Corporative Responsibility • Environmental Footprint	54
Corporative citizenship and philanthropy (Community Support)	Commandment 1 and 10 Client and Pride and Belonging	• Local Communities • Portfolio of products	• Social Responsibility	57

Contacts for additional information on Sustainability:

Sustainability Office:
Paulo Tomé (email: paulo.tome@novobanco.pt)
Cláudia Sousa (email: claudia.arenga.sousa@novobanco.pt)

Note of Recognition

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

Lisbon, 17 June 2015

The Board of Directors

Eduardo José Stock da Cunha

Jorge Telmo Maria Freire Cardoso

Vítor Manuel Lopes Fernandes

José João Guilherme

Francisco Ravara Cary

Francisco Marques da Cruz Vieira da Cruz

II. FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

NOVO BANCO GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 4 AUGUST 2014 TO 31 DECEMBER 2014

(in thousands of Euros

	Notes	31.12.2014
Interest and similar income	5	781 667
Interest expense and similar charges	5	(516 207)
Net interest income		**265 460**
Dividend income		4 774
Fee and commission income	6	225 331
Fee and commission expenses	6	(56 423)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(21 207)
Net gains / (losses) from available-for-sale financial assets	8	34 213
Net gains / (losses) from foreign exchange differences	9	75 119
Net gains/ (losses) from the sale of other assets	10	5 642
Insurance earned premiums, net of reinsurance	11	17 799
Claims incurred, net of reinsurance	12	(273 706)
Change in technical reserves, net of reinsurance	13	239 264
Other operating income and expenses	14	295 246
Operating income		**811 512**
Staff costs	15	(178 055)
General and administrative expenses	17	(139 496)
Depreciation and amortisation	29 and 30	(37 850)
Provisions, net of reversals	39	35 163
Impairment losses on loans, net of reversals and recoveries	25	(378 120)
Impairment losses on other financial assets, net of reversals and recoveries	23 and 24	(262 500)
Impairment losses on other assets, net of reversals and recoveries	27, 30, 31 and 33	(93 594)
Operating expenses		**(1 054 452)**
Results from associated companies consolidated by the equity method	31	5 221
Profit / (loss) before income tax and non-controlling interests		**(237 719)**
Income tax		
Current tax	40	(28 885)
Deferred tax	40	(186 575)
		(215 460)
Profit / (loss) from continuing operations		**(453 179)**
Profit / (loss) from discontinued operations	27	143
Profit / (loss) from operations being discontinued	53	(46 612)
Net profit / (loss) for the period		**(499 648)**
Attributable to shareholders of the Bank		**(497 645)**
Attributable to non-controlling interests	44	**(2 003)**
		(499 648)
Basic earnings per share (in Euros)	18	(0,10)
Diluted earnings per share (in Euros)	18	(0,10)
Basic earnings per share from continuing activities (in Euros)	18	(0,09)
Diluted earnings per share from continuing activities (in Euros)	18	(0,09)

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

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 4 AUGUST 2014 TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2014
Net profit / (loss) for the period		
Attributable to equity holders of the Bank		(497 645)
Attributable to non-controlling interests	44	(2 003)
		(499 648)
Other comprehensive income / (loss) for the period		
Items that will not be reclassified to results		
Re-measurement of defined benefit plans	16	(249 552)
Tax on income from defined benefit plans	a)	156
		(249 396)
Items that may be reclassified to results		
Foreign exchange differences	a)	(7 564)
Taxes on foreign exchange differences	a)	(5 231)
Other comprehensive income from associated companies	a)	5
		(12 790)
Available-for-sale financial assets		
Potential gains and losses in the period	44	357 421
Gains and losses included in profit and loss for the period	44	(233 956)
Deferred taxes	44	(27 941)
		95 524
Total other comprehensive income / (loss) for the period		**(166 662)**
Total comprehensive income / (loss) for the period		**(666 310)**
Attributable to shareholders of the Bank		**(664 307)**
Attributable to non-controlling interests		**(2 003)**
		(666 310)

a) See Consolidated Statement of Changes in Equity

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

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET
AS AT 4 AUGUST 2014 AND AS AT 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2014	04.08.2014 restated with resolutions of 22.12.2014 and 11.02.2015 (a)	04.08.2014 (b)
Assets				
Cash and deposits with Central Banks	19	2 747 077	5 401 256	5 401 256
Deposits with banks	20	490 856	673 488	673 488
Financial assets held for trading	21	1 062 517	2 258 854	2 258 854
Other financial assets at fair value through profit or loss	22	2 230 388	2 567 297	2 567 297
Available-for-sale financial assets	23	9 478 469	11 498 253	11 498 253
Loans and advances to banks	24	1 044 286	1 100 617	1 100 617
Loans and advances to customers	25	34 929 314	38 569 431	38 569 431
Derivatives held for risk management purposes	26	404 582	391 761	391 761
Non-current assets held for sale	27	2 747 168	2 399 063	2 399 063
Assets from discontinued operations	53	4 209 800	-	-
Investment properties	28	297 133	305 493	305 493
Other tangible assets	29	397 088	427 067	427 067
Intangible assets	30	253 732	335 938	335 938
Investments in associated companies	31	402 289	428 053	428 053
Current tax assets	40	29 962	30 137	30 137
Deferred tax assets	40	2 505 608	2 858 194	2 865 379
Technical reserves of reinsurance ceded	32	8 038	9 197	9 197
Other assets	33	2 179 173	3 129 175	3 203 952
Debtors for direct and indirect insurance		1 263	20 890	20 890
Other assets		2 177 910	3 108 285	3 183 062
Total Assets		**65 417 480**	**72 383 274**	**72 465 236**
Liabilities				
Deposits from Central Banks	34	8 611 709	13 824 376	13 824 376
Financial liabilities held for trading	21	1 045 648	1 404 249	1 404 249
Deposits from banks	35	2 623 864	4 180 247	4 180 247
Due to customers	36	27 938 053	26 657 915	27 281 015
Debt securities issued	37	9 032 956	11 153 571	11 153 571
Derivatives held for risk management purposes	26	104 140	121 187	121 187
Investment contracts	38	4 379 442	4 889 337	4 889 337
Non-current liabilities held for sale	27	330 903	215 244	215 244
Liabilities from discontinued operations	53	3 072 720	-	-
Provisions	39	409 723	567 250	567 250
Technical reserves	32	1 461 070	1 705 871	1 705 871
Current tax liabilities	40	34 273	82 898	82 898
Deferred tax liabilities	40	50 309	80 765	80 765
Subordinated debt	41	54 794	75 251	75 251
Other liabilities	42	858 063	1 325 201	1 306 580
Creditors for direct and indirect insurance		10 132	24 753	24 753
Other liabilities		847 931	1 300 448	1 281 827
Total Liabilities		**60 007 667**	**66 283 362**	**66 887 841**
Equity				
Share capital	43	4 900 000	4 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income / (loss)	44	878 012	1 066 003	543 486
Profit / (loss) for the period attributable to shareholders of the Bank		(497 645)	-	-
Total Equity attributable to shareholders of the Bank		**5 280 367**	**5 966 003**	**5 443 486**
Non-controlling interests	44	129 446	133 909	133 909
Total Equity		**5 409 813**	**6 099 912**	**5 577 395**
Total Liabilities and Equity		**65 417 480**	**72 383 274**	**72 465 236**

a) The opening balance sheet is restated with the resolution by the Board of Directors of the Banco de Portugal dated 22 December 2014, deciding that the liabilities contracted by Banco Espírito Santo to Oak Finance Luxembourg are not transferred to NOVO BANCO (this decision resulted in adjusting the originating reserve, corresponding to a positive change equivalent to Euros 548.3 million) and with the resolution by the Board of Directors of the Banco de Portugal dated 11 February 2015, deciding that the responsabilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo that have been members of its Executive Committee are not transferred to NOVO BANCO (corresponding to a negative change to the originating reserve of Euros 25.8 million).

b) Opening balance sheet as determined by the resolutions of the Board of Directors of the Banco de Portugal dated 3 and 11 August 2014, communicated by the Banco de Portugal to Novo Banco, in accordance with no. 7 of article 11 of Notice 13/2012, pursuant to letter NºADM/2014/0121, of 3 December 2014 (as published on www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=752398&fext=.pdf)

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

NOVO BANCO GROUP

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
FOR THE PERIOD 4 AUGUST 2014 TO 31 DECEMBER 2014

(in thousands of Euros)

	Share capital	Reserves, Retained earnings and Other comprehensive income / (losses)			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 / (losses)	Total				
Balance as at 4 August 2014	**4 900 000**	**99 130**	**444 356**	**543 486**	**-**	**5 443 486**	**133 909**	**5 577 395**
Impact of restatement	-	-	522 517	522 517	-	522 517	-	522 517
Balance as at 4 August 2014 (restated)	**4 900 000**	**99 130**	**966 873**	**1 066 003**	**-**	**5 966 003**	**133 909**	**6 099 912**
Other comprehensive income / (loss)								
Changes in fair value, net of tax	-	95 524	-	95 524	-	95 524	-	95 524
Remeasurement of defined benefit plans, net of tax	-	-	(249 396)	(249 396)	-	(249 396)	-	(249 396)
Other comprehensive income appropriated from associated companies	-	-	5	5	-	5	-	5
Foreign exchange differences, net of tax **(a)**	-	-	(12 795)	(12 795)	-	(12 795)	-	(12 795)
Net profit / (loss) for the period	-	-	-	-	(497 645)	(497 645)	(2 003)	(499 648)
Total comprehensive income / (loss) for the period	**-**	**95 524**	**(262 186)**	**(166 662)**	**(497 645)**	**(664 307)**	**(2 003)**	**(666 310)**
Adjustments to the original reserve **(b)**			(16 715)	(16 715)	-	(16 715)	-	(16 715)
Other movements	-	-	(1 210)	(1 210)	-	(1 210)	-	(1 210)
Other changes in non-controlling interests (see Note 44)	-	-	(3 404)	(3 404)	-	(3 404)	(2 460)	(5 864)
Balance as at 31 December 2014	**4 900 000**	**194 654**	**683 358**	**878 012**	**(497 645)**	**5 280 367**	**129 446**	**5 409 813**

(a) Includes differnces from the foreign exchange conversion of hyperinflationary economies

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

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

NOVO BANCO GROUP

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2014
Cash flows from operating activities		
Interest and similar income received		986 709
Interest expense and similar charges paid		(534 303)
Fees and commission received		225 427
Fees and commission paid		(60 412)
Insurance premiums		(262 427)
Recoveries on loans previously written off		6 871
Contributions to pension fund		(380 913)
Cash payments to employees and suppliers		(302 815)
		(321 863)
Changes in operating assets and liabilities:		
Deposits with / from Central Banks		(5 087 115)
Financial assets at fair value through profit or loss		27 578
Acquisition of available-for-sale financial assets		(12 688 760)
Sale of available-for-sale financial assets		14 268 790
Issued insurance investment contracts		(420 062)
Loans and advances to banks		(863 850)
Deposits from banks		(153 496)
Loans and advances to customers		1 468 019
Due to customers		2 383 896
Derivatives held for risk management purposes		(19 613)
Other operating assets and liabilities		(137 335)
Net cash from operating activities before corporate income tax		**(1 543 811)**
Corporate income taxes paid		(150 550)
Net cash from operating activities		**(1 694 361)**
Cash flows from investing activities		
Investments in subsidiaries and associated companies	1	(2 637)
Dividends received		4 774
Acquisition of tangible and intangible assets and investment properties		(26 157)
Sale of tangible and intangible assets and investment properties		1 568
Net cash from investing activities		**(22 452)**
Cash flows from financing activities		
Bonds and other debt securities paid		(1 177 501)
Subordinated debt paid		(1 292)
Net cash from financing activities		**(1 178 793)**
Net changes in cash and cash equivalents [(1)]		**(2 895 606)**
Cash and cash equivalent at beginning of period		**5 725 625**
Effect of changes in consolidation perimeter	53	(50 547)
Effect of exchange rate changes on cash and cash equivalents		189 572
Net changes in cash and cash equivalents		(2 895 606)
Cash and cash equivalent at end of period		**2 969 044**
Cash and cash equivalent include:		
Cash	19	186 604
Deposits with Central Banks	19	2 560 473
(of which, Restricted balances)		(268 889)
Deposits with banks	20	490 856
Total		**2 969 044**

[(1)] This amount already includes Euros 4 815 million relating to the capital increase realized in cash at the bank's constitution. The remaining capital (EUR 85 million) to make up the total of EUR 4 900 million was made on 6 August 2014.

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

NOVO BANCO Group

Notes to the Consolidated Financial Statements as at 31 December 2014

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

As determined by Point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolutionby the same Board of Directors of 11 August (5 p.m.), [hereafter “resolution of Banco de Portugal of 3 August 2014”], under the terms and for the purposes of article 145º-H/1 of the RGICSF, the assets, liabilities, off-balance-sheet items and assets under management of Banco Espírito Santo, S.A. were transferred to NOVO BANCO, S.A., as per the criteria established in Annex 2 to said resolution:

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

1. *Assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, SA (BES), registered in the accounting records, are transferred to NOVO BANCO, SA, according to the following criteria:*

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

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

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

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

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

(v) All credit claims on Espírito Santo International and its shareholders, the shareholders of Espírito Santo Control, entities under a control or group relationship, as provided under article 21 of the Portuguese Securities Code, with Espírito Santo International, and credit claims on entities under

[1] The references made to the RGICSF refer to the version in force at the date of the resolution measure and on 31 December 2014. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23/4 2015, of 26 March, that came into force on the day following its publication.

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

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

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

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

(ii) Obligations contracted with entities included within the Espírito Santo Group that constitute subordinated claims under the terms of articles 48 and 49 of the Insolvency and Corporate Recovery Code, except for the entities of BES Group whose responsibilities to BES were transferred to NOVO BANCO, without prejudice, with regard to this last entity, to the exception foreseen in sub-paragraph (v);

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

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

(v) Any liability or contingency, namely those resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations;

(vi) Any liability or contingency of BES related to shares, instruments or contracts from which result subordinated credits to BES;

(vii) Any obligations, guarantees, liabilities or contingencies related to the trading, financial intermediation and distribution of debt instruments issued by entities integrating the Espírito Santo Group, without prejudice to any unsubordinated loans arising from contractual terms prior to 30 June 2014, provided that such terms can be evidenced through documents registered in BES's archives, in terms that allow the control and verification of the decisions taken.

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

(d) *All the other off-balance-sheet items of BES will be transferred in full to NOVO BANCO, SA, except those related to Banco Espírito Santo Angola, S.A., Espírito Santo Bank (Miami) and Aman Bank (Libya);*

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

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

(g) *Any guarantee related to any obligation transferred to NOVO BANCO, S.A. is also transferred to NOVO BANCO, S.A. Any guarantee related to any obligation that is not transferred to NOVO BANCO, S.A. will not be transferred to NOVO BANCO, S.A. either.*

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

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

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

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

6. Based on this valuation, the capital requirements for NOVO BANCO, SA, are calculated to be 4900 million of Euros.

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

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

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

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

As a transition bank, NOVO BANCO has a limited duration (article 145-G/12 of the RGICSF). According to the commitments undertaken by the Portuguese State before the European Commission, NOVO BANCO must be sold within a maximum period of two years.

Under Article 153-B of the RGICSF, the Resolution Fund is the sole holder of the share capital of NOVO BANCO, S.A., which is represented by 4900 million registered shares with nominal value of EUR 1 per share, totalling 4900 million of Euros.

NOVO BANCO S.A. has its registered office in Lisbon, at Avenida da Liberdade, nº195.

The NOVO BANCO Group (hereinafter referred to as “Group” or “NB Group”) has a retail network comprising 675 branches in Portugal and abroad, including branches in London, Spain, New York, Nassau, the Cayman Islands, Cape Verde, Venezuela and Luxembourg, a offshore branch in the Madeira Free Trade Zone and 8 representative offices overseas.

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, are as follows.

a) Subsidiaries directly consolidated in NOVO BANCO:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial banking		
GNB - Companhia de Seguros Vida, SA (GNB VIDA)	1993	2006	Portugal	Insurance	100,00%	Full consolidation
Banque Espírito Santo et de la Vénétie, SA (ES Vénétie)	1927	1993	France	Commercial banking	87,50%	Full consolidation
Avistar, SGPS, SA	2009	2009	Portugal	Management of shareholdings	100,00%	Full consolidation
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100,00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	95,00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services	100,00%	Full consolidation
Novo Banco dos Açores, SA (NBA)	2002	2002	Portugal	Commercial banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Home banking	75,00%	Full consolidation
BES África, SGPS, SA	2009	2009	Portugal	Management of shareholdings	100,00%	Full consolidation
Novo Banco Ásia, SA (NB ÁSIA)	1996	1996	Macao	Commercial banking	99,75%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Management of shareholdings	100,00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100,00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Management of real estate investments	100,00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank financing	99,99%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Management of shareholdings	89,99%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Management of shareholdings	100,00%	Full consolidation
Banco Espírito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Commercial paper issuance	100,00%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Pref. shares & other securities issuance	100,00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt collection	99,15%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Management of shareholdings	71,66%	Full consolidation
Espírito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services	82,28%	Full consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services	88,26%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	1995	1995	Portugal	Services	100,00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	1991	2000	Portugal	Real estate trading	81,00%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	65,97%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	60,81%	Full consolidation
Fundo de Capital de Risco - BES PME Capital Growth	2009	2009	Portugal	Venture capital fund	100,00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56,78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100,00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	97,42%	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 Imobiliáro Fechado	2006	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	95,86%	Full consolidation
Espírito Santo Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	77,54%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10,00% a)	Full consolidation
OBLOG Consulting, SA	1993	1993	Portugal	IT services	66,63%	Full consolidation
GNB - Companhia de Seguros, SA (GNB SEGUROS)	1996	1996	Portugal	Insurance	25,00%	Equity method
ESEGUR - Espírito Santo Segurança, SA (ESEGUR)	1994	2004	Portugal	Private security services	44,00%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	50,00% c)	Equity method
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20,00%	Equity method
Nanium, SA	1996	2010	Portugal	Semiconductor production	41,06%	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	2010	2010	Portugal	Motorway concessionaire	18,57% b)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non-bank financing	17,50% b)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35,00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services	50,00% c)	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of shareholdings	22,52%	Equity method

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

b) Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Management of shareholdings**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
BES África, SGPS, SA (BES ÁFRICA)	**2006**	**2006**	**Portugal**	**Management of shareholdings**	**100.00%**	**Full consolidation**
Banco Internacional de Cabo Verde, SA	2010	2010	Cape Verde	Commercial banking	100.00%	Full consolidation
Moza Banco, SA	2008	2010	Mozambique	Commercial banking	49.00%	Equity method
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	**1992**	**1992**	**Portugal**	**Management of shareholdings**	**89.99%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	89.99%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	89.81%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	89.99%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	89.99%	Full consolidation
Capital Mais - Assessoria Financeira, SA	1998	1998	Portugal	Advisory services	89.99%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	44.10%	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	89.99%	Full consolidation
GNB - Participações Internacionais, SGPS, SA	1996	1996	Portugal	Management of shareholdings	89.99%	Full consolidation
BESAACTIF - Sociedade Gestora de Fundos de Investimento, SA	2008	2008	Angola	Investment fund management	31.50%	Equity method
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Pension fund management	31.50%	Equity method
Novo Activos Financieros, SA	**1988**	**2000**	**Spain**	**Asset management**	**95.00%**	**Full consolidation**
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	95.00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	95.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Management of shareholdings**	**100.00%**	**Full consolidation**
ES Ventures - Sociedade de Capital de Risco, SA	2005	2005	Portugal	Venture capital fund	100.00%	Full consolidation
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
FCR Espírito Santo Ventures Inovação e Internacionalização	2011	2011	Portugal	Venture capital fund	50.00%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20.00%	Equity method
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call center management	41.67%	Equity method
Fundo de Capital de Risco - ES Ventures II	**2006**	**2006**	**Portugal**	**Venture capital fund**	**65.97%**	**Full consolidation**
Atlantic Ventures Corporation	2006	2006	USA	Management of shareholdings	65.97%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Management of shareholdings	25.79%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Management of shareholdings	29.46%	Equity method
Outsystems, SA	2007	2007	Portugal	Information technologies	19.32% b)	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	Information technologies	21.35%	Equity method
Multiwave Photonics, SA	2003	2008	Portugal	Information technologies	13.69% b)	Equity method
Bio-Genesis	2007	2007	Brazil	Management of shareholdings	19.74% b)	Equity method
YDreams - Informática, SA	2000	2009	Portugal	Information technologies	31.66%	Equity method
Fundo de Capital de Risco - BES PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100.00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100.00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Management of shareholdings	100.00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**60.81%**	**Full consolidation**
Nutrigreen, SA	2007	2009	Portugal	Services	12.16% b)	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and disposal of inert waste	24.32%	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Rubber recycling	21.83%	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	Information technologies	17.88% b)	Equity method
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56.78%**	**Full consolidation**
Enkrott SA	2006	2006	Portugal	Water treatment and management	17.03% b)	Equity method
Palexpo - Espaços à Sua Medida, SA	2009	2009	Portugal	Furniture manufacturing	28.10%	Equity method
Otherlog, SA	2014	2014	Portugal	Logistics	18.82% b)	Equity method

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
GNB - Companhia de Seguros Vida, SA (GNB VIDA)	**1993**	**2006**	**Portugal**	**Insurance**	**100.00%**	**Full consolidation**
Caravela Defensive Fund	2006	2012	Luxembourg	Investment fund	100.00%	Full consolidation
Caravela Balanced Fund	2006	2012	Luxembourg	Investment fund	54.95%	Full consolidation
ES Short Bond	2014	2014	Luxembourg	Investment fund	73.38%	Full consolidation
ES Plano Dinâmico	2008	2012	Portugal	Investment fund	97.49%	Full consolidation
ES Arrendamento	2009	2012	Portugal	Investment fund	100.00%	Full consolidation
Orey Reabilitação Urbana	2006	2012	Portugal	Investment fund	77.32%	Full consolidation
Fimes Oriente	2004	2012	Portugal	Investment fund	100.00%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Management of shareholdings**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV	2010	2010	Holland	Management of shareholdings	71.66%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Parking lot exploration	15.92% b)	Equity method
Esconcessions Spain Holding BV	2013	2013	Holland	Management of shareholdings	71.66%	Full consolidation
Auvisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concessionaire	35.83%	Equity method
Ascendi Group SGPS, SA	2010	2010	Portugal	Management of shareholdings	28.66%	Equity method
Banque Espírito Santo et de la Vénétie, SA (ES Vénétie)	**1927**	**1993**	**France**	**Commercial banking**	**87.50%**	**Full consolidation**
BESV Courtage, SA	1975	1975	France	Investment company	87.50%	Full consolidation
AOC Patrimoine, SAS	2006	2013	France	Asset management	87.50%	Full consolidation
Marignan Gestion, SA	1986	2009	France	Asset management	87.50%	Full consolidation
Société Lyonnaise de Marchands de Biens	1993	2002	France	Real estate fund management	87.43%	Full consolidation
Société Civile Immobilière du 45 Avenue Georges Mandel	1995	1995	France	Real estate fund management	90.31%	Full consolidation
Groupe CFCA, SAS	1998	2010	France	Management of shareholdings	26.21%	Equity method

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

Additionally, considering the requirements of IFRS 10, the Group's consolidation perimeter includes the following structured entities:

	Year incorporated	Year acquired	Registered office	Shareholding %	Consolidation method
Lusitano SME No.1 plc (*)	2006	2006	Ireland	100%	Full consolidation
Lusitano Mortgages No. 6 Limited (*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full consolidation
Lusitano Mortgages No. 7 Limited (*)	2008	2008	Ireland	100%	Full consolidation
Lusitano Leverage Finance No. 1 BV (*)	2010	2010	Holland	97.60%	Full consolidation
Lusitano Finance No. 3 (*)	2011	2011	Portugal	100%	Full consolidation

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

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

(in thousands of Euros)

	31.12.2014	04.08.2014
Cash and deposits with banks	128 811	113 353
Loans and advances to customers (net of impairment losses)	2 679 730	2 800 223
Debt securities issued	535 265	559 237

Additionally, in the scope of the subscription of financial instruments by customers, NOVO BANCO, as required by IFRS 10, consolidated three entities (Euro Aforro, Top Renda, Poupança Plus), whose assets were essentially debt securities (also designated as 'bonds' elsewhere in this document) issued by BES (the predecessor of NOVO BANCO). In this process, the liabilities of NOVO BANCO for debt securities issued were extinguished, and the funds obtained from the clients were booked in Due to customers. The impact of the consolidation of these vehicles is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Cash and deposits with banks	2 223	2 129
Financial assets held for trading	(32 854)	(32 854)
Deferred tax assets	56 325	142 610
Due to customers	441 984	758 753
Debt securities issued	(278 391)	(276 055)
Other provisions	73 638	74 719
Other reserves and retained earnings	(415 532)	(415 532)
Net (profit) / loss for the period	203 995	-

The net loss for the period of Euros 204.0 million includes Euros 296.6 million (not taking taxes into account) related to the revaluation of liabilities (see Note 14 and 36).

Furthermore, a 4th vehicle was identified with a value of approximately Euros 77 million, however considering that at this date there is no information on this vehicle it was fully provided.

During the period from 4 August to 31 December 2014, the main changes in the structure of NOVO BANCO Group were as follows:

- Subsidiaries

- In November 2014, the company Mandel Partners, SCA was liquidated;
- At the beginning of December 2014, NOVO BANCO has agreed with Haitong International Holdings Limited, a contract to sell 100% of its stake in its subsidiary Banco Espírito Santo de Investimento, SA (BESI) that resulted in BESI ceased being consolidated under the full consolidation method and instead was classified, under IFRS 5, as an discontinued operation(see Note 53).

- Associated companies

- In November 2014, Otherlog, S.A. was incorporated, with the Fund FCR PME NOVO BANCO realising 33.15% of its share capital in an amount of Euros 887 thousand.

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

(in thousands of Euros)

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

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

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

At the beginning of December 2014, NOVO BANCO agreed with Haitong International Holdings Limited, a contract selling 100% of its stake in its subsidiary Banco Espírito Santo de Investimento, SA (BESI), resulted in BESI ceased being consolidated under the full consolidation method and instead was classified, under IFRS 5, as an discontinued operation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

In accordance with Regulation (EC) no. 1606/2002, of 19 July 2002, of the European Council and Parliament and Notice no. 1/2005 of Banco de Portugal, the consolidated financial statements of NOVO BANCO, S.A. (the Bank or NB) are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), effective as at 31 December 2014.

The IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and by their predecessor bodies.

These consolidated financial statements of NOVO BANCO are presented as at 31 December 2014, with the results covering the period from 4 August to 31 December 2014. The results generated by the subsidiaries and associated companies between 1 January and 3 August 2014 are presented as Reserves. The accounting policies used by the Group in the preparation are consistent with those used in the preparation of the opening Balance Sheet as at 4 August 2014.

However, and as described in Note 54, the Group adopted in the preparation of the consolidated financial statements as at 31 December 2014, the accounting policies issued by IASB and the IFRIC interpretations mandatory as from 1 January 2014. The accounting policies used by the Group in the preparation of the consolidated financial statements, described in this note, were adopted in conformity.

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

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

The preparation of financial statements in conformity with IFRS requires that the Group make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences in the assumptions and the actual situation may impact the current estimates and judgements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are analysed in Note 3.

The consolidated financial statements and the Management report as at 31 December 2014 were approved at the Board of Directors' meeting held on 17 June 2015, and are to be submitted for approval at the Annual Shareholders General Meeting, that has the power to change them. However, it is the Board of Director's conviction that these will be approved without significant changes.

In the following Notes relating to balance sheet balances, the comparative information presented reflects the re-expressed opening balance sheet as of 4 August 2014.

The reconciliation between (i) the opening balance sheet published on 3 December 2014 incorporating the deliberation by the Board of Directors of the Banco de Portugal dated 3 August 2014 communicated by the Banco de Portugal to NOVO BANCO, in accordance with no. 7 of article 11 of Notice 13/2012, (as released www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=752397&fext.=.pdf) and (ii) the initial balance sheet re-expressed with the resolution of the Board of Directors of the Banco de Portugal on 22 December 2014 (that determined that the responsibility contracted by BES to Oak Finance Luxembourg was not transferred to NOVO BANCO, resulting to an adjustment of the originating reserve, in a positive amount of Euros 548.3 million) and with the resolution dated 11 February 2015 by the Board of Directors of the Banco de Portugal, under the provisions of articles 145-G, no. 1, and 145-H, no. 2, paragraphs a) and b), of the RGICSF which deliberated as follows:

"a) For purposes of executing the resolution of the Banco de Portugal, it is hereby clarified that the liabilities of Banco Espírito Santo not transferred to NOVO BANCO under the terms of subparagraph i) of paragraph b) of point 1 of Appendix 2 to Banco de Portugal`s Board of Directors resolution of 3 August 2014 (8 p.m.), drafted according to this Board of Directors resolution of 11 August 2014 (5 p.m.) include the responsibilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival *pensions of the Directors of Banco Espírito Santo that have been members of its Executive Committee and who are covered by subparagraph i) of paragraph b) of point 1 of Appendix 2 of the same resolution, as defined by the Articles of Association of Banco Espírito Santo and in the Regulations governing the General Meeting of Banco Espírito Santo to which said Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with Banco Espírito Santo.*

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

The impact of the 11 February 2015 decision of the Banco de Portugal is reflected in the balance sheet of the NOVO BANCO Group. However, to date, the ASF has not yet formalised its approval, for which reason the amounts recorded may still be subject to future corrections as a result of the final decision of the ASF (see Note 16).

GRUPO NOVO BANCO

CONSOLIDATED BALANCE SHEET AS AT 4 AUGUST 2014

(in thousands of Euros)

	Published on 03.12.2014	Resolution of 22.12.2014	Resolution of 11.02.2015	Restated with resolution of 22.12.2014 and of 11.02.2015
Assets				
Cash and deposits with Central Banks	5 401 256	-	-	5 401 256
Deposits with banks	673 488	-	-	673 488
Financial assets held for trading	2 258 854	-	-	2 258 854
Other financial assets at fair value through profit or loss	2 567 297	-	-	2 567 297
Available-for-sale financial assets	11 498 253	-	-	11 498 253
Loans and advances to banks	1 100 617	-	-	1 100 617
Loans and advances to customers	38 569 431	-	-	38 569 431
Derivatives held for risk management purposes	391 761	-	-	391 761
Non-current assets held for sale	2 399 063	-	-	2 399 063
Assets of units being discontinued	-	-	-	-
Investment properties	305 493	-	-	305 493
Other tangible assets	427 067	-	-	427 067
Intangible assets	335 938	-	-	335 938
Investments in associated companies	428 053	-	-	428 053
Current tax assets	30 137	-	-	30 137
Deferred tax assets	2 865 379	-	(7 185)	2 858 194
Technical reserves of reinsurance ceded	9 197	-	-	9 197
Other assets	3 203 952	(74 777)		3 129 175
Debtors for direct and indirect insurance	20 890	-	-	20 890
Other assets	3 183 062	(74 777) (a)		3 108 285
Total Assets	**72 465 236**	**(74 777)**	**(7 185)**	**72 383 274**
Liabilities				
Deposits from Central Banks	13 824 376	-	-	13 824 376
Financial liabilities held for trading	1 404 249	-	-	1 404 249
Deposits from banks	4 180 247	-	-	4 180 247
Due to customers	27 281 015	(623 100)	-	26 657 915
Debt securities issued	11 153 571	-	-	11 153 571
Derivatives held for risk management purposes	121 187	-	-	121 187
Investment contracts	4 889 337	-	-	4 889 337
Non-current liabilities held for sale	215 244	-	-	215 244
Liabilities of units being discontinued	-	-	-	-
Provisions	567 250	-	-	567 250
Technical reserves	1 705 871	-	-	1 705 871
Current tax liabilities	82 898	-	-	82 898
Deferred tax liabilities	80 765	-	-	80 765
Subordinated debt	75 251	-	-	75 251
Other liabilities	1 306 580	-	18 621	1 325 201
Creditors for direct and indirect insurance	24 753	-	-	24 753
Other liabilities	1 281 827	-	18 621	1 300 448
Total Liabilities	**66 887 841**	**(623 100)**	**18 621**	**66 283 362**
Equity				
Share capital	4 900 000	-	-	4 900 000
Reserves, Retained earnings and Other comprehensive income / (loss)	543 486	548 323	(25 806)	1 066 003
Total Equity attributable to shareholders of the Bank	**5 443 486**	**548 323**	**(25 806)**	**5 966 003**
Non-controlling interests	133 909	-	-	133 909
Total Equity	**5 577 395**	**548 323**	**(25 806)**	**6 099 912**
Total Liabilities and Equity	**72 465 236**	**(74 777)**	**(7 185)**	**72 383 274**

(a) Refers to deferred costs paid at the beginning of the operation and that were being accrued during the contract period.

2.2. Basis of Consolidation

These consolidated financial statements comprise the assets, liabilities, income, expenses, other comprehensive income and cash flows of NOVO BANCO and of its subsidiaries (Group or NOVO BANCO Group) and the results attributable to the Group relating to shareholdings in associated companies.

These accounting policies have been consistently applied by the Group companies during the period covered by these consolidated financial statements.

Subsidiaries

Subsidiaries are entities (including investment funds and securitisation vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity, and may take possession of same by way of the power it has over the entity (de facto control) and has the ability to affect these variable returns through the power it wields over the relevant activities of the entity. As established in IFRS 10, the Group analyses the objective and the structuring of how an entity`s operations are developed when assessing its control over such entity. Subsidiaries are fully consolidated from the date on which control over their activities is transferred to the Group and until the date that control ceases.

The accumulated losses of a subsidiary are attributed proportionally to non-controlling interests even if this results in the recognition of non-controlling interests of negative value.

When control is obtained in a business combination achieved in stages (step acquisition) the Group re-measures its previously held non-controlling interest in the entity at its acquisition date fair value and recognises the resulting gain or loss in the income statement upon determining the respective goodwill. At the moment of a partial sale, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is re-measured to its fair value at the date the control is lost and the resulting gain or loss is recognised in the income statement.

Associated companies

Associated companies are those entities over which the Group has significant influence over the company`s financial and operating policies but not its control. Generally, when the Group owns more than 20% of the voting rights but less than 50%, it is presumed to have a significant influence. Even if the Group owns less than 20% of the voting rights, it can still have a significant influence through its participation in the management of the associated company or its representation in its executive Governing 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 re-measured to its fair value through the income statement when the equity method is first applied.

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

Gains or losses on disposals of investments in associated companies are recognised in the income statement even if those disposals do not result in the loss of significant influence.

Structured Entity (SE)

The Group consolidates, using the full consolidation method, certain special purpose entities, created specifically to accomplish a narrow and well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, irrespective of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by IFRS 10 – Consolidated Financial Statements, according to which a SE is controlled if (i) the Group is exposed, or has rights to its results; and (ii) the Group has the power to affect the SE's results through the control it exercises over them.

Investment funds managed by the Group

As part of its asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over their activity, according to the criteria established by IFRS 10. It is presumed that there is control when the Group holds more than 50% of the respective participation units.

Goodwill

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

Goodwill resulting from business combinations occurring after 31 December 2009 was 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 acquire to the previous shareholders of the acquired, and iii) of the equity instruments issued.

According to IFRS 3 – Business Combinations, the Group measures goodwill as the difference between the fair value of the consideration transferred including the fair value of any non-controlling interest previously held, and the fair value attributable to the assets acquired and the liabilities assumed and any equity instruments issued. The fair values are determined at the acquisition date. The costs directly attributable to the acquisition are recognised at the moment of the acquisition in costs for the period.

At the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, positive goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the carrying 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 are not reversed in the future.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is, or not, any indication of impairment. Impairment losses are recognised in the income statement. The recoverable amount corresponds to the higher of market value less costs to sell and the respective value in use. In determining value in use, estimated future cash flows are discounted using a rate that reflects market conditions, the time value of money and business risks.

Transactions with non-controlling interests

Acquisitions of non-controlling interests that do not result in a change in control over a subsidiary are accounted for as transactions with equity holders and, therefore, no additional goodwill is recognised as a result of such transactions. Any difference between the acquisition cost and the carrying book value of the non-controlling interest acquired is recognised directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over a subsidiary, are always recorded against reserves.

Gains or losses arising on the dilution or on the sale of portion of an interest in a subsidiary, resulting in a loss of control, are recognised by the Group in the income statement.

Foreign currency translation

The financial statements of each of the Group's subsidiaries and associated companies are prepared using their functional currency, which is defined as the currency of the primary economic environment in which that entity operates. The Group's consolidated financial statements are prepared in Euros, which is NOVO BANCO's functional currency.

The financial statements of each of the Group entities that have a functional currency different from the Euro are translated into Euros in accordance with the following criteria:

- Assets and liabilities are translated using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated at exchange rates approximating the exchange rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the period using the exchange rates at the beginning of the period and the amount determined at the balance sheet date, using the exchange rates applicable at that date, are accounted for against reserves. Similarly, regarding the subsidiaries' and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as an integral part of the gain or loss on the sale.

Balances and transactions eliminated on consolidation

Intercompany balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless the unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

2.3. Foreign currency transactions

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

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

Foreign exchange differences relating to cash flow hedges and the hedging of 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 financial liabilities designated at fair value through profit or loss that were not classified as hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

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

Derivatives traded on organised markets, namely futures and some options contracts, are recognised as trading derivatives and their fair value changes are recorded against the income statement. Since fair value changes in these derivatives are settled daily through margin accounts held by the Group, these derivatives present a nil fair value on the balance sheet. The margin accounts are included under Other assets (see Note 33) and comprise the minimum collateral mandatory for open positions.

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;
(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
(iv) For cash flows hedges, the cash flows have a high probability of occurring.

- Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying value of a hedged asset or liability corresponding to a fixed income instrument, is amortised via the income statement over the period to its maturity, using the effective interest rate method.

- Cash flow hedge

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

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

At 31 December 2014, the Group had no hedging operations classified as cash flow hedges.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument and the host instrument is not carried at fair value through profit or loss.

These embedded derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

2.5. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short-term, being recognised on the date the cash is advanced to customers.

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

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, net of impairment losses.

In accordance with its documented strategy for risk management, the Group contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without resorting to hedge accounting as described in Note 2.4. In these situations, the initial recognition of the loan is made through their measurement at fair value through profit or lossallowing measurement consistency between the loan and the derivatives for risk management purposes . This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.6.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment in its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

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

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

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

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in the collective assessment for impairment.

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

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

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

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

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

When a loan is considered uncollectible by the Group and an impairment loss of 100% has been recognised, it is written off against the assets.

2.6. Other financial assets

Classification

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

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, that is those acquired for the purpose of selling in the short-term or that are owned as part of a portfolio of financial assets, normally securities, that are managed together and for which there is evidence of recent activities leading to short term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception, with changes being recognised in the income statement.

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:

- such financial assets are managed, measured and analysed internally on a fair value basis;
- such financial assets are being hedged (from an economic perspective), in order to eliminate an accounting mismatch between the valuation of the assets and the derivatives; or
- such financial assets contain embedded derivatives.

The structured products acquired by the Group that correspond to financial instruments containing one or more embedded derivatives are classified under the fair value through profit or loss category because they always meet one of the three above mentioned conditions.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity and which are not classified, at inception, at fair value through profit or loss or as available-for-sale.

Any reclassification or sale of financial assets recognised in this category that is not realised close to their maturity date or that is not foreseen in the exceptions listed in the accounting standard, will force the Group to reclassify the entire portfolio as Available-for-sale financial assets and will prevent it, during 2 years, from classifying any financial asset in this category.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time by the Group, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the categories previously referred to.

Initial recognition and measurement and de-recognition

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

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

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

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are recognised in the income statement.

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

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

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

Reclassifications between categories

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

Reclassifications between these categories are made at the fair value of the assets reclassified, determined at the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Subsequent to initial recognition, financial assets cannot be reclassified to financial assets at fair value through profit or loss.

Impairment

The Group periodically assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events occurring after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the market value of the securities below their acquisition cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

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

If there is objective evidence that an impairment loss on available-for-sale financial assets has occurred, the potential cumulative loss recognised in reserves, measured as the difference between the acquisition cost and the current fair value, net of any impairment loss on that financial asset previously recognised in the income statement, is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity securities, for which impairment losses may not be reversed and gains are recognised in reserves.

2.7. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, and the purchase price paid is recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement using the effective interest rate method.

Securities lent under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.6. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the Group's assets. They are recorded as financial liabilities held for trading at the fair value of the assets that must be returned pursuant to the resale agreement. Gains and losses resulting from the change in their respective fair value are recognised directly in the income statement.

2.8. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognised when the underlying obligation expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans received, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and / or to pay dividends.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

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

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

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

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

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

2.9. Financial guarantees

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

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

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

2.10. Equity instruments

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

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

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

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

2.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of Group NOVO BANCO, as well as in the event of default, bankruptcy or insolvency of the Group or the counterpart.

2.12. Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable.

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

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes them and receives the asset held as collateral in exchange for loans. Due to the provisions of the "Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF)", banks are prevented, unless authorised by the Banco de Portugal, from acquiring real estate that is not essential to their daily operations or for the pursuit of their corporate purpose(no. 1 of article 112 of RGICSF), being able to acquire, however, real estate in exchange for loans granted by the Group. This property must be sold within 2 years, period which may, based on reasonable grounds, be extended by the Banco de Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

It is the Group's objective to immediately dispose of all real estate property received as settlement for loans. This real estate property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying value of the subjacent loans. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value minor costs to sell and is not depreciated. For real estate properties recorded in the balance sheet of NOVO BANCO and of the remaining credit institutions integrating the consolidation perimeter of the Group, the amount recoverable from their immediate sale is considered to be their respective fair value; for real estate properties held by investment funds, fair value is determined as the average between two valuations, obtained from independent entities, taking into consideration the normal market conditions. Unrealised losses on these assets, so determined, are recorded in the income statement.

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

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

b) *Income Method*
Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

c) *Cost Method*
This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialised in these services. The valuation reports are analysed internally, namely comparing the sales value with the revalued amounts of the assets so as to ensure the adequacy of the valuation parameters and processes 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, that, the Group aims to dispose within one year. Since these acquisitions arise from loan restructuring operations, these acquisitions are recognised at their fair value, and any differences between their fair values and those of the loans following the acquisitions, are recognised as loan impairment losses. On the acquisition of an entity that matches the subsidiary criteria and for which the Group's objective is the resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these particular cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

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

For purposes of calculating the fair value of subsidiaries held for sale, the Bank adopts the following methodologies:

- for subsidiaries whose assets correspond mainly to real estate properties, the fair value is determined with reference to the value of the assets, which is based on valuations performed by independent specialised entities;
- for the remaining entities, the fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation.

2.13. Other tangible assets

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

Subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the year 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 reflecting their estimated useful lives:

	Number of years
Buildings for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture and equipment	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Machines and tools	4 to 10
Motor vehicles	4
Other equipment	5

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

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

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

2.14. Intangible assets

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

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

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

2.15. Leases

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

Operating leases

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

Finance leases

- As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value.

Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.16. Employee benefits

Pensions

Pursuant to the signing of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 16, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, a subsidiary of the Group.

The pension plans of the Group are defined benefit plans, given that they define the criteria used to determine the pension benefit to be received by employees on retirement, usually dependent on one or more factors such as age, years of service and salary level.

The Group's retirement pension liabilities were calculated as at 4 August 2014 (with reference to 30 June 2014) and at 31 December 2014, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

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

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

The Group recognises as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan are recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to the fact that the employee retired before reaching 65 years old.

The Group makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past services costs for active employees shall be funded at a minimum level of 95%.

The Group assesses the recoverability of any recognised excess in a fund in relation to the retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and / or contributions with medical assistance expenses, diagnostics, medication, hospitalisation and surgeries, in accordance with its financing availability and internal regulations.

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

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

Long-term service bonuses

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

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

These long-term service bonuses are accounted for by the Group in accordance with IAS 19, as other long-term employee benefits.

The Group's liability with these long-term service bonuses is calculated periodically by the Group using the Projected Unit Credit Method. The actuarial assumptions used are based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation is determined using the methodology described for retirement pensions.

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

Employees' variable remuneration

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

2.17. Corporate Income tax

Corporate income tax for the period comprises current tax and deferred tax. Corporate income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Corporate income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when the gains or losses giving rise to corporate income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction.

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

Deferred tax liabilities are recognised for all taxable timing differences except for goodwill, non-deductible for tax purposes, differences arising on the initial recognition of assets and liabilities that neither affect accounting nor taxable profit, and that do not result on a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group does not control the timing of the reversal of the timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be deducted. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

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

The Group offsets deferred tax assets and liabilities for each subsidiary whenever (i) the corporate income tax of each subsidiary paid to the Tax Authorities is determined on a net basis, that is, offsetting current tax assets against current tax liabilities, and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity. This offset is, therefore, performed at the level of each subsidiary, with the deferred tax asset presented in the consolidated balance sheet corresponding to the sum of the subsidiaries' amounts which present net deferred tax assets, and the deferred tax liability presented in the consolidated balance sheet corresponding to the sum of the subsidiaries' amounts which present net deferred tax liabilities.

2.18. Provisions and Contingent liabilities

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

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

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

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

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

2.19. Recognition of interest income and expense

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

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

When calculating the effective interest rate, the Group estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss has been recognised, interest income is calculated using the interest rate used to measure the impairment loss.

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 out and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.20. Recognition of fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial period in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.21. Recognition of dividend income

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

2.22. Earnings per share

The basic earnings per share is calculated by dividing net income available to ordinary shareholders of the holding company by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares held as treasury stock by the Group.

For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments are converted or the options granted are exercised.

2.23. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities under three month from the inception date and which the risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions (hereafter generally referred to as ‘banks’). Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. Investment properties

The Group classifies as investment properties the real estate assets held to earn rentals or for capital appreciation or both. Investment properties are initially recognised at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognised in the income statement. Investment properties are not depreciated.

Transfers to and from the item investment properties may occur whenever there is a change in respect of the use of a real estate property. On the transfer of investment property to real estate properties held for own use, the estimated cost, for accounting purposes, is the fair value, at the date of the change in usage. If a real estate property held for own use is classified 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 transfer to investment properties and at fair value subsequently, the difference arising in its measurement at the date of the transfer being recognised in revaluation reserves.

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

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

2.25. Insurance contracts

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

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

The financial assets held by the Group to cover for the liabilities arising under insurance and investment contracts are classified and accounted for in the same manner as the other Group financial assets.

Insurance contracts and investment contracts with participating features are recognised and measured as follows:

Premiums

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

Acquisition costs

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

Reserves for outstanding claims

Reserves for outstanding claims reflects the estimated total outstanding liability for unpaid reported claims and for incurred unreported claims (IBNR). Incurred unreported claims are estimated based on past experience using statistical methods. Reserves for outstanding claims are not discounted. For reinsurance contracts ceded, the provisions for outstanding claims are recorded as income in the period to which they relate in the same way as the direct outstanding claims reserve.

Mathematical reserves

The mathematical reserves are intended to record the present value of the Group's future liabilities for insurance and investment contracts with discretionary participating features issued and are calculated in accordance with recognised actuarial methods under applicable legislation in force.

Reserve for participating features (bonuses and rebates) attributed

The reserve for participating features corresponds to the amounts attributed to policyholders or beneficiaries of insurance contracts, in the form of profit sharing, which have not yet been distributed, including by inclusion in the mathematical reserve for contracts.

Reserve for participating features attributable (Shadow Accounting)

In accordance with IFRS 4, the unrealised gains and losses on the available-for-sale financial assets covering liabilities arising from insurance and investment contracts with discretionary participating features, are attributed to policyholders, based on the expectation that policyholders will participate in those unrealised gains and losses when they became realised in accordance with the terms of the contracts and applicable legislation, by recognising a reserve.

Reserve for rate commitments (Liability adequacy test

At balance sheet date, the Group performs a liability adequacy test of the insurance and investment contracts with discretionary participating features. Any deficiency determined is recognised directly in the income statement through the Reserve for rate commitments.

Unearned premium reserves

The unearned premiums reserves reflect that part of the gross written premiums imputable to one or more of the subsequent periods net of deferred acquisition costs.

Technical reserves for reinsurance ceded

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

Reinsurance

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

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

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

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

3.1. Impairment of available-for-sale financial assets

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

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

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

The use of alternative methodologies and different assumptions and estimates may result in a different level of impairment losses being recognised.

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

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

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

3.3. Impairment losses in loans and advances to customers

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

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

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised.

3.4. Impairment of goodwill

The recoverable amount of the goodwill recognised as an asset is periodically revised regardless of the existence or not of impairment triggers.

For this purpose, the carrying book value of the business 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 the business 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 involves judgement.

Changes in the expected cash flows and in the discount rate may lead to conclusions that differ from those used in the preparation of these financial statements.

3.5. Entities included in the consolidation perimeter

In determining which entities to include in the consolidation perimeter, the Group evaluates the extent to which (i) it is exposed, or has rights, to the variability of the return from its involvement with that entity and (ii) it has the ability to affect those returns through its power over the company.

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

3.6. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. During the ordinary course of the business cycle there are many transactions and calculations in respect of which the determination of the ultimate tax amount is uncertain.

Different interpretations and estimates could result in a different level of corporate income tax, current and deferred, being recognised in the period.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank and of the subsidiaries resident in Portugal during a period of four years or twelve years, when there are tax losses carry forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Board of Directors of the Bank and of its subsidiaries, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.7. Pensions and other employees` benefits

Determining retirement pension liabilities requires the use of assumptions and estimates, including the use of actuarial tables, assumption regarding the growth of pensions, salaries and discounts rates. These assumptions are based on the expectations of NOVO BANCO Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

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

Future liabilities relating to insurance contracts and investment contracts with discretionary participating features are recorded under the caption technical reserves. The technical reserves relating to traditional life insurance products have been calculated based on various assumptions namely mortality, longevity and interest rate, applicable to each of the coverages. The assumptions used were based on the past experience of the Group and of the market. These assumptions may be reviewed if it is determined that future experience will differ substantially from that previously assumed. The technical reserves with insurance contracts and investment contracts with discretionary participating features (capitalisation products) include: (i) the mathematical reserve, (ii) the reserve for participating features, (iii) the provision for claims, (iv) the rate commitment reserve and (v) the unearned premiums reserve. The mathematical reserve includes the insufficiency detected during the liability adequacy test.

When claims are made by or against policyholders, any amounts that the Group pays or expects to pay are recorded as losses in the income statement. The Group establishes reserves for the payment of claims arising from its insurance and investment contracts.

To determine the technical reserves arising from insurance contracts and investment contracts with participating features, the Group performs periodic reviews of its liabilities, using actuarial methodologies and taking into consideration the respective reinsurance coverage. The reserves are reviewed periodically by qualified actuaries.

The liability adequacy test is performed considering the projected future cash flows of each contract. These cash flows consider premiums, mortalities, maturities, surrenders, reversals, expenses and commissions payable. Whenever the contracts include options and guarantees, the present value of the liabilities is determined stochastically based on Market Consistent scenarios. This test is conducted on a product by product basis or on an aggregate basis when the risks are similar or managed on a portfolio basis.

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

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

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

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

3.10. Provisions

The Group recognises provisions intended to cover for losses arising from commercial offers approved by the Board of Directors of the Bank, when these are not opposed by the Banco de Portugal. The amount of the provisions reflects NOVO BANCO's best estimate at the balance sheet date.

NOTE 4 – SEGMENT REPORTING

NOVO BANCO Group activities are centred on the financial sector targeting corporate, institutional and private customers. Its decision centre is in Portugal, making the national territory its privileged market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, brokerage and custodian services, investment banking services and the commercialisation of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, the Group has NOVO BANCO as its main operating unit - with 596 bank branches in Portugal and branches in London, New York, Spain (34 bank branches), Nassau, Cayman Islands, Cape Verde, Venezuela, Luxembourg, a financial branch in the Madeira Free Zone and 8 representation offices – with NB Açores (17 bank branches); Banco BEST (17 bank branches); NB Ásia, Banco Internacional Cabo Verde; BES Vénétie; ESAF; GNB Seguros (non-life insurance) and GNB Vida, amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate, Institutional and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Life Insurance; (5) Financial Markets; and (6) Corporate Centre.

Each segment integrates the NOVO BANCO structures that directly relate to it, as well as the units of the Group whose business are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group (considered an investment centre), is complemented at the Board of Director of NOVO BANCO level, by the definition of strategies and commercial programmes specific for each unit.

4.1. Description of the operating segments

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

Domestic Commercial Banking

This Operating Segment includes all the banking activity developed on national territory involving corporate and private customersand using the bank branch network, corporate centres and other channels, and includes the following sub segments:

a) **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;

b) **Corporate and Institutional:** includes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 22 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;

c) **Private Banking:** comprises the private banking activity integrating all the asset-side products and the fundraising activities, namely, deposits, discretionary management services, custodian services, brokerage services and insurance products.

International Commercial Banking

This Operating Segment integrates the units located abroad, whose banking activities focus both on corporate and private customers, excluding the asset management business, which is integrated in the corresponding segment.

Amongst the units comprising this segment are NOVO BANCO's branches in Spain, London, New York, Cape Verde, Luxembourg and Venezuela. The products and services included in this segment are deposits, all types of credit, leveraged finance, structured trade finance and project finance. This segment, within the context of pursuing the fundraising strategy, has assumed a significant role including with institutional customers.

Asset Management

This segment includes the asset management activities developed both in Portugal and abroad through specialised companies incorporated for the purpose. The product range includes all types of funds - investment funds, real estate funds and pension funds - as well as discretionary management services and portfolio management.

Life Insurance

This segment includes the activities of Companhia de Seguros GNB Vida that sells traditional and investment insurance contracts and retirement plans.

Financial Markets

This segment includes the overall financial management of the Group, including the taking and placing of funds in 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 Management and Supervisory bodies, Compliance, Planning, Accounting, Risk Management and Control, Investor Relations, Internal Audit, Organisation and Quality, amongst others.

4.2. Criteria for the allocation of activities and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed in the preparation of the internal information that is analysed by the Board of Directors of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 2, with the adoption of the following additional principles:

Measurement of the profit or loss of the operating 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 segments

As mentioned above, each autonomous operating unit (foreign branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment centre. Additionally, based on the characteristics of the primary business developed by these units, they are fully integrated into one of the Operating Segments, i.e. their assets, liabilities, income and expenses.

NOVO BANCO structures dedicated to segments

NOVO BANCO's activity, given its characteristics, can be allocated to most of its operating segments and is, therefore, disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment of 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 with the customers by the commercial structures ; (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) defined based on specific drivers and on the Cost Based Approach (CBA) model; (vi) the allocation of credit risk determined in accordance with the impairment model; (vii) the allocation of NOVO BANCO's total equity to the Financial Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments in accordance with the CBA without any margin for the supplier; the strategic decisions and / or of an exceptional nature are analysed on a case-by-case basis, with the income and / or costs being generally allocated to the Financial Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, whose mission it is to undertake the Bank's global financial management, and whose activity and results are included in the Financial Markets segment.

Interest and similar income / expense

Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation Net Interest Income.

Investments consolidated using the equity method

Investments in associated companies consolidated under the equity method are included in the Financial Markets segment, in the case of NOVO BANCO's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets

Non-current assets, according to IFRS 8, include Other tangible assets, Intangible assets and Non-current assets held for sale. NOVO BANCO includes these assets in the Financial Markets segment, with the non-current assets held by the subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income taxes

Corporate income tax is part of the Group's net income that for purposes of monitoring the performance of the Operating Segments by the Board of Directors does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the Financial Markets segment.

Domestic and International Areas

In the disclosure of financial information by geographical area, the operating units integrating the International Area are NB Ásia, Banco Internacional de Cabo Verde; Novo banco Servicios, Novo AF, BES Vénétie, Banco Delle Tre Venezie, Moza Banco, Ijar Leasing Argélie, the NOVO BANCO branches in London, Spain, New York, Cape Verde, Venezuela and Luxembourg and the units aborad of ESAF and BESI.

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

The segment reporting is presented as follows:

(in thousands of Euros)

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

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

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

(in thousands of Euros)

	31.12.2014										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period	(466 350)	(45 188)	43 374	(13 617)	(499)	(4 476)	(564)	(239)	(1 456)	(8 630)	(497 645)
(of which: relating to units being discontinued)	*(16 038)*	*(9 966)*	-	*(13 460)*	*829*	*(2 891)*	*(1 017)*	-	-	*(4 069)*	*(46 612)*
Intersegment operating income	*(117 135)*	*2 961*	*28 162*	*96 769*	*(850)*	-	-	*56*	*769*	-	*10 732*
Net assets	47 575 982	3 571 392	4 863 712	4 566 340	2 244 162	1 868 822	1 948	138 562	121 632	464 928	65 417 480
(of which: relating to units being discontinued)	*1 872 986*	*117 724*	-	-	*279 312*	*1 850 117*	-	-	-	*89 661*	*4 209 800*
Investments in associated companies	330 408	-	1 300	-	-	-	1 948	-	-	68 633	402 289
Investment in tangible assets	8 847	1 850	13	119	-	-	-	-	587	3 066	14 482
Investment in intangible assets	11 436	2 024	57	269	-	-	-	2	1 019	857	15 664
Investment in non-current assets	586 030	7 874	-	-	-	-	-	-	-	-	593 904

NOTE 5 – NET INTEREST INCOME

The breakdown of of the Net interest Income is as follows:

(in thousands of Euros)

	31.12.2014		
	Assets / Liabilities at amortised cost and Available-for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total
Interest and similar income			
Interest from loans and advances	564 965	5 421	570 386
Interest from financial assets at fair value through profit or loss	-	25 415	25 415
Interest from deposits with and loans and advances to banks	11 655	623	12 278
Interest from available-for-sale financial assets	88 961	-	88 961
Interest from derivatives held for risk management purposes	-	76 361	76 361
Other interest and similar income	8 266	-	8 266
	673 847	**107 820**	**781 667**
Interest expense and similar charges			
Interest on debt securities	234 242	12 161	246 403
Interest on amounts due to customers	103 171	40 640	143 811
Interest on deposits from Central Banks and other banks	12 603	18 588	31 191
Interest on subordinated debt	1 232	-	1 232
Interest on derivatives held for risk management purposes	-	36 267	36 267
Other expenses and similar charges	57 303	-	57 303
	408 551	**107 656**	**516 207**
	265 296	**164**	**265 460**

The Interest Income and Interest Expenses relating to interest from derivatives held for risk management purposes include, in accordance with the accounting policy described in Notes 2.4 and 2.19, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.5, 2.6 and 2.8.

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Fee and commission income	
From banking services	122 421
From guarantees issued	54 604
From transactions of securities	5 120
From commitments to third parties	9 867
Other fee and commission income	33 319
	225 331
Fee and commission expense	
With banking services rendered by third parties	26 289
With guarantees received	18 107
With transactions of securities	4 056
With commitments assumed to third parties	165
Other fee and commission expenses	7 806
	56 423
	168 908

The caption Fee and commission expense with guarantees received includes, as at 31 December 2014, an amount of Euros 17.8 million relating to commissions borne with the guarantee received from the Portuguese Government on the debt securities issue (see Note 37).

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014		
	Gains	Losses	Total
Securities held for trading			
Bonds and other fixed income securities			
Issued by government and public entities	2 082	455	1 627
Issued by other entities	2 135	798	1 337
Shares	754	5 213	(4 459)
Other variable income securities	-	3 280	(3 280)
	4 971	**9 746**	**(4 775)**
Derivative financial instruments			
Foreign Exchange rate contracts	258 089	65 872	192 217
Interest rate contracts	859 398	934 430	(75 032)
Equity / Index contracts	289 819	303 883	(14 064)
Credit default contracts	36 230	74 676	(38 446)
Other	14 946	16 563	(1 617)
	1 458 482	**1 395 424**	**63 058**
Financial assets at fair value through profit or loss			
Securities			
Bonds and other fixed income securities			
Issued by government and public entities	4 840	1 254	3 586
Issued by other entities	19 580	6 165	13 415
Shares	3 068	11 831	(8 763)
Other variable income securities	16 334	66 852	(50 518)
	43 822	**86 102**	**(42 280)**
Other financial assets(1)			
Loans and advances to banks	-	17	(17)
Loans and advances to customers	17 820	494	17 326
	17 820	**511**	**17 309**
Financial liabilities(1)			
Deposit from banks	291	20 853	(20 562)
Due to customers	37 000	23 728	13 272
Debt securities issued	11 293	5 499	5 794
Life insurance products	2 345	55 368	(53 023)
	50 929	**105 448**	**(54 519)**
	112 571	**192 061**	**(79 490)**
	1 576 024	**1 597 231**	**(21 207)**

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

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

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is its transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a intermediation fee, originating a day one profit.

The Group recognises in its income statement the gains arising from the intermediation fee (day one profit), which is generated primarily through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group's access to the wholesale market.

In the period from 4 August to 31 December 2014, the gains recognised in the income statement arising from intermediation fees amounted to approximately Euros 4 600 thousand and are essentially related to foreign exchange transactions.

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014		
	Gains	**Losses**	**Total**
Bonds and other fixed income securities			
Issued by government and public entities	32 530	4 813	27 717
Issued by other entities	15 347	6 533	8 814
Shares	2 488	793	1 695
Other variable income securities	8 250	12 263	(4 013)
	58 615	**24 402**	**34 213**

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014		
	Gains	Losses	Total
Foreign exchange revaluation	608 183	533 064	75 119
	608 183	**533 064**	**75 119**

This caption includes the exchange differences from the foreign exchange revaluation of monetary assets and liabilities at the foreign exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.3.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Loans and advances to customers	(45)
Non-current assets held for sale	3 952
Other	1 735
	5 642

NOTE 11 – INSURANCE PREMIUMS, NET OF REINSURANCE

Insurance premiums net of reinsurance may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Gross written premiums	38 328
Reinsurance premiums ceded	(20 529)
Net premiums	17 799

Gross written premiums by segment are analysed as follows:

(in thousands of Euros)

	31.12.2014
Traditional annuities	23 782
Capitalization products with profit sharing	14 546
Total	38 328

In accordance with the classification criteria applied to the contracts established by insurance companies defined in IFRS 4, insurance contracts issued by the Group for which there is only a transfer of financial risk, with no profit sharing, are classified as investment contracts and accounted for as financial liabilities.Contracts in which the investment risk is borne by the insurance taker and contracts with a fixed rate without profit sharing are not accounted for as premiums.

The reinsurance premiums ceded relate to the risk of death and longevity coverage of contracts celebrated in the traditional segments.

NOTE 12 – CLAIMS INCURRED NET OF REINSURANCE

Claims incurred net of reinsurance may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Direct insurance	
Amounts paid	292 063
Change in the outstanding claims reserve	(15 101)
	276 962
Reinsurance ceded	
Amounts paid	(3 223)
Change in the outstanding claims reserve	(33)
	(3 256)
	273 706

NOTE 13 – CHANGE IN TECHNICAL RESERVES, NET OF REINSURANCE

The change in technical reserves net of reinsurance may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Mathematical reserves	239 824
Reserve for profit sharing	546
Other technical reserves	(857)
Reserve for reinsurance	(929)
Commissions and profit sharing from reinsurance ceded	316
Change in the provision for unearned premiums, net of reinsurance	364
	239 264

Due to the celebration of a reinsurance treaty in June 2013, through which GNB Vida reinsured its entire individual risk life insurance portfolio, covering all the policies in force with reference to 30 June 2013, GNB Vida received an upfront fee, having transferred all the risks and rewards associated with these contracts. On this basis, the risks of (i) life, (ii) disability, and (iii) contract annulments were transferred, as a result of which the upfront fee was recognised in full at that date net of the respective value in force of the portfolio, recognised as an asset on the date of the acquisition of GNB Vida. Subsequent to that date, GNB Vida began ceding to the reinsurer all the premiums and claims associated with the policies included in the scope of this treaty. The Company performs the servicing of these contracts, as well as the selling of the respective products.

NOTE 14 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Other operating income / (costs)	
IT services	96
Net gains / (losses) on repurchase of Group debt securities (see Notes 37 and 41)	19 818
Gains / (losses) on credit operations	6 871
Non-recurring consultancy services	884
Direct and indirect taxes	(7 533)
Revaluation of liabilities	296 581
Contributions to the Deposits Guarantee Fund	(5 142)
Contributions to the Resolution Fund	(3 471)
Banking levy	(13 038)
Membership subscriptions and donations	(1 330)
Other	1 510
	295 246

At 31 December 2014, the Other operating income and expenses presents an amount of Euros 296.6 million related to the revaluation of liabilities inherent to the consolidation of the SE with debt securities issued by the Group (see Note 1).

NOTE 15 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousands of Euros)

	31.12.2014
Wages and salaries	122 668
Remuneration	122 177
Long-term service (see Note 16)	491
Mandatory social charges	37 426
Costs with post-employment benefits (see Note 16)	9 368
Other costs	8 593
	178 055

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

(in thousands of Euros)

	Board of Directors	Supervisory Board	Other key management	Total
31 December 2014				
Salaries and other short-term benefits	479	108	3 448	4 035
Variable remuneration	-	-	115	115
Subtotal	**479**	**108**	**3 563**	**4 150**
Long-term benefits and other social charges	110	-	2 682	2 792
Total	**589**	**108**	**6 245**	**6 942**

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

At 31 December 2014, loans granted by NOVO BANCO Group to key management personnel amounted to Euros 11 441 thousand.

At 31 December 2014, the number of employees of NOVO BANCO Group has the following breakdown:

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

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

	31.12.2014
Senior management	719
Managerial functions	936
Specific functions	3 277
Administrative functions and other	2 790
	7 722

NOTE 16 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage, that increases in function of years of service, applied to each year's negotiated salary table for the active work force.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS), managed by the respective Union, with the annual contribution by the Bank to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy. The measurement and recognition of the Bank's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liabilities. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

For employees hired before 31 December 2008, the retirement pension and the disability, survival and death pensions defined under the ACT, as well as the liabilities for health-care benefits, 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, considering that by the Decree-Law no. 1-A/2011, of 3 January, all banking employees that were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the second tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions, however, banking employees are entitled to receive a pension under the General Regime that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime in substitution of the Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-Law. In consequence of this change, pension entitlement of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment service between 1 January 2011 and their retirement date. The differential required to make up for the guaranteed pension under the ACT is paid by the Banks.

At the end of the financial year 2011 and pursuant to the third tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition at 31 December 2011.

This tripartite agreement established the transfer to the General Social Security Regime of all the liabilities with pensions in payment 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 deferral survivor` pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions pension fund assets , relating the part allocated to the satisfaction of the responsibilities for those pensions, be transferred to the State.

According to the resolution of the Board of Directors of the Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of August 11, 2014 (5 p.m.), no liabilities incurred by BES to members of the management body of BES, including to those who exercised those functions in the four years prior to the incorporation of NOVO BANCO and whose actions or omissions gave rise to the financial difficulties of the credit institution or contributed to the worsening of such situation, were transferred to NOVO BANCO. Per the resolution of the Board of Directors of the Banco de Portugal, of 11 February 2015, the Banco de Portugal clarified that the liabilities of BES not transferred to NOVO BANCO as defined above include the responsibilities of BES relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES that have been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refers, not having, therefore, been transferred to the NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with BES.

The liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. In light of the foregoing, only the pension fund liabilities arising from the Complementary EC Plan were split, one 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 the Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing as at 3 August 2014 were split in proportion to the liabilities calculated as at the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Board that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, was based on the recommendation of the ASF to the Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, until today, the ASF has not yet formalized its approval and the amounts presented in the Note may be subject to future corrections resulting from the final decision by the ASF.

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

	31-12-2014	
	Assumptions	**Actual**
Actuarial Assumptions		
Projected rate of return	2,5%	-16,0%
Discount rate	2,5%	-
Pension increase rate	0,5%	-1,5%
Salary increase rate	1,0%	0,1%
Mortality table men	TV 73/77 - 1 year	
Mortality table women	TV 88/90	

Disability decreases are not considered in the liabilities' calculation. The determination of the discount rate as at 31 December 2014 was based on: (i) the evolution of the main indexes for high quality corporate bonds and (ii) the duration of the liabilities.

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

	31.12.2014
Employees	5 400
Pensioners and survivors	5 988
TOTAL	**11 388**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2014 is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Net Assets / (liabilities) recognised in the balance sheet		
Total liabilities (a)	**(1 501 971)**	**(1 404 711)**
Coverage		
Fair value of plan assets	**1 441 732**	**1 239 566**
Net assets / (liabilities) in the balance sheet (See Note 33 and 42)	**(60 239)**	**(165 145)**
Accumulated actuarial deviations recognised in other comprehensive income (b)	**265 065**	**15 513**

(a) the allocation of responsibilities between pensioners and employees is not available at the time as a result of provisional figures pending approval
(b) at the opening balance sheet date of Novo Banco, the actuarial gains and losses carried forward from the Originating Bank were included in the original reserve.

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

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

(in thousands of Euros)

	31.12.2014
Retirement pension liabilities at beginning of period	**1 404 711**
Active service cost	3 440
Interest cost	20 326
Plan participants' contribution	1 281
Actuarial (gains) / losses in the period:	
- Changes in assumptions (financial)	129 355
- Experience adjustments (gains) / losses	14 251
Pensions paid by the fund	(16 330)
Early retirement	6 006
Foreign exchange differences and other [1]	(61 069)
Retirement pension liabilities at end of period	**1 501 971**

[1] includes 59,982 thousand euros relating to the change of BESI in consolidation method for activities discontinued.

The change in the fair value of the pension funds' assets during the period ended at 31 December 2014 may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Fair value of fund assets at the beginning of the period	**1 239 566**
Expected return from the fund	17 780
Actuarial gains / (losses)	(119 040)
Group contributions	380 527
Plan participants' contributions	1 281
Pensions paid by the fund	(16 330)
Foreign exchange differences and other	(62 052)
Fair value of fund assets at the end of the period	**1 441 732**

The pension funds' assets may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Shares	284 778
Bonds	328 806
Real estate	349 234
Other	478 914
Total	**1 441 732**

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

(in thousands of Euros)

	31.12.2014
Real estate	276 147
Other	3 750
Total	**279 897**

At 31 December 2014, the fund holds participation units in Fundo ES Ventures III, which is included in the Group's consolidation perimeter.

The changes in the actuarial deviations in the balance sheet may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Accumulated actuarial losses recognised in other comprehensive income at the beginning of the period	**15 513**
Actuarial (gains) / losses in the period:	
- Changes in assumptions	129 355
- Experience (gains) / losses	133 291
Other	(13 094)
Accumulated actuarial losses recognised in other comprehensive income at the end of the period	**265 065**

During 2013, the legal retirement age in Portugal, for active employees covered by the General Social Security Regime, increased from 65 to 66 years old. However, the Group's defined benefits plan was not altered, the retirement age being maintained at 65 years old. This legal change has an impact at the co-financing level of the General Social Security Regime regarding the liabilities of active employees covered by the plan and who were transferred to the General Social Security Regime under the tripartite agreements mentioned above.

The impact resulting from the change in the legal retirement age in 2013, from 65 to 66 years old, with consequences at the Social Security co-funding level, regarding liabilities with active employees covered by the plan and transferred to the General Social Security Regime under the tripartite agreements, gave rise to an actuarial loss of approximately Euros 8 million.

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

(in thousands of Euros)

	31.12.2014
Active service cost	3 440
Interest expense / (income)	3 014
Early retirement	6 006
Other	(78)
Cost with post-employment benefits	**12 382**

During the period ended at 31 December 2014, changes in net assets / (liabilities) recognised in the balance sheet may be analysed as follows:

(in thousands of Euros)

	31.12.2014
At the beginning of the period	**(165 145)**
Cost for period	(12 382)
Actuarial gains / (losses) recognised in other comprehensive income	(249 552)
Contributions made in the period	380 527
Other	(13 687)
At the end of the period	**(60 239)**

The liabilities and balances of the funds, as well as the experience adjustments (gains and losses) as at 31 December 2014 is breakdown as follows:

(in thousands of Euros)

	31.12.2014
Liabilities	(1 501 971)
Fair value of fund assets	1 441 732
(Under) / overfunding of liabilities	**(60 239)**
(Gains) / losses on experience adjustments in liabilities	14 251
(Gains) / losses on experience adjustments in fair value of assets	86 175

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

No contributions to the defined benefits plans for the subsequent period are foreseen, considering that is expected that the fund's return will be sufficient to cover changes in the liabilities.

Long-term service bonuses

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

As at 31 December 2014 and as at 4 August 2014, the Group's liabilities with this benefit amount to Euros 29 799 thousand and Euros 29 131 thousand, respectively (see Note 42). The costs incurred during the period from 4 August to 31 December 2014 with long-term service bonuses amounted to Euros 491 thousand.

The actuarial assumptions used for the calculation of these liabilities with long-term service bonuses are those used for the calculation of retirement pensions (when applicable).

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Rentals	18 310
Advertising	7 790
Communication	9 343
Maintenance and repairs	7 761
Travelling and representation expenses	2 746
Transportation of valuables	2 094
Insurance	2 431
IT services	24 096
Independent work	2 559
Temporary work	1 658
Electronic payment systems	3 109
Legal costs	8 817
Consultancy and audit fees	17 773
Water, energy and fuel	4 246
Consumables	1 375
Other costs	25 388
	139 496

The caption Other costs includes, amongst others, specialised services costs incurred with security and vigilance, information services, training and sundry external supplies.

The outstanding lease instalments related to non-cancellable operating lease contracts are as follows:

(in thousands of Euros)

	31.12.2014
Up to 1 year	1 497
1 to 5 years	10 302
	11 799

The fees invoiced during the period from 4 August to 31 December 2014 by the Statutory Audit Firm, disclosed in accordance with article 508-F of the Commercial Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2014
Statutory audit fees	2 332
Audit related fees	935
Tax consultancy services	63
Other services	85
Total	**3 415**

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the period.

(in thousands of Euros)

	31.12.2014
Net profit / (loss) attributable to shareholders of the Bank	**(467 900)**
Weighted average number of ordinary shares outstanding (thousands)	**4 900 000**
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**(0,10)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0,09)**

Diluted earnings per share

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.

Diluted earnings per share do not differ from basic earnings per share.

NOTE 19 – CASH AND DEPOSITS WITH CENTRAL BANKS

As at 31 December 2014 and as at 4 August 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Cash	186 604	142 198
Demand deposits with Central Banks		
Banco de Portugal	707 465	4 844 672
Other Central Banks	1 853 008	414 386
	2 560 473	5 259 058
	2 747 077	**5 401 256**

As at 4 August 2014 the caption Demand deposits with Banco de Portugal included an amount of Euros 4 815 million relating to capital subscribed and realised by the Resolution Fund "Fundo de Resolução". The remaining capital, in the amount of Euros 85 million, was realised on 6 August 2014.

Additionally, this caption includes mandatory deposits with Banco de Portugal, intended to satisfy the minimum legal cash requirements, in the amount of Euros 207 million (4 August 2014: Euros 30 million). According to European Central Bank Regulation no. 1348/2011, of 14 December 2011, minimum cash requirements of demand deposits with Banco de Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European Central Bank Systems' minimum reserve requirements. At 31 December 2014, the average interest rate on these deposits was 0.17% (4 August 2014: 0.15%).

Compliance with minimum cash requirements, for a given observation period, is monitored considering the average amount of the deposits with Banco de Portugal over that period. The balance of the bank's account with Banco de Portugal as at 31 December 2014, was included in the observation period running from 10 December 2014 to 27 January 2015, to which corresponded an average mandatory reserve of Euros 202.6 million.

NOTE 20 – DEPOSITS WITH OTHER BANKS

As at 31 December 2014 and as at 4 August 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Deposits with banks in Portugal		
Demand deposits	38 205	102 566
Uncollected cheques	99 582	276 770
	137 787	**379 336**
Deposits with banks abroad		
Demand deposits	325 932	259 337
Uncollected cheques	53	73
Other	27 084	34 742
	353 069	**294 152**
	490 856	**673 488**

The uncollected cheques in Portugal and abroad were sent for collection during the first business days subsequent to the balance sheet dates.

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2014 and as at 4 August 2014, the caption Financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2014	04.08.2014
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	51 557	774 475
Issued by other entities	69	63 091
Shares	3 662	107 789
Other variable income securities	120	288
	55 408	**945 643**
Derivatives		
Derivative financial instruments with a positive fair value	1 007 109	1 313 211
	1 062 517	**2 258 854**
Financial liabilities held for trading		
Derivative financial instruments with a negative fair value	1 045 648	1 390 097
Short sales	-	14 152
	1 045 648	**1 404 249**

As at 31 December 2014 and as at 4 August 2014, the analysis of the securities held for trading, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	983	21 043
3 months to 1 year	5 148	27 665
1 to 5 years	33 156	764 531
More than 5 years	12 339	24 327
Undetermined	3 782	108 077
	55 408	**945 643**

In accordance with the accounting policy described in Note 2.6, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As at 31 December 2014 and as at 4 August 2014, the caption Financial assets held for trading, split between quoted and unquoted securities, has the following breakdown:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	51 557	-	51 557	79 019	695 456	774 475
Issued by other entities	39	30	69	35 708	27 383	63 091
Shares	3 648	14	3 662	99 090	8 699	107 789
Other variable income securities	120	-	120	288	-	288
	55 364	**44**	**55 408**	**214 105**	**731 538**	**945 643**

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

As at 31 December 2014, the exposure to sovereign debt of "peripheral" Eurozone countries is analysed in Note 50 – Risk Management.

As at 31 December 2014 and as at 4 August 2014, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Foreign Exchange rate contracts						
Forwards						
- buy	428 459	5 221	9 235	930 482	5 375	8 475
- sell	433 804			932 003		
Currency Swaps						
- buy	266 537	76	217	2 653 031	197	1 477
- sell	265 483			2 653 069		
Currency Futures [a]						
- buy	1 748	-	-	1 474 877	-	-
- sell	29 417			963 147		
Currency Interest Rate Swaps						
- buy	14 387	13 553	11 061	34 860	15 188	12 321
- sell	15 819			36 618		
Currency Options						
- buy	1 424 471	50 173	23 664	1 171 971	18 788	17 808
- sell	1 386 828			710 810		
		69 023	**44 177**		**39 548**	**40 081**
Interest rate contracts						
Forward Rate Agreements						
- buy	-	-	23	1 014 982	351	201
- sell	200 000			1 614 982		
Interest Rate Swaps						
- buy	11 961 777	836 302	888 441	22 439 375	1 184 611	1 157 884
- sell	11 981 142			22 447 930		
Swaption - Interest Rate Options	-	-	-	-	-	-
Interest Rate Caps & Floors						
- buy	173 639	14 294	14 190	1 641 905	28 414	27 095
- sell	210 051			1 676 353		
Interest Rate Futures [a]						
- buy	-	-	-	2 660 699	-	-
- sell	-			2 551 719		
Interest Rate Options						
- buy	-	-	-	2 894 117	2 129	1 495
- sell	-			2 894 117		
		850 596	**902 654**		**1 215 505**	**1 186 675**
Equity / Index contracts						
Equity / Index Swaps						
- buy	298 489	38 959	39 940	461 706	16 866	23 940
- sell	289 966			453 183		
Equity / Index Options						
- buy	27 464	28 007	53 241	192 392	15 897	57 773
- sell	765 678			984 622		
Equity / Index Futures [a]						
- buy	43 626	-	-	105 714	-	-
- sell	121 968			63 647		
Future Options [a]						
- buy	1	-	-	70 036	-	-
- sell	-			-		
		66 966	**93 181**		**32 763**	**81 713**
Credit default contracts						
Credit Default Swaps						
- buy	574 888	20 524	5 636	934 960	25 395	81 628
- sell	574 888			928 687		
		20 524	**5 636**		**25 395**	**81 628**
Total		**1 007 109**	**1 045 648**		**1 313 211**	**1 390 097**

a) Derivatives traded on organised markets, whose market value is settled daily through the margin accounts (see Note 33)

The Group calculates the Credit Value Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, on the aggregate exposure of each counterpart, of an expected loss and a rate of recovery considering the estimated average duration period 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 derivate is likely to assume over its remaining life. Subsequently, an expected loss and a recovery rate are applied to the exposure so determined.

As at 31 December 2014 and as at 4 August 2014, the analysis of derivative financial instruments held for trading by maturity period, is as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 594 139	2 657 325	(53 098)	9 825 426	9 096 936	(120 036)
3 months to 1 year	2 108 714	2 784 288	38 975	7 564 206	8 076 431	64 647
1 to 5 years	2 711 110	2 988 836	(24 518)	8 929 678	9 933 656	(10 952)
More than 5 years	7 801 523	7 844 595	102	12 361 797	11 803 864	(10 545)
	15 215 486	**16 275 044**	**(38 539)**	**38 681 107**	**38 910 887**	**(76 886)**

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

The breakdown of this balance is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Bonds and other fixed income securities		
Issued by government and public entities	237 017	164 045
Issued by other entities	725 762	1 006 106
Shares and other variable income securities	1 267 609	1 397 146
	2 230 388	**2 567 297**

The Group's option considering the IAS 39 and in accordance with the accounting policy presented in Note 2.6 to define these financial assets at fair value through profit or loss is in accordance with the Group documented management strategy, given that these financial assets (i) are managed and their reperformance evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

As at 31 December 2014 and as at 4 August 2014, the analysis of the financial assets at fair value through profit or loss by maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	77 325	214 093
3 months to 1 year	82 839	79 893
1 to 5 years	368 646	383 726
More than 5 years	458 571	423 846
Undetermined	1 243 007	1 465 739
	2 230 388	**2 567 297**

The balance split between quoted and unquoted securities has the following breakdown:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	237 017	-	237 017	164 045	-	164 045
Issued by other entities	584 197	141 565	725 762	697 948	308 158	1 006 106
Shares and other variable income securities	772 156	495 453	1 267 609	730 860	666 286	1 397 146
	1 593 370	**637 018**	**2 230 388**	**1 592 853**	**974 444**	**2 567 297**

A breakdown of the securities held at fair value through profit or loss, by fair value, is presented in Note 49.

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserves		Accumulated impairment losses	Book Value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	**4 103 483**	**164 192**	**(8 752)**	**-**	**4 258 923**
Resident	1 683 949	108 542	(1 705)	-	1 790 786
Non-resident	2 419 534	55 650	(7 047)	-	2 468 137
Issued by other entities	**2 834 235**	**78 863**	**(32 188)**	**(48 459)**	**2 832 451**
Resident	1 929 288	17 398	(25 224)	(23 866)	1 897 596
Non-resident	904 947	61 465	(6 964)	(24 593)	934 855
Shares	**1 717 713**	**90 117**	**(9 365)**	**(568 926)**	**1 229 539**
Resident	669 062	15 747	(1 614)	(400 318)	282 877
Non-resident	1 048 651	74 370	(7 751)	(168 608)	946 662
Other variable income securities	**1 303 940**	**279**	**(6 976)**	**(139 687)**	**1 157 556**
Resident	943 155	(3 481)	(3 153)	(116 587)	819 934
Non-resident	351 898	12 647	(3 823)	(23 100)	337 622
Balance at 31 December 2014	**9 959 371**	**333 451**	**(57 281)**	**(757 072)**	**9 478 469**
Bonds and other fixed income securities					
Issued by government and public entities	**4 893 905**	**79 451**	**(6 427)**	**(4)**	**4 966 925**
Resident	1 540 023	65 596	(2 640)	-	1 602 979
Non-resident	3 353 882	13 855	(3 787)	(4)	3 363 946
Issued by other entities	**3 834 169**	**74 989**	**(13 029)**	**(74 555)**	**3 821 574**
Resident	2 381 026	15 253	(2 027)	(31 256)	2 362 996
Non-resident	1 453 143	59 736	(11 002)	(43 299)	1 458 578
Shares	**1 633 355**	**33 010**	**(36 273)**	**(427 803)**	**1 202 289**
Resident	655 285	12 553	(11 047)	(305 555)	351 236
Non-resident	978 070	20 457	(25 226)	(122 248)	851 053
Other variable income securities	**1 655 731**	**12 944**	**(12 090)**	**(149 120)**	**1 507 465**
Resident	1 155 217	1 486	(118)	(133 834)	1 022 751
Non-resident	500 514	11 458	(11 972)	(15 286)	484 714
Balance at 4 August 2014	**12 017 160**	**200 394**	**(67 819)**	**(651 482)**	**11 498 253**

[1] Acquisition cost for shares and other variable income securities and amortised cost for debt securities

In accordance with the accounting policy presented in Note 2.6, the Group performs periodic assessments in order to confirm if there is an objective evidence of impairment in its portfolio of Available-for-sale financial assets applying the judgment criteria described in Note 3.1.

As at 4 August 2014, the Group's fair value reserves relate to the reserves of the Group's subsidiaries.

As at 31 December 2014 the exposure, under this balance, to sovereign debt of the Eurozone "peripheral" countries is presented in Note 50 – Risk Management.

The changes occurred in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	651 482
Allocation for the period	211 528
Utilisation during the period	(14 673)
Write-back for the period	(11 785)
Foreign exchange differences and other [(a)]	(79 480)
Balance at the end of the period	**757 072**

[(a)] includes Euros 16 083 thousand regarding BESI, which is now classified as an activity being discontinued

As at 31 December 2014 and as at 4 August 2014 the analysis of Available-for-sale financial assets by maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	1 735 722	2 146 045
3 months to 1 year	1 465 553	2 142 414
1 to 5 years	1 040 317	1 589 968
More than 5 years	2 854 893	2 862 468
Undetermined	2 381 984	2 757 358
	9 478 469	**11 498 253**

The main exposure to equities as at 31 December 2014 and as at 4 August 2014 are as follows:

Description	Acquisition cost	Fair value reserves		Impairment	Book value
		Positive	Negative		
Portugal Telecom	346 678	-	-	(269 274)	77 404
Oi, SA	74 955	-	(3 547)	(40 882)	30 526
Banque Marocaine du Commerce Extérieur	81 004	9 413	-	-	90 417
	502 637	**9 413**	**(3 547)**	**(310 156)**	**198 347**

(in thousands of Euros)

04.08.2014					
Description	Acquisition cost	Fair value reserves		Impairment	Carrying value
		Positive	Negative		
Portugal Telecom	346 678	-	(5 937)	(201 775)	138 966
Oi, SA	74 960	-	(19 920)	-	55 040
Banque Marocaine du Commerce Extérieur	81 002	4 258	-	-	85 260
	502 640	**4 258**	**(25 857)**	**(201 775)**	**279 266**

Available-for-sale financial assets split between quoted and unquoted securities are as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	4 228 853	30 070	4 258 923	4 686 040	280 885	4 966 925
Issued by other entities	924 303	1 908 148	2 832 451	1 565 018	2 256 556	3 821 574
Shares	339 407	890 132	1 229 539	420 254	782 035	1 202 289
Other variable income securities	344 372	813 184	1 157 556	650 911	856 554	1 507 465
	5 836 935	**3 641 534**	**9 478 469**	**7 322 223**	**4 176 030**	**11 498 253**

A breakdown of the available-for-sale securities, by fair value, is presented in Note 49.

Portfolio securities pledged by the Group are analysed in note 45.

NOTE 24 – LOANS AND ADVANCES TO CREDIT INSTITUTIONS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Loans and advances to credit institutions in Portugal		
Deposits with credit institutions	39 863	17 107
Loans	54 773	113 137
Very short-term placements	-	7 520
Other loans and advances	-	2 618
	94 636	**140 382**
Loans and advances to credit institutions abroad		
Deposits	387 365	3 484 466
Very short-term placements	51 767	12 326
Loans	59 845	77 514
Other loans and advances	402 721	36 446
	901 698	**3 610 752**
Overdue loans and advances	389 910	391 471
	1 386 244	**4 142 605**
Impairment losses	(341 958)	(3 041 988)
	1 044 286	**1 100 617**

As at 31 December 2014, impairment losses include Euros 339.9 million for the exposure to ES Bank Panamá, that is totally provided for as at 4 August 2014. Impairment losses as at 4 August 2014 also included (i) Euros 2 750.4 million for the exposure to Banco Económico in the amount of Euros 3 438.1 million and (ii) Euros 275.3 million for the exposure to ES Bank Panamá in the amount of Euros 338.8 million, which is recorded in the subsidiary BIBL (see Note 50).

During October 2014, the Banco Nacional de Angola ((BNA) the Angolan Central Bank) made several financial restructuring decisions in respect of BES Angola (now Banco Económico) with an impact on the NOVO BANCO loan. In this context, (i) a new senior loan in an amount equivalent to Euros 317 million, 50% of which covered by Angolan sovereign debt securities, and (ii) a subordinated loan of Euros 317 million were constituted and Euros 54 million of debt were converted into 9.7% of Banco Económico's share capital. The difference to the original debt, amounting to Euros 2 750.4 million, fully provided in the opening balance sheet, was derecognised and the referred provision was used.

Tthe restructuring measures imposed to Banco Económico included the approval of a share capital increase of Kwanza 65 million, to be realised in cash which, together with the Kwanza 7 million NOVO BANCO debt conversion, resulted in a share capital totalling Kwanza 72 million (equivalent to Euros 575 million, at the 31 December 2014 foreign exchange rate), detailed as follows:

	Amount (millions of kwanzas)	%
GENI	14.3	19.9
LEKTRON CAPITAL	22.3	31.0
SONANGOL EP	11.5	16.0
SONANGOL VIDA	11.5	16.0
SONANGOL HOLDINGS	5.3	7.4
NOVO BANCO	7.0	9.7
	72.0	100.0

Taking into account (i) the implicit haircut of 80% as a result of the restructuring measures applied by the BNA, which resulted in an impairment already recognised by NOVO BANCO of Euros 2,750.4 million, (ii) the capital inflow (new money) from the new Banco Económico shareholder structure (iii) the current performance of the loans from NOVO BANCO, the Board of Directors of NOVO BANCO does not expect any additional impairment loss on NOVO BANCO's total exposure to Banco Económico amounting to Euros 688 million as at 31 December 2014.

As at 31 December 2014 and as at 4 August 2014, the analysis of loans and advances to credit institutions by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	244 092	893 469
3 months to 1 year	80 932	2 801 194
1 to 5 years	356 553	50 999
More than 5 years	314 757	5 472
Undetermined	389 910	391 471
	1 386 244	**4 142 605**

The changes occurred during the referred period in the impairment losses of loans and advances to credit institutions are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	3 041 988
Allocation in the period	63 009
Utilisation during the period	(2 940 961)
Write-back for the period	(252)
Foreign exchange differences and other [(a)]	178 174
Balance at the end of the period	**341 958**

[(a)] includes Euros 248 thousand regarding BESI, w hich is now classified as an activity being discontinued and Euros 190 580 thousand of foreign exchange rate variation on the allow ance for the exposure to Banco Económico, w hich w as used during the month of October.

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Domestic loans and advances		
Corporate		
Loans	12 004 144	12 787 449
Current Account loans	3 533 539	4 088 732
Financial leases	1 933 695	2 043 457
Discounted bills	193 120	249 931
Factoring	760 863	861 611
Overdrafts	13 570	84 533
Other loans and advances	39 913	147 200
Private individuals		
Mortgage loans	9 340 446	9 532 179
Consumer credit and other loans	1 216 134	1 337 571
	29 035 424	**31 132 663**
Foreign loans and advances		
Corporate		
Loans	3 702 414	5 624 841
Current Account loans	1 038 097	1 321 725
Financial leases	72 115	93 229
Discounted bills	401 058	401 593
Factoring	76 025	52 238
Overdrafts	369 921	164 812
Other loans and advances	351 742	425 004
Private individuals		
Mortgage loans	769 228	767 109
Consumer credit and other loans	326 921	385 315
	7 107 521	**9 235 866**
Overdue loans and interest		
Up to 3 months	449 009	181 326
3 months to 1 year	803 861	672 608
1 to 3 years	1 515 506	1 655 493
More than 3 years	1 148 937	939 741
	3 917 313	**3 449 168**
	40 060 258	**43 817 697**
Impairment losses	(5 130 944)	(5 248 266)
	34 929 314	**38 569 431**

The classification of BESI as a unit being discontinued contributed to a decrease in loans and advances to customers of Euros 2 155 million (net of impairment: Euros 1 945 million).

As at 31 December 2014, the balance for Loans and advances to customers (net of impairment) includes an amount of Euros 2 679.7 million (4 August 2014: Euros 2 800.2 million) related to securitisation operations in respect of which, in accordance with the accounting policy presented in Note 2.2, the structured entities are consolidated by the Group (see Note 1 and 48). The liabilities related to these securitisation operations are booked as Liabilities represented by debt securities (see Notes 37 and 48).

On 31 December 2014, loans and advances to customers include Euros 5 359.3 million in mortgage loans that collateralise the issue of covered debt securities (4 August 2014: Euros 5 351.9 million) (see Note 37).

This balance includes, as at 31 December 2014, Euros 326 398 thousand recorded in the balance sheet at fair value through profit or loss (4 August 2014: Euros 536 212 thousand) (see Note 49).

On 31 December 2014, the amount of interest income and commission and fees recorded in the balance sheet relating to credit operations amounts to Euros 30 960 thousand (4 August 2014: Euros 85 650 thousand).

As at 31 December 2014 and as at 4 August 2014, the analysis of loans and advances to customers by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	5 256 209	4 674 189
3 months to 1 year	3 947 120	6 228 048
1 to 5 years	7 523 555	8 160 789
More than 5 years	19 416 061	21 305 503
Undetermined	3 917 313	3 449 168
	40 060 258	**43 817 697**

The changes occurred during the period in the impairment losses of loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	5 248 266
Allocation for the period	975 922
Utilisation during the period	(162 026)
Write-back for the period	(597 802)
Discounting effect	(44 892)
Foreign exchange differences and other [(a)]	(288 524)
Balance at the end of the period	**5 130 944**

[(a)] includes the exclusion of Euros 210 088 thousand regarding BESI, which is now classified as an activity being discontinued

As at 31 December 2014 and as at 4 August 2014, the impairment is analysed as follows:

(in thousands of Euros)

	31.12.2014						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Loans net of impairment
Corporate loans	15 038 925	4 623 258	12 969 871	92 782	28 008 796	4 716 040	23 292 756
Loans to individuals - mortgage	2 050 471	182 130	8 179 590	8 844	10 230 061	190 974	10 039 087
Loans to individuals - other	541 484	215 800	1 279 917	8 130	1 821 401	223 930	1 597 471
Total	17 630 880	5 021 188	22 429 378	109 756	40 060 258	5 130 944	34 929 314

(in thousands of Euros)

	04.08.2014						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Loans net of impairment
Corporate loans	15 677 133	4 786 327	15 781 471	56 810	31 458 604	4 843 137	26 615 467
Loans to individuals - mortgage	2 069 982	177 166	8 340 792	5 452	10 410 774	182 618	10 228 156
Loans to individuals - other	541 033	209 512	1 407 286	12 999	1 948 319	222 511	1 725 808
Total	18 288 148	5 173 005	25 529 549	75 261	43 817 697	5 248 266	38 569 431

Credits with impairment indicators correspond to loans with objective evidence of loss ("Loans in default") and to loans classified as "High Risk Loans". The objective evidence of loss exists when there is a default event, i.e., the moment there is a significant change in the lender-borrower relationship, that subjects the lender to a monetary loss. The "High Risk Loans" correspond to loans without an objective evidence of loss, but with risk indicators (e.g. clients with loans overdue by more than 30 days but less than 90 days; clients in litigation in the Central Credit Register; customers with high risk rating / scoring; customers allocated to the Departamento de Acompnhamento e Estruturação de Empresas (Department of Monitoring and Structuring of Companies); and loans restructured due to financial difficulties of the debtor that is not in default).

Loans with no impairment indicators relate to “Low risk loans”. All exposures that do not present any of the indications of Higher Risk referred above and exposures for which the impairment loss determined is equal to or less than 0.05%, are classified as “Low risk loans”. These situations correspond to loans, for which the impairment determined is immaterial due to existence of guarantees / collateral, allowing their classification as “Low risk loans”, regardless of their original classification.

The distribution of loans by interest rate type is as follows:

(in thousands of Euros)	31.12.14
Fixed interest rate	2 864 174
Variable interest rate	37 196 084
	40 060 258

In order to mitigate the credit risk, credit operations have associated guarantees, including mortgages or pledges. The fair value of the guarantees is determined on the date of the loan disbursements, being revaluated periodically.

The loans and advances to customers and respective collateral are presented as follows:

(in thousands of Euros)

	31.12.2014		04.08.2014	
	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
Residential Mortgage loans				
Mortgages	10 120 931	10 100 513	10 318 944	10 302 653
Pledges	3 113	2 931	3 406	3 204
Not collateralised	106 017	-	88 424	-
	10 230 061	10 103 444	10 410 774	10 305 857
Other loans to individuals				
Mortgages	285 279	260 193	307 137	293 808
Pledges	253 812	167 415	322 053	199 913
Not collateralised	1 282 310	-	1 319 129	-
	1 821 401	427 608	1 948 319	493 721
Corporate loans				
Mortgages	7 272 107	6 110 026	7 949 159	6 758 580
Pledges	2 933 002	1 017 941	3 131 065	1 042 874
Not collateralised	17 803 687	-	20 378 380	-
	28 008 796	7 127 967	31 458 604	7 801 454
Total	**40 060 258**	**17 659 019**	**43 817 697**	**18 601 032**

The analysis of the financial lease loans by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Gross investment in finance leases receivable		
Up to 1 year	332 154	343 284
1 to 5 years	953 895	1 049 768
More than 5 years	1 002 031	1 053 991
	2 288 080	2 447 043
Unrealised finance income in finance leases		
Up to 1 year	56 476	51 254
1 to 5 years	139 498	173 733
More than 5 years	43 072	40 046
	239 046	265 033
Present value of minimum lease payments receivable		
Up to 1 year	275 678	292 030
1 to 5 years	814 397	876 035
More than 5 years	958 959	1 013 945
	2 049 034	2 182 010
Impairment	(299 609)	(275 628)
	1 749 425	**1 906 383**

NOTE 26 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2014 and as at 4 August 2014, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Hedging	Risk managemen	Total	Hedging	Risk managemen	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	152 448	252 134	404 582	141 805	249 956	391 761
Derivatives held for risk management purposes - liabilitie:	(100 063)	(4 077)	(104 140)	(76 178)	(45 009)	(121 187)
	52 385	**248 057**	**300 442**	**65 627**	**204 947**	**270 574**
Fair value component of assets and liabilities hedged or accounted at fair value through profit or loss						
Financial assets						
Loans and advances to banks	1 143	-	1 143	1 131	-	1 131
Loans and advances to customers	81 553	-	81 553	63 687	-	63 687
	82 696	**-**	**82 696**	**64 818**	**-**	**64 818**
Financial liabilities						
Deposits from banks	(90 571)	-	(90 571)	(70 009)	4 321	(65 688)
Due to customers	-	(41 970)	(41 970)	(180)	(43 333)	(43 513)
Debt securities issued	(13 287)	(321)	(13 608)	(21 168)	(34 591)	(55 759)
	(103 858)	**(42 291)**	**(146 149)**	**(91 357)**	**(73 603)**	**(164 960)**
	(21 162)	**(42 291)**	**(63 453)**	**(26 539)**	**(73 603)**	**(100 142)**

As mentioned in the accounting policy presented in Note 2.4, derivatives held for risk management purposes include hedging derivatives and derivatives contracted to manage the economic risk of certain Financial assets and liabilities designated at fair value through profit or loss.

Hedging derivatives

As at 31 December 2014 and as at 4 August 2014 fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2014							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Change in fair value of derivative in period	Fair value component of item hedged (1)	Change in fair value of hedged item in period (1)
Currency Interest Rate Swap	Loan and advances to banks	Interest and exchange rates	508 791	(1 677)	(28)	1 143	(17)
Interest Rate Swap / Currency Interest Rate Swap	Loans and advances to customers	Interest and exchange rates	513 947	(79 137)	(18 502)	81 553	17 326
Interest Rate Swap	Deposit from banks	Interest rate	348 000	96 414	20 637	(90 571)	(20 562)
Interest Rate Swap	Due to customers	Interest rate	-	-	(180)	-	180
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	3 503 800	36 785	(7 814)	(13 287)	4 823
			4 874 538	**52 385**	**(5 887)**	**(21 162)**	**1 750**

(1) Attributable to hedged risk

(2) Includes accrued interest

(in thousands of Euros)

04.08.2014							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Change in fair value of derivative in period	Fair value component of item hedged (1)	Change in fair value of hedged item in period (1)
Currency Interest Rate Swap	Loan and advances to banks	Interest and exchange rates	505 855	(1 714)	-	1 131	-
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest and exchange rates	516 687	(60 802)	-	63 687	-
Interest Rate Swap	Deposit from banks	Interest rate	348 000	76 396	-	(70 009)	-
Interest Rate Swap	Due to customers	Interest rate	10 463	2 180	-	(180)	-
Equity / Interest Rate Swap	Debt securities issued	Interest rate / Quotation	3 638 278	49 567	-	(21 168)	-
			5 019 283	**65 627**	**-**	**(26 539)**	**-**

(1) Attributable to hedged risk

(2) Includes accrued interest

Changes in the fair value of the hedged assets and liabilities above mentioned and of the respective hedging derivatives are recognised in the income statement under Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2014, the ineffective portion of the fair value hedging operations resulted in a loss of Euros 4.1 million that was recognised in the income statement. 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 presentd in Notes 2.5, 2.6 and 2.8 and that the Group did not designate for hedge accounting.

The carrying value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2014

Derivative	Associated financial asset / liability	Derivative: Notional	Derivative: Fair value	Derivative: Change in fair value during period	Associated financial asset / liability: Fair value	Associated financial asset / liability: Change in fair value during period	Associated financial asset / liability: Carrying value	Redemption amount at maturity (1)
	Assets							
Credit Default Swap	Loans and advances to customers	267 783	69 939	(17 769)	-	-	-	267 783
	Liabilities							
Interest Rate Swap	Due to customers	6 360 000	49 148	(15 211)	(41 970)	13 092	3 818 561	3 776 591
Interest Rate Swap / FX Forward	Debt securities issued	1 081 125	128 970	15 995	(321)	971	286 573	309 168
		7 708 908	**248 057**	**(16 985)**	**(42 291)**	**14 063**	**4 105 134**	**4 353 542**

(1) Corresponds to the contractually guaranteed amount to be reimbursed at maturity

(in thousands of Euros)

04.08.2014

Derivative	Associated financial asset / liability	Derivative: Notional	Derivative: Fair value	Derivative: Change in fair value during period	Associated financial asset / liability: Fair value	Associated financial asset / liability: Change in fair value during period	Associated financial asset / liability: Carrying value	Redemption amount at maturity (1)
	Assets							
Credit Default Swap	Loans and advances to customers	267 783	52 743	-	-	-	-	267 799
	Liabilities							
Interest Rate Swap	Due to customers	9 550 000	49 362	-	(43 333)	-	7 676 078	7 632 745
Interest Rate Swap / FX Forward	Debt securities issued	1 522 650	81 906	-	6 690	-	362 524	375 481
Credit Default Swap	Debt securities issued	478 178	13 913	-	(25 387)	-	514 390	505 451
Equity Swap	Debt securities issued	814 342	4 896	-	(8 342)	-	367 382	375 529
Equity Option	Debt securities issued	25 274	2 127	-	(3 231)	-	56 724	60 871
		12 658 227	**204 947**	**-**	**(73 603)**	**-**	**8 977 098**	**9 217 876**

(1) Corresponds to the contractually guaranteed amount to be reimbursed at maturity

The credit default swaps associated with loans and advances to customers relates to synthetic securitisation operations, as mentioned in Note 48.

As at 31 December 2014, the fair value of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 137.2 million (4 August 2014: positive cumulative effect of Euros 110.6 million) attributable to the Group's own credit risk. The change in fair value attributable to the Group's own credit risk resulted in the recognition in 2014 of a gain amounting to Euros 26.5 million (see Note 7).

As at 31 December 2014 and as at 4 August 2014 the analysis of derivatives held for risk management purposes by maturity, may be analysed as follows:

	31.12.2014			04.08.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 712 447	2 711 210	27 211	1 920 360	1 945 226	4 432
3 months to 1 year	1 289 229	1 288 481	3 353	2 876 050	2 973 191	40 746
1 to 5 years	1 145 240	1 145 240	46 430	2 633 367	2 957 029	44 076
More than 5 years	1 159 700	1 131 899	223 448	1 187 155	1 185 132	181 320
	6 306 616	**6 276 830**	**300 442**	**8 616 932**	**9 060 578**	**270 574**

NOTE 27 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This balance, as at 31 December 2014 and as at 4 August 2014, is analysed as follows:

(in thousands of Euros)

	31.12.2014		04.08.2014	
	Assets	Liabilities	Assets	Liabilities
Assets / liabilities of subsidiaries acquired for resale	**1 192 469**	**330 903**	**922 315**	**215 244**
Impairment losses	(402 533)		(310 087)	-
Net amount	789 936	330 903	612 228	215 244
Property held for sale	2 767 686	-	2 592 317	-
Equipment held for sale	12 263	-	10 661	-
Other tangible assets held for sale	4 164	-	4 164	-
	2 784 113	**-**	**2 607 142**	**-**
Impairment losses	(826 881)	**-**	(820 307)	**-**
Net amount	1 957 232	-	1 786 835	-
	2 747 168	**330 903**	**2 399 063**	**215 244**

Non-current assets and liabilities held for sale include, namely (i) the assets / liabilities of subsidiaries acquired for resale relating to companies controlled by the Group but acquired exclusively for the purpose of resale in the short-term, and (ii) foreclosure real estate property or real estate property built for sale.

As at 31 December 2014, the assets of subsidiaries acquired for resale purposes have the following breakdown:

(in thousands of Euros)

	31.12.2014				04.08.2014		
	Share-holding %	Amounts incorporated by Grupo NB			Share-holding %	Amounts incorporated by Grupo NB	
		Assets	Liabilities	Net result for period		Assets	Liabilities
Greenwoods Ecoresorts empreendimentos imobiliários, SA	100.00%	228 275	263	277	97.89%	226 758	289
Sealion Holdings Limited	57.00%	205 260	139 182	1 626	57.00%	213 796	154 316
Portucale - Sociedade De Desenvolvimento Agro - Turistico, S.A.	97.42%	61 805	9 255	127	97.19%	61 384	8 961
Autodril - Sociedade Imobiliária, SA	100.00%	49 173	23	96	100.00%	49 063	9
Ribagolfe - Empreendimentos de Golfe, SA	100.00%	9 898	22	(172)	100.00%	9 823	25
Febagri-Actividades Agropecuárias e Imobiliárias SA	100.00%	10 963	154	(57)	100.00%	12 010	1 144
Quinta da Areia - Sociedade Imobiliária, SA	100.00%	11 994	5	(4)	100.00%	11 997	4
Herdade da Boina - Sociedade Imobiliária	100.00%	9 910	24	(43)	100.00%	9 946	17
JCN - IP - Investimentos Imobiliários e Participações, S.A.	97.42%	21 456	264	(762)	97.19%	21 712	308
Herdade Vale da Mata	100.00%	8 104	139	-	100.00%	8 104	139
Sociedade Imobiliária Quinta D. Manuel I, SA	100.00%	2 911	2	(3)	100.00%	2 913	1
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	100.00%	5 844	4	(47)	100.00%	5 890	3
EMSA – Empreendimentos e Exploração de Estacionamentos SA	100.00%	5 692	413	(126)	100.00%	5 765	360
Promotur - Empreendimentos Turísticos, SA	99.875%	4 084	690	(30)	99.875%	4 050	676
Imalgarve - Sociedade de Investimentos Imobiliários, SA	100.00%	20 414	3 229	(45)	100.00%	20 330	3 200
Pocahontas P Holdings, Llc	29.49%	61 818	-	-	29.49%	57 038	-
Tertir - Terminais Portuários, SGPS	36.875%	57 391	-	-	36.875%	57 724	-
ES Logística - FEI (1)	-	-	-	-	63.99%	123 255	44 386
Fundo Gespatrimónio Rendimento	53.88%	400 493	175 231	-	-	-	-
ASAS Invest - FEIIF	100.00%	6 049	14	(148)	100.00%	3 192	9
Other		10 935	1 989	(546)		17 565	1 397
		1 192 469	**330 903**	**143**		**922 315**	**215 244**
Impairment		(402 533)				(310 087)	
		789 936	**330 903**	**143**		**612 228**	**215 244**

(1) - Subject to full consolidation as from December 2014

The changes occurring in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	1 130 394
Allocation / write-back for the period	57 653
Utilisation during the period	(19 144)
Foreign exchange rate differences and other	60 511
Balance at the end of the period	**1 229 414**

In addition to the impairment losses, the Group recognised, in the income statement, the following amounts relating to these assets:

- Losses on the disposal of real estate property, equipment and other assets in the amount of Euros 4.8 million and gains in the amount of Euros 8.7 million; and
- Gains in the amount of Euros 0.1 million on the appropriation of results of subsidiaries held for resale.

The changes occurring in non-current assets held for sale during the period from 4 August to 31 December 2014, are as follows:

(in thousands of Euros)

	31.12.2014		
	Real estate property and other assets	Assets of subsidiaries acquired for resale	Total
Balance at the beginning of the period	2 607 141	922 315	3 529 456
Changes in consolidation perimeter	48 364	(129 872)	(81 508)
Additions	191 123	402 781	593 904
Disposals	(63 118)	-	(63 118)
Others	603	(2 755)	(2 152)
Balance at the end of the period	**2 784 113**	**1 192 469**	**3 976 582**

The Group implemented a plan aiming for the immediate sale of all non-current assets held for sale. However, due to the current market conditions the NB Group has been unable to sell some of the assets within the expected time frame. Nevertheless, the Group continues its efforts to meet the sale programme, from which we highlight the following: (i) a web site specifically aimed at the sale of real estate property; (ii) the development and participation in real estate events in Portugal and abroad; (iii) the celebration of protocols with several real estate agents; (iv) the regular sponsorship of auctions; and (v) sale campaigns in the major emigration centres. Despite its intention to sell the assets, the Group requests on a regular basis to the Banco de Portugal authorisation, under article 114 of RGICSF, to extend the time period the Bank has to hold foreclosed assets.

As at 31 December 2014 and as at 4 August 2014, the detail of the real estate included in non-current assets held for sale, by type, is as follow:

(in thousands of Euros)

	31.12.2014					04.08.2014	
	Number of properties	Gross value	Impairment	Net value	Fair value of asset	Number of properties	Gross value
Land							
Urban	2 922	588 908	157 868	431 040	487 612	2 862	604 839
Rural	631	266 066	73 874	192 192	211 132	580	218 138
	3 553	854 974	231 742	623 232	698 744	3 442	822 977
Buildings under construction							
Commercial	182	50 377	17 145	33 232	36 180	166	63 273
Residential	548	107 338	20 926	86 412	95 040	907	107 000
Other	83	70 080	17 408	52 672	60 979	107	64 840
	813	227 795	55 479	172 316	192 199	1 180	235 113
Buildings constructed							
Commercial	1 534	473 544	246 116	227 428	267 444	1 395	363 319
Residential	6 746	737 189	113 269	623 920	709 508	5 591	668 310
Other	1 330	456 219	132 078	324 141	395 755	1 220	464 631
	9 610	1 666 952	491 463	1 175 489	1 372 707	8 206	1 496 260
Other	**-**	**17 965**	**45 726**	**(27 761)**	**(27 761)**		**37 967**
	13 976	**2 767 686**	**824 410**	**1 943 276**	**2 235 889**	**12 828**	**2 592 317**

The analysis of real estate included in non-current assets held for sale by ageing, is as follows:

(in thousands of Euros)

	31.12.2014				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net value
Land					
Urban	51 538	274 517	91 480	13 505	431 040
Rural	67 634	97 756	24 019	2 783	192 192
	119 172	372 273	115 499	16 288	623 232
Buildings under construction					
Commercial	523	24 100	7 073	1 536	33 232
Residential	4 184	21 092	54 519	6 617	86 412
Other	26 297	19 621	5 866	888	52 672
	31 004	64 813	67 458	9 041	172 316
Buildings constructed					
Commercial	41 792	92 798	64 649	28 189	227 428
Residential	140 644	240 828	203 733	38 715	623 920
Other	37 120	193 534	44 065	49 422	324 141
	219 556	527 160	312 447	116 326	1 175 489
Other	**(27 761)**	**-**	**-**	**-**	**(27 761)**
	341 971	**964 246**	**495 404**	**141 655**	**1 943 276**

(in thousands of Euros)

	04.08.2014				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net value
Land					
Urban	148 180	331 103	104 300	21 256	604 839
Rural	86 955	78 478	36 149	16 556	218 138
	235 135	409 581	140 449	37 812	822 977
Buildings under construction					
Commercial	25 900	29 784	4 241	3 348	63 273
Residential	16 756	37 571	40 917	11 756	107 000
Other	5 112	44 432	6 529	8 767	64 840
	47 768	111 787	51 687	23 871	235 113
Buildings constructed					
Commercial	38 304	156 460	36 653	131 902	363 319
Residential	151 978	296 584	181 523	38 225	668 310
Other	108 487	207 685	109 418	39 041	464 631
	298 769	660 729	327 594	209 168	1 496 260
Other	**26 453**	**11 449**	**-**	**65**	**37 967**
	608 125	**1 193 546**	**519 730**	**270 916**	**2 592 317**

As at 31 December 2014, discontinued premises included as eal estate property amounts to Euros 39 565 thousand (4 August 2014: Euros 21 009 thousand), in respect of which the Group recognised an impairment loss amounting to Euros 9 757 thousand (4 August 2014: Euros 10 803 thousand).

NOTE 28 – INVESTMENT PROPERTIES

The movement in the item Investment properties during the period from 4 August to 31 December 2014 is presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	305 493
Changes in fair value	(1 043)
Other movements	(7 317)
Balance at end of period	297 133

The carrying book value of investment property is the fair value of the properties, as determined by a registered and independent appraiser with a recognised professional qualification and experience in the geographical location and category of the property being valued. Fair values are determined taking into consideration whenever available recent market transactions for similar properties in similar locations to those of the Group's investment properties.

Investment properties are a number of assets held by the subsidiary GNB Vida and include a number of commercial properties that are leased out to third parties. Most lease contracts do not have a specified term, with the lessees being able to cancel it at any time. However, for a small number of commercial properties leased to third parties, the leases contain an initial non-cancellable period of approximately 10 years. Subsequent renewals are negotiated with the lessee.

As at 31 December 2014, the decrease in the fair value of investment property of Euros 1.0 million and the rental income from investment properties of Euros 1.3 million, are recognised in Other operating income and expenses.

Generally accepted criteria and methodologies are used, including analyses using the cost method and the market method.

NOTE 29 – OTHER TANGIBLE ASSETS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Real estate property		
For own use	424 765	437 216
Improvements in leasehold property	188 662	203 091
Other	19	135
	613 446	**640 442**
Equipment		
Computer equipment	264 492	279 346
Fixtures	129 595	133 215
Furniture	122 601	129 298
Security equipment	34 614	34 957
Office equipment	30 438	32 699
Motor vehicles	2 522	3 135
Other	9 111	6 360
	593 373	**619 010**
Other	570	573
	1 207 389	**1 260 025**
Work in progress		
Improvements in leasehold property	669	1 505
Real estate property	45	209
Equipment	1 451	889
Other	4	17
	2 169	**2 620**
	1 209 558	**1 262 645**
Accumulated depreciation	(812 470)	(835 578)
	397 088	**427 067**

The movement in this caption is as follows:

(in thousands of Euros)

	Real estate property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 4 August 2014	**640 442**	**619 010**	**573**	**2 620**	**1 262 645**
Acquisitions	634	11 418	-	2 430	14 482
Disposals / write-offs	(3 540)	(16 207)	-	(99)	(19 846)
Transfers **(a)**	(22 885)	649	-	(1 540)	(23 776)
Foreign exchange differences and other **(b)**	(1 205)	(21 497)	(3)	(1 242)	(23 947)
Balance as at 31 December 2014	**613 446**	**593 373**	**570**	**2 169**	**1 209 558**
Accumulated depreciation					
Balance as at 4 August 2014	**296 155**	**537 813**	**1 610**	**-**	**835 578**
Depreciation	7 761	10 674	110	-	18 545
Disposals / write-offs	(3 459)	(14 753)	-	-	(18 212)
Transfers **(a)**	(3 823)	(40)	-	-	(3 863)
Foreign exchange differences and other **(b)**	(5 293)	(14 213)	(72)	-	(19 578)
Balance as at 31 December 2014	**291 341**	**519 481**	**1 648**	**-**	**812 470**
Carrying value as at 31 December 2014	**322 105**	**73 892**	**(1 078)**	**2 169**	**397 088**
Carrying value as at 4 August 2014	**344 287**	**81 197**	**(1 037)**	**2 620**	**427 067**

(a) Includes Euros 23 776 thousand if real estate property and equipment and Euros 3 863 thousand in accumulated depreciation relating to bank branches discontinued that were transferred at their carrying value to the appropriate captions of the balance sheet

(b) Includes Euros 14 115 thousand of real estate property, Euros 25 742 thousand in equipment, Euros 354 thousand in work in progress and Euros 22 569 thousand in accumulated depreciation relating to the BESI reclassification as an activity being discontinued

NOTE 30 – INTANGIBLE ASSETS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Goodwill	**259 622**	**314 181**
Internally developed		
Software - Automatic data processing system	94 323	66 622
Acquired from third parties		
Software - Automatic data processing system	663 244	687 917
Other	1 368	2 151
	664 612	**690 068**
Work in progress	**19 686**	**32 734**
	1 038 243	**1103 605**
Accumulated amortisation	(670 958)	(665 379)
Impairment losses	(113 553)	(102 288)
	253 732	**335 938**

The movement in this caption is as follows:

(in thousands of Euros)

	Goodwill and Value in force	Software	Other	Work in progress	Total
Acquisition cost					
Balance as at 4 August 2014	**314 181**	**754 539**	**2 151**	**32 734**	**1 103 605**
Acquisitions:					
Internally developed	-	368	-	3 621	3 989
Acquired from third parties	-	5 332	167	6 176	11 675
Disposals / write-offs	-	(4)	-	-	(4)
Transfers **(a)**	-	16 016	-	(16 493)	(477)
Foreign exchange differences and other **(b)**	(54 559)	(18 684)	(950)	(6 352)	(80 545)
Balance as at 31 December 2014	**259 622**	**757 567**	**1 368**	**19 686**	**1 038 243**
Accumulated amortisation					
Balance as at 4 August 2014	**-**	**664 463**	**916**	**-**	**665 379**
Amortisation for the period	-	19 215	90	-	19 305
Disposals / write-offs	-	7	-	-	7
Foreign exchange differences and other **(c)**	-	(12 784)	(949)	-	(13 733)
Balance as at 31 December 2014	**-**	**670 901**	**57**	**-**	**670 958**
Impairment losses					
Balance as at 4 August 2014	**102 288**	**-**	**-**	**-**	**102 288**
Impairment losses	13 526	-	-	-	13 526
Foreign exchange differences and other **(d)**	(2 261)	-	-	-	(2 261)
Balance as at 31 December 2014	**113 553**	**-**	**-**	**-**	**113 553**
Carrying value as at 31 December 2014	**146 069**	**86 666**	**1 311**	**19 686**	**253 732**
Carrying value as at 4 August 2014	**211 893**	**90 076**	**1 235**	**32 734**	**335 938**

(a) Includes Euros 477 thousand of discontinued investment projects that were taken to costs
(b) Includes Euros 95 281 thousand relating to the reclassification of BESI as an activity being discontinued
(c) Includes Euros 16 621 thousand relating to the reclassification of BESI as an activity being discontinued
(d) Includes Euros 2 261 thousand relating to the reclassification of BESI as an activity being discontinued

Goodwill, recognised in accordance with the accounting policy presented in Note 2.2 is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Subsidiaries		
GNB Vida	234 575	234 575
ES Investment Holding [(a)]	-	49 993
ES Gestion	2 460	2 460
Concordia [(a)]	-	1 716
Imbassaí	13 526	13 526
Other	1 168	4 018
Other cash-generating units		
Leasing and Factoring	7 893	7 893
	259 622	**314 181**
Impairment losses		
GNB Vida	(100 027)	(100 027)
Concordia [(a)]	-	(1 716)
Imbassaí	(13 526)	-
Other [(a)]	-	(545)
	(113 553)	(102 288)
	146 069	**211 893**

(a) - BESI is now consolidated as an activity being discontinued, with its investments in associated companies now being recorded under the caption non-current assets available for sale

GNB Vida

The valuation of GNB Vida was determined taking into consideration the Embedded Value and the Goodwill Value. The Embedded Value reflects the sum of (i) the equity of the Company (adjusted for items such as unrealised capital gains / losses, net of taxes) and (ii) the expected present value of flow of distributable future profits from the policies in force at the valuation date (adjusted by the cost of the solvency margin, by the time value of the options and guarantees, and by the cost of the residual risks that are not coverable). The Goodwill Value is the value attributable to the new business to be developed by the Company in the future.

For purposes of the valuation it was used the business projections for the next 30 years and a discount rate of 9.5% was applied, which includes an appropriate risk premium for the estimated future cash-flows. Based on these assumptions the recoverable amount of this investment exceeds its carrying value, including the goodwill component.

NOTE 31 – INVESTMENTS IN ASSOCIATED COMPANIES

The financial information relating to associated companies is presented in the following tables:

(in thousands of Euros)

	Assets		Liabilities		Equity		Income [1]		Profit / (loss) for period [1]	
	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014
LOCARENT	244 567	232 529	227 287	217 195	17 280	15 334	25 176	-	1 835	-
GNB SEGUROS	115 526	111 600	81 090	82 077	34 436	29 523	66 118	-	4 384	-
ESEGUR	35 132	35 422	21 440	22 631	13 692	12 791	26 424	-	901	-
FUNDO ES IBERIA **a)**	-	15 944	-	1 357	-	14 587	-	-	-	-
ASCENDI GROUP	4 314 000	4 314 000	3 750 000	3 750 000	564 000	564 000	-	-	-	-
EMPARK **b)**	764 299	757 815	630 491	620 006	133 808	137 809	60 371	-	218	-
AUVISA - AUTOVIA DE LOS VIÑEDOS	208 484	208 484	213 895	213 895	(5 411)	(5 411)	-	-	-	-
UNICRE **b)**	334 788	314 284	196 044	180 432	138 744	133 852	88 490	-	2 311	-
MOZA BANCO	594 321	459 721	541 454	410 139	52 867	49 582	4 458	-	3 156	-

Note: Data adjusted for consolidation purposes
[1] Amounts generated after 4 August 2014

(in thousands of Euros)

	Participation cost		Economic interest		Book value		Share of profits / (losses) of associated companies attributable to the Group	
	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014
LOCARENT	2 967	2 967	50,00%	50,00%	8 950	7 977	918	-
GNB SEGUROS	3 749	3 749	25,00%	25,00%	8 606	7 378	1 096	-
ESEGUR	9 634	9 634	44,00%	44,00%	12 869	12 472	397	-
FUNDO ES IBERIA **a)**	-	7 972	-	45,93%	-	7 039	-	-
ASCENDI GROUP	188 143	188 143	28,66%	28,66%	149 879	150 075	(196)	-
EMPARK **b)**	55 081	55 081	15,92%	15,92%	51 069	50 314	(154)	-
AUVISA - AUTOVIA DE LOS VIÑEDOS **c)**	41 056	41 056	35,83%	35,83%	34 793	34 792	-	-
UNICRE **b)**	11 497	11 497	17,50%	17,50%	24 280	23 424	404	-
MOZA BANCO	44 921	44 921	49,00%	49,00%	46 970	45 360	1 546	-
Other	94 769	120 002			66 468	89 222	1 210	-
	451 817	**485 022**			**403 884**	**428 053**	**5 221**	**-**
Impairment					**(1 595)**	**-**		
					402 289	**428 053**		

a) Company held by BESI that is now consolidated as an activity being discontinued

b) Although the Group's economic interest is less than 20%, these entities were consolidated under the equity method, as the Group exercises a significant influence over their activities

c) Equity variations on this associated resulting from the ongoing sales process were not recognized.

The movement occurring in this balance is as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	428 053
Acquisitions and additional investments (see Note 1)	2 637
Share of profits / (losses) of associated companies	5 221
Fair value reserves for investments in associated companies	(889)
Changes in consolidation perimeter **(a)**	(33 838)
Foreign exchange differences and other	1 105
Balance at the end of the period	**402 289**

(a) - BESI is now consolidated as an activity being discontinued, with all its investments in associated companies being recorded under the caption Assets of units being discontinued

NOTE 32 – TECHNICAL RESERVES

The technical reserves for direct insurance and reinsurance ceded are analysed as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Unearned premiums reserve	3 268	-	3 268	3 631	-	3 631
Life mathematical reserve	1 404 514	(4 864)	1 399 650	1 644 338	(5 792)	1 638 546
Outstanding claims reserve	30 208	(3 169)	27 039	39 000	(3 400)	35 600
Reserve for profit sharing	19 845	(5)	19 840	16 525	(5)	16 520
Reserve for rate commitments	3 235	-	3 235	2 377	-	2 377
	1 461 070	(8 038)	1 453 032	1 705 871	(9 197)	1 696 674

In accordance with IFRS 4, the contracts issued by the Group in which there is only a transfer of financial risk, with no discretionary profit sharing, are classified as investment contracts (See Note 38).

The life mathematical reserve is presented as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	25 615	(4 864)	20 751	27 270	(5 792)	21 478
Capitalization Products with Profit Sharing	1 378 899	-	1 378 899	1 617 068	-	1 617 068
	1 404 514	(4 864)	1 399 650	1 644 338	(5 792)	1 638 546

The outstanding claims reserve is presented as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	10 306	(3 169)	7 137	12 267	(3 400)	8 867
Capitalization Products with Profit Sharing	19 902	-	19 902	26 733	-	26 733
	30 208	(3 169)	27 039	39 000	(3 400)	35 600

The outstanding claims reserve represents unsettled claims occurring before 31 December 2014 and includes a estimated provision amounting to Euros 581 thousand (4 August 2014: Euros 533 thousand), for unreported claims (IBNR).

The movement in the outstanding claims reserve for the period from 4 August to 31 December 2014, is as follows:

(in thousands of Euros)

	31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**39 000**	**(3 400)**	**35 600**
Incurred claims			
Current period	275 792	(3 431)	272 361
Prior periods	1 171	176	1 347
Paid claims			
Current period	(282 764)	3 090	(279 674)
Prior periods	(2 991)	396	(2 595)
Balance at the end of the period	**30 208**	**(3 169)**	**27 039**

The reserve for profit sharing corresponds to the amounts attributed to policyholders or beneficiaries of insurance contracts, in the form of profit sharing, which have not yet been allocated to or included in the life mathematical reserve.

The movement in the reserve for profit sharing for the period 4 August through 31 December 2014, is as follows:

(in thousands of Euros)

	31.12.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	16 525	(5)	16 520
Changes in the consolidation perimeter	-	-	-
Amounts paid	(1 050)	122	(928)
Estimated attributable amounts	4 370	(122)	4 248
Balance at the end of the period	19 845	(5)	19 840

As at 31 December 2014 and as at 4 August 2014, the reserve for rate commitments relates to the liability adequacy test, which was carried out based on the best estimate assumptions at the balance sheet date (see Note 2.25).

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional annuities	3 235	-	3 235	2 377	-	2 377
Capitalization products with profit sharing	-	-	-	-	-	-
	3 235	-	3 235	2 377	-	2 377

NOTE 33 – OTHER ASSETS

As at 31 December 2014 and as at 4 August 2014, the balance Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Collateral deposits placed	1 247 987	1 468 665
Derivative products	*874 682*	*1 087 009*
Collateral CLEARNET, VISA and EBA	*77 948*	*77 969*
Collateral deposits relating to reinsurance operations	*295 357*	*303 687*
Recoverable government subsidies on mortgage loans	21 844	26 894
Public sector	162 417	182 637
Debtors from the insurance business	1 263	20 890
Other debtors	582 370	671 229
Income receivable	41 467	31 093
Deferred costs	110 535	132 148
Retirement pensions and health-care benefits	5 834	-
Precious metals, numismatics, medal collection and other liquid assets	9 577	10 195
Stock exchange transactions pending settlement	17 523	485 279
Other transactions pending settlement	2 179	125 987
Other assets	162 101	154 788
	2 365 097	**3 309 805**
Impairment losses	**(185 924)**	**(180 630)**
	2 179 173	**3 129 175**

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to be able to perform certain derivative contracts in organised markets (margin accounts) and in over the counter markets (Contract Support Annex – CSA).

The Other debtors amount includes, among others:

- Euros 100 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (4 August 2014: Euros 100 million);
- Euros 66.8 million in shareholder loans and supplementary capital granted to entities within the Group's venture capital business, of which Euros 48.7 million are provided for (4 August 2014: Euros 73.7 million, of which Euros 55.9 million were provided for); and
- Euros 112.9 million of shareholder loans and supplementary capital resulting from the assignment of loans, of which Euros 110.8 million are provided for (4 August 2014: Euros 112.9 million, of which Euros 97.5 million were provided for).

As at 31 December 2014, the caption Deferred costs includes an amount of Euros 76 119 thousand (4 August 2014: Euros 77 591 thousand) relating to the difference between the nominal amount of the loans and advances granted to the Group's employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at their grant date, calculated in accordance with IAS 39. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining service life of the employee.

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement in accordance with the accounting policy described in Note 2.6.

The movements in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	180 630
Allocation for the period	21 850
Utilisation during period	(2 917)
Write-back for the period	(1 030)
Foreign exchange differences and other [(a)]	(12 609)
Balance at the end of the period	**185 924**

[(a)] includes Euros 7 362 thousand of BESI, that is now classified as an activity being discontinued

NOTE 34 – DEPOSITS FROM CENTRAL BANKS

The balance Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
From the European System of Central Banks		
Deposits	385 427	513 346
Other funds	8 140 000	13 204 877
	8 525 427	**13 718 223**
From other Central Banks		
Deposits	86 282	106 153
	86 282	**106 153**
	8 611 709	**13 824 376**

As at 31 December 2014, the caption Other funds from the European System of Central Banks includes Euros 8 286 million, covered by financial assets pledged as collateral (4 August 2014: Euros 13 577 million) (see Note 45).

As at 31 December 2014 and as at 4 August 2014, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	6 971 032	5 698 861
1 to 5 years	1 640 677	8 125 515
	8 611 709	**13 824 376**

NOTE 35 – DEPOSITS FROM BANKS

The balance Deposits from banks is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Domestic		
Deposits	255 052	267 606
Repurchase agreements	140 883	234 471
Other funds	29 999	9 544
	425 934	**511 621**
International		
Deposits	128 321	344 348
Loans	1 042 531	1 326 486
Very short-term funds	1 998	167 379
Repurchase agreements	891 807	1 268 719
Other funds	133 273	561 694
	2 197 930	**3 668 626**
	2 623 864	**4 180 247**

The balance of the Repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.7.

Domestic sales operations with repurchase agreements, totalling Euros 140.9 million have a maturity period of less or equal than three months. For international sales operations with repurchase agreements, the amount of Euros 192.8 million has a maturity period of less or equal than three months, with the remainder (Euros 699.0 million) having a maturity period ranging from one to five years.

As at 31 December 2014 and as at 4 August 2014, the analysis of Deposits from banks by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	718 192	1 963 316
3 months to 1 year	258 187	256 792
1 to 5 years	1 239 762	1 503 168
More than 5 years	407 723	456 971
	2 623 864	**4 180 247**

NOTE 36 – DUE TO CUSTOMERS

The balance Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2014	04.08.2014
Repayable on demand		
Demand deposits	8 515 858	8 388 025
Term deposits		
Term deposits	15 695 076	14 013 494
Other	25 024	21 701
	15 720 100	**14 035 195**
Savings accounts		
Pensioners	459 975	421 576
Other **(a)**	1 929 606	2 257 507
	2 389 581	**2 679 083**
Other funds		
Repurchase agreements	111 450	121 999
Other	1 201 064	1 433 613
	1 312 514	**1 555 612**
	27 938 053	**26 657 915**

(a) At 31 December 2014, includes Euros 441 984 thousand due to the consolidation of the entities Euro Aforro, Top Renda e Poupança Plus, as described in Note 1. From this amount, Euros 194 224 thousand refers to the estimate of the commercial offer which will be presented to the customers that are holders of instruments issued by these entities.

As at 31 December 2014, this caption includes funds in the amount of Euros 3 811 732 thousand recorded in the balance sheet at fair value through profit or loss (4 August 2014: Euros 7 681 237 thousand) (see Note 49).

The balance Sales operations with repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.7.

The sales operations with repurchase agreements, in the amount of Euros 111.5 million, have a maturity period of less than three months.

As at 31 December 2014 and as at 4 August 2014, the analysis of Amounts due to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Repayable on demand	8 515 858	8 388 025
With agreed maturity		
Up to 3 months	10 685 463	8 497 277
3 months to 1 year	6 452 213	7 506 410
1 to 5 years	1 955 005	2 038 440
More than 5 years	329 514	227 763
	19 422 195	**18 269 890**
	27 938 053	**26 657 915**

NOTE 37 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2014	04.08.2014
Euro Medium Term Notes (EMTN)	7 102 399	8 093 133
Certificates of deposit	9 903	326 625
Bonds	954 804	933 449
Covered bonds	884 722	881 608
Other	81 128	918 756
	9 032 956	**11 153 571**

As at 31 December 2014, debt securities issued include an amount of Euros 3 500 million of debt securities issued with a guarantee from the Portuguese Republic (4 August 2014: Euros 3 500 million), all of which had been acquired by the Group at the balance sheet date.

Under the Covered Bonds Programme (Programa de Emissão de Obrigações Hipotecárias), which has a maximum amount of Euros 10 000 million, the Group issued covered bonds in the amount of Euros 4 040 million. The main characteristics of the outstanding issues as at 31 December 2014 are as follows:

Description	Nominal value (in thousands of Euros)	Book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered bonds 3.375%	1 000 000	843 250	17-11-2009	17-02-2015	Annually	3,375%	Baa3	AL
BES Covered bonds DUE JUL 17	1 000 000	-	07-07-2010	09-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds 21/07/2017	1 000 000	-	21-07-2010	21-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds DUE 4.6%	40 000	41 472	15-12-2010	26-01-2018	Annually	Fixed rate 4.6%	Baa3	AL
BES Covered bonds HIPOT. 2018	1 000 000	-	25-01-2011	25-01-2018	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
	4 040 000	**884 722**						

These covered bonds are guaranteed by a cover assets pool, comprising mortgage loans and other assets, segregated in NOVO BANCO Group's accounts as an autonomous patrimony and over which the holders of the relevant covered bonds have a special creditor privilege. The conditions of the covered bonds issued are set up in Decree-Law no. 59/2006, and in Notices 5, 6, 7 and 8 and Instruction 13 of the Banco de Portugal.

As at 31 December 2014, the assets that collateralise these covered bonds amount to Euros 5 359.3 million (4 August 2014: Euros 5 351.9 million) (see Note 25).

The movement that occurred in debt securities issued, during the period from 4 August to 31 December 2014, is as follows:

(in thousands of Euros)

	Balance at 04.08.2014	Issues	Repayments	Net purchases	Other movements [a)]	Balance at 31.12.2014
Euro Medium Term Notes (EMTN)	8 093 133	-	(269 173)	198 703	(920 264)	7 102 399
Certificates of deposit	326 625	-	(314 949) b)	-	(1 773)	9 903
Bonds	933 449	-	(32 360)	(16 171)	69 886	954 804
Covered bonds	881 608	-	-	(44)	3 158	884 722
Other	918 756	-	(766 938)	-	(70 690)	81 128
	11 153 571	**-**	**(1 383 420)**	**182 488**	**(919 683)**	**9 032 956**

[a)] Other movements include accrued interest, corrections for hedging operations, fair value adjustments, foreign exchanges differences and Euros 1 138 286 thousand of BESI, that is now classified as an activity being discontinued

[b)] Certificates of deposit are presented net of repayments, considering their short-term maturity

In accordance with the accounting policy described in Note 2.8, debt securities issued repurchased by the Group are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the period from 4 August to 31 December 2014, the Group recognised a gain of Euros 21.1 million (see Notes 14 and 41).

As at 31 December 2014 and as at 4 August 2014, the analysis of Debt securities issued, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	1 479 672	1 090 072
3 months to 1 year	1 494 148	2 489 217
1 to 5 years	4 069 763	5 739 899
More than 5 years	1 989 373	1 834 383
	9 032 956	**11 153 571**

The main characteristics of debt securities issued are as follows:

(in thousands of Euros)

			31.12.2014				
Entity	Description		Currency	Issue Date	Book value	Maturity	Interest Rate
Novo Banco	BES 3.375%		EUR	2009	843 250	2015	Fixed rate 3.375%
Novo Banco	BES DUE 3.875%		EUR	2010	403 518	2015	Fixed rate 3.875%
Novo Banco	BES DUE 4.6%		EUR	2010	41 472	2017	Fixed rate 4.6%
Novo Banco	BES DUE JULY 16		EUR	2011	59 638	2016	Fixed rate 6.875%
Novo Banco	BES 4 ANOS 7%		EUR	2012	132 690	2016	Fixed rate 7%
Novo Banco	BES 6.9% 2024		EUR	2012	70 611	2024	Fixed rate 6.9%
Novo Banco	BES 5.875% 2015		EUR	2012	753 019	2015	Fixed rate 5.875%
Novo Banco	BES 4.75% 2018		EUR	2013	520 050	2018	Fixed rate 4.75%
Novo Banco	BES 4%		EUR	2014	775 447	2019	Fixed rate 4%
Novo Banco	BES 2.625%		EUR	2014	719 770	2017	Fixed rate 2.625%
NB (Cayman Company Branch)	BIC CAYMAN 27 2001		EUR	2001	47 537	2015	Fixed rate 6.09%
NB (Spain Company Branch)	Mortgage bonds	a)	EUR	2008	81 128	2016	Fixed rate 4.25%
NB (London Company Branch)	Certificates of deposit		USD	2014	4 140	2015	Fixed rate 1.25%
NB (London Company Branch)	Certificates of deposit		USD	2014	5 763	2015	Fixed rate 1.12%
NB (London Company Branch)	EMTN Series 2		EUR	2012	127 373	2016	Nominal rate 7%
NB (London Company Branch)	EMTN Series 3		EUR	2012	112 473	2022	Nominal rate 5%
NB (London Company Branch)	EMTN Series 5		EUR	2012	43 605	2016	Nominal rate 7%
NB (London Company Branch)	EMTN Series 6		EUR	2012	168 831	2022	Nominal rate 5%
NB (London Company Branch)	EMTN Series 7		EUR	2012	171 213	2019	Nominal rate 5%
NB (London Company Branch)	EMTN Series 8		EUR	2012	45 250	2015	Nominal rate 6.75%
NB (London Company Branch)	EMTN Series 9		EUR	2012	221 114	2015	Nominal rate 6.75%
NB (London Company Branch)	EMTN Series 10		EUR	2012	553 812	2019	Nominal rate 5%
NB (London Company Branch)	EMTN Series 11		EUR	2012	66 995	2015	Nominal rate 6.75%
NB (London Company Branch)	EMTN Series 12		EUR	2012	346 913	2019	Nominal rate 5%
NB (London Company Branch)	EMTN Series 13		EUR	2012	246 527	2019	Nominal rate 5%
NB (London Company Branch)	EMTN Series 14		EUR	2012	231 395	2019	Nominal rate 5%
NB (Luxembourg Company Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	18 730	2017	Nominal rate 5.75%
NB (Luxembourg Company Branch)	BES Luxembourg 3% 21/06/22		USD	2012	115 498	2022	Nominal rate 3%
NB (Luxembourg Company Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 082	2043	Fixed rate 3.5%
NB (Luxembourg Company Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	105 922	2043	Fixed rate 3.5%
NB (Luxembourg Company Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	81 386	2043	Fixed rate 3.5%
NB (Luxembourg Company Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	57 667	2043	Fixed rate 3.5%
NB (Luxembourg Company Branch)	BES Luxembourg ZC		EUR	2013	37 475	2048	Fixed rate 7%
NB (Luxembourg Company Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	43 780	2049	Fixed rate 7%
NB (Luxembourg Company Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	43 095	2049	Fixed rate 7%
NB (Luxembourg Company Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	25 682	2051	Fixed rate 7%
NB (Luxembourg Company Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	12 323	2051	Fixed rate 7%
NB (Luxembourg Company Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	2 630	2048	Fixed rate 7%
NB (Luxembourg Company Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	39 402	2048	Fixed rate 7%
NB (Luxembourg Company Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	36 873	2052	Fixed rate 7%
NB (Luxembourg Company Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	21 690	2046	Fixed rate 7%
BES Finance	EMTN 37		EUR	2004	33 957	2029	Effective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100 063	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	216 098	2035	6.00% indexed to swap rate
BES Finance	EMTN 56		EUR	2009	11 468	2043	Fixed rate 7.13%
BES Finance	EMTN 57		EUR	2009	13 138	2044	Fixed rate 7.09%
BES Finance	EMTN 58		EUR	2009	11 588	2045	Fixed rate 7.06%
BES Finance	EMTN 59		EUR	2009	10 694	2042	Fixed rate 6.84%
BES Finance	EMTN 60		EUR	2009	11 215	2040	Fixed rate 6.91%
BES Finance	EMTN 61		EUR	2009	17 583	2041	Fixed rate 6.87%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	10 243	2015	Fixed rate 3%
BES Finance	Exchangeable Bonds		USD	2012	361 759	2015	Fixed rate 3.5%
BES Finance	EMTN 81	a)	EUR	2010	5 102	2015	Fixed rate 3.19%
BES Finance	EMTN 82	a)	EUR	2010	5 919	2015	Fixed rate 3.19%
BES Finance	EMTN 83	a)	EUR	2010	6 021	2015	Fixed rate 3.19%
BES Finance	EMTN 84	a)	EUR	2010	5 818	2015	Fixed rate 3.19%
BES Finance	EMTN 85	a)	EUR	2010	6 481	2015	Fixed rate 3.19%
BES Finance	EMTN 96	a)	EUR	2011	6 892	2015	Fixed rate 5.75%
BES Finance	EMTN 97	a)	EUR	2011	6 691	2015	Fixed rate 5.75%
BES Finance	EMTN 98	a)	EUR	2011	7 654	2015	Fixed rate 5.75%
BES Finance	EMTN 99	a)	EUR	2011	7 856	2015	Fixed rate 5.75%
BES Finance	EMTN 100	a)	EUR	2011	8 667	2015	Fixed rate 5.75%
BES Finance	EMTN 106	a)	EUR	2011	6 534	2015	Fixed rate 5.51%
BES Finance	EMTN 107	a)	EUR	2011	8 864	2015	Fixed rate 5.51%
BES Finance	EMTN 108	a)	EUR	2011	8 915	2015	Fixed rate 5.51%
BES Finance	EMTN 109	a)	EUR	2011	9 624	2015	Fixed rate 5.51%
BES Finance	EMTN 110	a)	EUR	2011	10 131	2015	Fixed rate 5.51%
BES Finance	EMTN 113	a)	EUR	2011	70 505	2021	Fixed rate 5%
BES Finance	EMTN 114	a)	EUR	2011	28 442	2021	Fixed rate 5%
Lusitano SME no. 1	Lusitano SME no. 1- Class A		EUR	2006	4 981	2028	Euribor + 0.15%
Lusitano SME no. 1	Lusitano SME no. 1- Class B		EUR	2006	29 084	2028	Euribor + 0.05%
Lusitano SME no. 1	Lusitano SME no. 1- Class C		EUR	2006	24 245	2028	Euribor + 2.20%
Lusitano Mortgage no. 6	Lusitano Mortgage no. 6- Class A		EUR	2007	460 452	2060	Euribor + 0.20%
Lusitano Mortgage no. 6	Lusitano Mortgage no. 6- Class B		EUR	2007	6 501	2060	Euribor + 0.30%
Lusitano Mortgage no. 6	Lusitano Mortgage no. 6- Class C		EUR	2007	10 002	2060	Euribor + 0.45%
					9 032 956		

a) Liabilities recognized at fair value through profit or with embedded derivative

NOTE 38 – INVESTMENT CONTRACTS

As at 31 December 2014 and as at 4 August 2014, the liabilities arising from investment contracts are analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Fixed rate investment contracts	2 975 244	3 224 800
Investment contracts in which the financial investment risk is borne by the policyholder	1 404 198	1 664 537
	4 379 442	4 889 337

In accordance with IFRS 4, insurance contracts issued by the Group in respect of which there is only a transfer of financial risk, with no discretionary profit sharing, are classified as investment contracts.

The movement in the Investment contracts with fixed rate during the period from 4 August to 31 December 2014 is analysed as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	3 224 800
New contracts / reinforcements	12 167
Benefits paid	(311 468)
Change in the deferred acquisition costs	(1 394)
Technical interest for the period	51 139
Balance at the end of the period	2 975 244

The movement in the Investment contracts in which the financial risk is borne by the policyholder during the period from 4 August to 31 December 2014 is analysed as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	1 664 537
New contracts / reinforcements	43 568
Benefits paid	(173 428)
Technical result for the period	(130 479)
Balance at the end of the period	1 404 198

As at 31 December 2014 the Investment contracts by residual maturity period are as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	6 292	107 486
3 months to 1 year	877 946	392 042
1 to 5 years	1 896 028	2 409 050
More than 5 years	1 599 176	1 980 759
	4 379 442	**4 889 337**

NOTE 39 – PROVISIONS

During the period from 4 August to 31 December 2014 the caption Provisions presents the following movements:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	**567 250**
Increase / (write-backs) for the period	(35 163)
Utilisation during period	(69 426)
Foreign exchange differences and other [(a)]	(52 938)
Balance at the end of the period	**409 723**

(a) includes Euros 34 295 thousand of BESI, that is now classified as an activity being discontinued

Provisions amounting to Euros 409 723 thousand (4 August 2014: Euros 567 250 thousand), are intended to cover certain duly identified contingencies related to the Group's activities and the following are the most relevant:

- Provision amounting to Euros 334.2 million (4 August 2014: Euros 450.6 million) to cover for costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers who hold NOVO BANCO unsubordinated debt, which include Euros 73.6 million (4 August 2014: Euros 74.2 million) related to EE EG Premium. Despite ongoing negociations with all the clients the Board of Directors considers the amount of the provision as adequate based on the experience gained in the negotiations already completed and sale price expectations regarding the bonds and financial instruments subscribed by the customers;
- Contingencies for ongoing tax processes. To cover for these contingencies, the Group maintains provisions of approximately Euros 28.1 million (4 August 2014: Euros 39.4 million). The contingencies for ongoing tax processes includes as at 31 December 2014 provisions of Euros 23.2 million (4 August 2014: Euros 23.9 million) relating to the insurance business, of which Euros 17.8 million (4 August 2014: Euros 16.6 million) relate to tax periods already inspected by the Portuguese Tax Authorities and for which judicial claims totalling Euros 17.8 million (4 August 2014: Euros 17.8 million) have been presented;
- The remaining balance, of Euros 47.4 million (4 August 2014: Euros 77.3 million), is maintained to cover for potential losses related to the normal activities of the Group, such as, amongst others, fraud, theft and robbery and ongoing judicial cases.

NOTE 40 – TAXES

NOVO BANCO and its subsidiaries and associated companies domiciled in Portugal are subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC Code).

For the 2014 period, NOVO BANCO was subject to corporate income tax (IRC) at the IRC rate (23%) approved by Law no. 2/2014, of 16 January and toa Municipal Surcharge ("Derrama Municipal") according to Law no. 23/2013, of 3 September, with a maximum rate of 1.5%, and a State Surcharge ("Derrama Estadual") according to article 87-A of the IRC Code, with a maximum rate of 7%.

Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected under equity captions. In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

For purposes of the deferred tax asset calculation as at 31 December 2014 the following aspects were taken into consideration:

- The transfer of assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, following the resolution of Banco de Portugal of 3 August 2014, constitutes a transfer of assets under article 73 of the IRC Code and as a result of which the tax neutrality regime defined in article 73 et sec of that IRC Code is applicable. This legal-tax framework has received the written approval by the Portuguese Tax Authority;

- Considering the above-mentioned the deferred tax assets and liabilities relating to timing differences arising on the assets and liabilities included in the transfer made under the said resolution were also transferred to NOVO BANCO;

- In accordance with no. 2 of article 145-AU of the RGICSF and the resolutions of the Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct the tax losses reported by BES for IRC purposes was also transferred to NOVO BANCO. Accordingly, the corresponding deferred tax assets were also transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF requesting the confirmation that the tax losses generated by BES and subject to carry-forward can be transmitted to NOVO BANCO;

- Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with Article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:

- The negative equity change arising from the accounting policy change on recognising actuarial gains and losses, which were previously deferred, will be fully deductible in equal parts over 8 years (10 years from the financial period that started on 1 January 2012);
- The settlement effect (determined as the difference between the liability measured in accordance with IAS 19 criteria and the criteria established in the agreement) will be fully deductible for purposes of determining taxable income, in equal parts, over 14 years, according to the average life expectancy of the pensioners whose liabilities were transferred (16 years, counting from the financial period that started on 1 January 2012);

- Considering the previous paragraph, the deferred tax assets arising on the transfer of liabilities and on the accounting policy change regarding the recognition of actuarial gains and losses will be recovered over 14 and 8 years, respectively.

Deferred taxes are calculated based on the tax rates anticipated to be in force at the timing differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Consequently, as at 4 August 2014:

- the deferred tax was, in general terms, calculated applying an aggregate rate of 29.5%, resulting from the sum of the IRC rate (23%) approved by Law no. 2/2014, of 16 January, the Municipal Surcharge (1.5%) and an estimated average rate of State Surcharge (5%);
- the deferred tax relating to tax losses carried forward was specifically determined based on the IRC rate (23%).

As at 31 December 2014:

- the deferred tax relating to tax losses carried forward was specifically determined using on the IRC rate (21%) approved by Law no. 82-B/2014, of 31 December, which changed the IRC Code;
- the deferred tax relating to timing differences was determined based on an aggregate rate of 29%, resulting from the sum of the IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 6.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Banking Levy ("Contribuição sobre o Sector Bancário") was created, which is not eligible as a tax cost, and which regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December and by Law no. 83-C/2013, of 31 December. As at 3 August 2014, and as a result of the transfer of the assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, S.A., to NOVO BANCO, S.A., made in accordance with the terms of the resolution of Banco de Portugal of 3 August 2014, NOVO BANCO had recognised as a deferred cost asset, the amount of Euros 12 951 thousand. This amount was recognised as a cost of NOVO BANCO during the period from 4 August to 31 December 2014.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2014 and as at 4 August 2014, may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014
Financial instruments	134 523	178 915	(40 640)	(92 121)	93 883	86 794
Impairment losses on loans and advances to customers	956 287	1 631 856	-	-	956 287	1 631 856
Other tangible assets	-	-	(20 897)	(16 276)	(20 897)	(16 276)
Intangible assets	-	-	-	-	-	-
Investments in subsidiaries and associated companies	46 211	62 469	(48 132)	(238 014)	(1 921)	(175 545)
Provisions / Reserves	136 397	320 395	-	(10 683)	136 397	309 712
Pensions	214 418	233 744	(147)	(495)	214 271	233 249
Long-term service bonuses	8 636	8 766	-	-	8 636	8 766
Debt securities issued	-	-	(8 533)	(3 013)	(8 533)	(3 013)
Other	19 494	21 475	(7 351)	(7 828)	12 143	13 647
Tax losses brought forward	1 065 033	688 239	-	-	1 065 033	688 239
Deferred tax asset / (liability)	**2 580 999**	**3 145 859**	**(125 700)**	**(368 430)**	**2 455 299**	**2 777 429**
Asset / liability set-off for deferred tax purposes	(75 391)	(287 665)	75 391	287 665	-	-
Net Deferred tax asset / (liability)	**2 505 608**	**2 858 194**	**(50 309)**	**(80 765)**	**2 455 299**	**2 777 429**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilisation of the deductible timing differences. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits up until 2026.

As at 31 December 2014, the deferred tax assets associated with tax losses, per year of expiry, are analysed as follows (in thousands of euros):

(in thousands of Euros)

Expiry year	Amount
2018	159 895
2026	905 138

As referred to in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognized based on the Bank's expectations regarding their recoverability. The assessment of the recoverability of the deferred tax assets was made based on the business plan approved by the Board of Directors for the period 2015-2019, and considering a constant activity growth after that date and up to the expiry of the deferred tax assets generated in 2014 (12 years).

The expectations as to the generation of future taxable income in Portugal are supported, fundamentally, on the favourable evolution of:

- net interest income, reflecting the positive impact of the expected lower cost of term deposits and the normalisation of the Bank's funding cost;
- the reduction of operating costs, reflecting the favourable impact of the reduction in the number of employees and branches;
- loan impairment, in line with the evolution of the Bank's activity based on macroeconomic projections;
- the gains on financial transactions, although below the historical average annual return of 2% of the underlying assets;
- fees and commissions, reflecting a growth of 5%, in line with the evolution of the bank's business and the country macroeconomic environment.

The projections made by the Senior Management for the period 2015-2026 and that support the future taxable profits estimated by NOVO BANCO, do not incorporate any impact resulting from the entry of a new shareholder, which could have direct impacts, namely, in terms of additional funding cost reductions, over and above those already contained in the business plan, in NOVO BANCO's ability to attract business but, essencially, in terms of the strategy set by the current Board of Directors for NOVO BANCO. Nevertheless, it should be noted that these projections were made on a going concern basis, based on historical and forecast information currently considered appropriate for the purpose but that should be reviewed after the completion of the sale process of NOVO BANCO as a transition bank.

The movements in the deferred tax captions were recognised as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	2 777 429
Recognised in Results for the period	(186 575)
Recognised in Fair value reserves	22 019
Recognised in Other reserves	(339)
Change in method of consolidation (BESI)	(102 188)
Transfer to current taxes	(57 729)
Foreign exchange differences and other	2 682
Balance at the end of the period (Assets / (Liabilities))	**2 455 299**

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2014 and as at 4 August 2014, may be analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Assets		
Corporate tax recoverable	27 695	27 942
Other	2 267	2 195
	29 962	30 137
Liabilities		
Corporate tax payable	25 148	66 049
Other	9 125	16 849
	34 273	82 898

The current and deferred taxes recognised in the income statement and in reserves, during the period from 4 August to 31 December 2014is analysed in the following table:

(in thousands of Euros)

	31.12.2014	
	Recognised in the income statement	Recognised in reserves
Financial Instruments	29 689	(22 019)
Impairment losses on loans and advances to customers	571 752	-
Other tangible assets	(610)	5 231
Intangible assets	-	-
Investments in subsidiaries and associated companies	(173 624)	-
Provisions / Reserves	124 155	(4 892)
Pensions	18 875	-
Long-term service bonuses	130	-
Debt securities issued	5 520	-
Other	1 853	-
Tax losses carried forward	(391 165)	-
Deferred taxes	186 575	(21 680)
Current taxes	28 885	3 700
Total tax recognised (profit) / loss	**215 460**	**(17 980)**

The current tax recorded in reserves during the period from 4 August to 31 December 2014 totalling Euros 3 700 thousand is related to unrealised gains included in the fair value reserves of the insurance activity.

The reconciliation of the corporation income tax rate for the portion recognised in the income statement may be analysed as follows:

(in thousands of Euros)

	31.12.2014	
	%	Amount
Net profit / (loss) before tax		**(284 188)**
Banking levy		13 038
Net profit / (loss) before tax for the tax rate reconciliation		**(271 150)**
Tax rate of NOVO BANCO	23,0	
Income tax calculated based on the tax rate of NOVO BANCO		(62 365)
Tax-exempt dividends	0,4	(1 169)
Tax rate change	(47,7)	129 442
Tax losses without expectation of use	(92,7)	251 491
Impairments on equity holdings subject to participation exemption	49,7	(134 739)
Impairments and provisions for loans to customers	22,2	(60 224)
Differences in tax rates on generation / reversal of temporary differences	(13,6)	36 811
Gain / (loss) on units with more favourable tax system	(8,6)	23 207
Taxes of branches and tax withheld abroad	(5,5)	14 890
Differences in tax rates of subsidiaries	(2,5)	6 869
Others income and expenses not relevant for tax purposes	(2,0)	5 489
Other	(2,1)	5 757
Total tax recognised	**(79,5)**	**215 460**

NOTE 41 – SUBORDINATED DEBT

The caption Subordinated debt can be analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Bonds	28 663	49 167
Loans	10 022	9 911
Perpetual Bonds	16 109	16 173
	54 794	**75 251**

The main features of the subordinated debt are presented as follows:

(in thousands of Euros)

		31.12.2014					
Issuer	Designation	Currency	Issue date	Issue amount	Carrying amount	Interest rate	Maturity
BES Vida	Subordinated bonds	EUR	2002	45 000	28 663	Euribor 3M + 2.20%	2022
BES Vida	Subordinated perpetual bonds	EUR	2002	45 000	16 109	Euribor 3M + 2.50%	2015 a)
BES Venetie	Subordinated loans	EUR	2002	9 669	10 022	Fixed rate 4.25%	b)
				99 669	**54 794**		

a) Next call option date
b) Perpetual loan

The movement occurring in subordinated debt during the period from 4 August to 31 December 2014 is as follows:

(in thousands of Euros)

	Balance as at 04.08.2014	Issues	Repayments	Net purchases	Other movements [a]	Balance as at 31.12.2014
Bonds	49 167	-	-	-	(20 504)	28 663
Loans	9 911	-	-	-	111	10 022
Perpetual Bonds	16 173	-	-	(15)	(49)	16 109
	75 251	**-**	**-**	**(15)**	**(20 442)**	**54 794**

[a] Other movements include accrued interest, hedging transactions adjustments, fair value adjustments and foreign exchange changes and, also Euros 20 996 thousand of BESI that is now classified as an activity being discontinued.

In accordance with the accounting policy described in Note 2.8, debt securities issued repurchased by the Group are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the period from 4 August to 31 December 2014 the Group recognised a loss of Euros 1.3 million (see Notes 14 and 37).

Under subparagraph (iv) of paragraph (b) of point 1 of Appendix 2 of the Resolution of the Board of Directors of the Banco de Portugal, of 3 August 2014, as amended by the Resolution of 11 August 2014 ("Resolution deliberation") no liabilities arising from the issue of financial instruments that were, or at some point had been, eligible for the calculation of BES's own funds, which include subordinated debt and other equity instruments issued by the BES Cayman Islands branch, amounting to Euros 206 million as at 31 December 2014, were transferred to NOVO BANCO.

These instruments are held by the company BES Finance that acquired them when they were issued by BES, an issue which occurred simultaneously with the placement of financial instruments issued by BES Finance itself, on the same terms and conditions and for an amount equal to the issue made by BES. Consequently, the instruments issued by BES Finance benefited from BES' own guarantee.

The company BES Finance was, at the time of issuance of the aforementioned financial instruments, wholly owned by BES and was, as at 31 December 2014, wholly owned by NOVO BANCO pursuant to the Resolution deliberation.

Considering the above, under the Resolution deliberation, the legal system regarding the resolution and the European Union rules on State aid, there are no liabilities relating to these financial instruments in NOVO BANCO, as these liabilities remained in BES. For this reason, the Board of Directors of NOVO BANCO did not reflect such liabilities in the consolidated balance sheet as at 31 December 2014.

Since the application of the resolution measure, the Cayman Islands branch has not made any payments under the subordinated debt and the Banco de Portugal has waived BES from complying with obligations previously contracted and, consequently, no payment has been made to the holders of BES Finance's subordinated debt. Additionally, BES Finance did not pay the dividend payment due on the preference shares.

The Board of Directors of NOVO BANCO is presently analysing the measures deemed necessary to ensure the separation of BES Finance's liabilities, so as to transfer the senior debt to a new entity. During May, noteholders meetings were scheduled for the noteholders to decide on their no opposition to the change of the senior debt issuer. On this premises, and for purposes of preparing the consolidated balance sheet, NOVO BANCO did not registered the assets and subordinated debt and the preference shares of BES Finance.

NOTE 42 – OTHER LIABILITIES

As at 31 December 2014 and as at 4 August 2014, the balance Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Public sector	56 433	71 869
Security deposit accounts	75 257	146 317
Creditors for transactions with securities	5 615	44 353
Suppliers	40 127	32 468
Creditors for factoring operations	2 987	8 215
Creditors for insurance operations	10 132	24 753
Other creditors	289 358	271 296
Long-term service bonuses (see Note 16)	29 799	29 131
Retirement pensions and health-care benefits (see Note 16)	66 073	165 228
Other accrued expenses	161 617	44 277
Deferred income	27 386	45 166
Stock exchange transactions pending settlement	4 988	292 078
Foreign exchange transactions pending settlement	39 168	30 758
Other transactions pending settlement	49 123	119 292
	858 063	**1 325 201**

As at 31 December 2014, the caption Deferred income includes the amount of Euros 15 142 thousand (4 August 2014: Euros 17 996 thousand) relating to the value in-force of the remaining contracts acquired from GNB Vida, following the reinsurance transaction performed in 2013 covering the life insurance portfolio held. This amount will be amortise to income over the remaining life of the respective contracts.

Stock exchange transactions pending settlement refer to transactions with securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.6.

NOTE 43 – SHARE CAPITAL

Ordinary shares

As at 31 December 2014, the Bank's share capital, in the amount of Euros 4 900 000 000, is represented by 4 900 000 000 registered shares, with a nominal value of Euro 1 per share, fully subscribed and realised by the Resolution Fund.

NOTE 44 – RESERVES, RETAINED EARNINGS, OTHER COMPREHENSIVE INCOME AND NON-CONTROLLING INTERESTS

The Group's reserves had the following breakdown as at 31 December 2014 and as at 4 August 2014:

(in thousands of Euros)

	31.12.2014	04.08.2014
Originating reserve	756 477	773 192
Fair value reserves	194 654	99 130
Other reserves	(73 119)	193 681
	878 012	**1 066 003**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from Banco Espírito Santo to NOVO BANCO, on the terms defined in the resolution measure applied by Banco de Portugal to Banco Espírito Santo. The amount of the reserve includes the effects of Banco de Portugal's Resolution Measure ("Medida de Resolução") and of the conclusions of the audit conducted by the independent auditor appointed by the Banco de Portugal. The adjustment in the originating reserve results from clarifications regarding the resolution measure made by the Banco de Portugal after the date of the publication of the opening balance sheet, and that resulted in accounting adjustments relating to the transfer of assets and liabilities from Banco Espírito Santo to NOVO BANCO.

Fair value reserves

The fair value reserves represents the amount of the unrealised gains and losses arising from the securities portfolio classified as available-for-sale, net of impairment losses. The reserve amount is shown net of deferred taxes and non-controlling interests. As at 4 August 2014 the fair value reserves reflects the reserves of the subsidiaries of the Group, which were not the object of resolution by Banco de Portugal.

The movements in these captions may be presented as follows:

(in thousands of Euros)

	Fair value reserves			Other comprehensive income, Other reserves and Retained earnings				
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Actuarial deviations (net of taxes)	Exchange differences (net of taxes)	Other reserves and Retained earnings	Total Other reserves and Retained earnings	Total
Balance as at 4 August 2014	**131 353**	**(32 223)**	**99 130**	**(15 513)**	**-**	**982 386**	**966 873**	**1 066 003**
Actuarial Deviations	-	-	-	(249 396)	-	-	(249 396)	(249 396)
Changes in fair value	123 465	(27 941)	95 524	-	-	-	-	95 524
Foreign exchange differences	-	-	-	-	(12 795)	-	(12 795)	(12 795)
Adjustments to originating reserve						(16 715)	(16 715)	(16 715)
Other comprehensive income of associated companies	-	-	-	-	-	5	5	5
Other	-	-	-	-	-	(4 614)	(4 614)	(4 614)
Balance as at 31 December 2014	**254 818**	**(60 164)**	**194 654**	**(264 909)**	**(12 795)**	**961 062**	**683 358**	**878 012**

Fair value reserves is analysed as follows:

(in thousands of Euros)

	31.12.2014	**04.08.2014**
Amortised cost of available-for-sale financial assets	9 959 371	12 017 160
Accumulated impairment losses recognised	(757 072)	(651 482)
Amortised cost of available-for-sale financial assets, net of impairment	9 202 299	11 365 678
Market value of available-for-sale financial assets	9 478 469	11 498 253
Unrealised gains / (losses) recognised in fair value reserves	276 170	132 575
Deferred taxes	(60 164)	(32 223)
Unrealised gains / (losses) of associated companies recognised in the fair value reserves	(889)	-
Total fair value reserves	215 117	100 352
Fair value reserves of activities being discontinued	(17 757)	-
Non-controlling interests	(2 706)	(1 222)
Fair value reserves attributable to the shareholders of the Bank	**194 654**	**99 130**

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	**99 130**
Changes in fair value	(41 072)
Disposals during the period	(34 271)
Impairment recognised in the period	198 808
Deferred taxes recognised in reserves in the period	(27 941)
Balance at the end of the period	**194 654**

Other reserves and retaining earnings

Other reserves and retaining earnings correspond to reserves and to the results earned during the period from 1 January to 3 August 2014 from the activities of the subsidiaries of the Group which were not object of resolution by Banco de Portugal.

Non-controlling interests

Non-controlling interests, by subsidiary, are analysed as follows:

(in thousands of Euros)

	31.12.2014			03.08.2014		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
BESI [a]	-	-	-	3 731	-	-
ES Concessões	23 862	(264)	28,34%	23 868	-	28,34%
FCR Ventures II	10 058	(571)	34,03%	10 328	-	34,02%
ES Logística	8 055	(12)	22,46%	-	-	-
BES Securities	5 948	-	20,00%	7 456	-	20,00%
BES Investimento do Brasil	28 997	-	20,00%	34 315	-	20,00%
ESAF	14 927	803	10,01%	14 845	-	10,01%
NB Açores	15 565	288	42,47%	16 113	-	42,47%
BEST	17 957	(7)	25,00%	17 975	-	25,00%
BES Vénétie	21 812	760	12,50%	21 156	-	12,50%
Other	(17 735)	(3 000)		(15 878)	-	
	129 446	**(2 003)**		**133 909**	**-**	

[a] At 4 August this corresponds to the amount of the issue of Other equity instruments

The movement in non-controlling interests during the period from 4 August to 31 December 2014 may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Non-controlling interests at the beginning of the period	**133 909**
Changes in consolidation perimeter and control percentages	4 142
Increases / (decreases) in share capital of subsidiaries	226
Dividends distributed	(969)
Changes in fair value reserves	1 281
Foreign exchange differences and other	(7 140)
Net profit / (loss) for the period	(2 003)
Non-controlling interests at the end of the period	**129 446**

NOTE 45 – CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2014 and as at 4 August 2014, off-balance sheet elements are as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Contingent liabilities		
Guarantees	6 172 304	7 220 732
Financial assets pledged as collateral	20 662 143	25 487 246
Open documentary credits	2 384 896	3 215 444
Other	84 709	69 932
	29 304 052	**35 993 354**
Commitments		
Revocable commitments	6 423 030	5 787 654
Irrevocable commitments	1 526 985	1 885 246
	7 950 015	**7 672 900**

Guarantees provided are banking operations that do not imply any cash outflow for the Group.

As at 31 December 2014, the caption Assets pledged as collateral includes:

- The market value of assets pledged as collateral to the European Central Bank relating to the liquidity facility amounting to Euros 19.2 thousand million (4 August 2014: Euros 23.8 thousand million);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (“Comissão do Mercado de Valores Mobiliários” (CMVM)) relating to the Investors Indemnity System (“Sistema de Indemnização aos Investidores”) in an amount of Euros 20.0 million (4 August 2014: Euros 20.4 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (“Fundo de Garantia de Depósitos”) amounting to Euros 93.3 million (4 August 2014: Euros 85.9 million);
- Securities pledged as collateral to the European Investment Bank in the amount of Euros 1388.0 million (4 August 2014: Euros 1 440.0 million).

The above mentioned financial assets pledged as collateral are registered 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.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or instruct to pay a certain amount to a supplier of goods or services, within a determined period, against presentation of documentation of the expedition of the goods or rendering of the services. The condition of “irrevocable” derives from the fact that the terms initially agreed to can only be changed or cancelled with the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Group customers (e.g. undrawn lines of credit), which are, generally, contracted for fixed periods of time or with other expiry conditions and usually require the payment of a commission. Almost all the credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, just like any other commercial operation. When necessary, the Group requires that these operations be collateralised. Since it is expected that the majority of these operations will mature without any use of funds, these amounts do not necessarily represent future cash outflows.

Additionally, the off-balance sheet elements related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Deposit and custodianship of securities and other items for customers	44 026 618	55 687 996
Assets received for subsequent collection on behalf of clients	210 526	213 347
Securitised loans under management (servicing)	2 284 192	2 359 847
Other responsibilities related with banking services	2 805 004	5 201 436
	49 326 340	**63 462 626**

Under the resolution measure applied to BES, contained in Appendix 2 of Banco de Portugal's resolution dated 3 August 2014 (point 1., paragraph b), subparagraph (vii)), the "Excluded Liabilities" from the transfer to NOVO BANCO include "any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Grupo Espírito Santo (…)". Considering the above, any liabilities relating to GES related products will remain in Banco Espírito Santo's scope.

Under the terms of the point and paragraph referred to above and sub-point (v) the excluded liabilities also include "any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".

NOVO BANCO, whilst transition bank resulting from the application of a resolution measure to BES under article 145 of the RGICSF, incorporated in the preparation of its separate financial statements a number of measures envisaged in said resolution measure with respect to the transfer of assets, liabilities, off-balance sheet elements and assets under management of BES. Given that the incorporation of the Bank resulted from the application of a resolution measure to BES, which originated material impacts on third parties, the risk of litigation (including that related to Oak Finance) involving NOVO BANCO, related to the Resolution Measure and the definition of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, is significant. In preparing the consolidated financial statements of the Bank as at 31 December 2014 the Board of Directors reflected therein the Resolution Measure and related decisions taken by the Banco de Portugal, as well as the indications that no responsibilities for NOVO BANCO are expected to arise from said litigation, given the legal grounds and the information available at this date.

NOTA 46 – ASSETS UNDER MANAGEMENT (DISINTERMEDIATION)

In accordance with legislation in force, the asset management companies and the depositary bank are jointly liable to the participants of the funds for non-fulfilment of the obligations assumed under the terms of the law and the management regulations of the funds.

As at 31 December 2014 and as at 4 August 2014, the amounts of the investment funds managed by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2014	**04.08.2014**
Securities investment funds	2 709 905	3 852 495
Real estate investment funds	765 292	989 353
Pension funds	1 839 818	1 931 195
Bancassurance	413 135	475 559
Portfolio management	3 055	549 483
Discretionary management	1 368 059	1 658 667
	7 099 264	**9 456 752**

The amounts included in these captions are measured at fair value, determined on the balance sheet date.

NOTE 47 – RELATED PARTY TRANSACTIONS

The amounts of the transactions between the Group and its related parties as at 31 December 2014 and as at 4 August 2014, is summarised as follows:

(in thousands of Euros)

	31.12.2014					04.08.2014		
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees
Shareholder								
FUNDO DE RESOLUÇÃO	-	-	-	-	3 504	3 470	-	-
Associated companies								
ASCENDI GROUP SGPS	525 325	4 550	14 405	65 268	141	495 562	10 047	17 502
LOCARENT	100 505	816	-	3 859	4 544	200 183	720	-
NANIUM	26 057	3 516	188	387	4	26 967	248	188
EMPARK	15	-	-	11	-	122	-	-
ASCENDI PINHAL INTERIOR	152 540	15 815	7 935	21 168	-	152 262	9 617	7 935
PALEXPO	2 897	-	-	-	-	2 897	-	-
GNB SEGUROS	26	10 812	-	41	107	185	11 493	-
ESEGUR	5 869	10	1 008	565	259	6 585	1	1 028
ES CONTACT CENTER	268	238	-	1	3	1 921	-	40
UNICRE	11	2	-	-	-	15 004	4	-
MULTIPESSOAL	15 122	20	980	639	39	17 356	72	1 074
2BCAPITAL	-	-	-	-	-	2 543	1	-
ADVANCE CICLONE SYSTEMS	-	538	321	-	9	-	899	99
AUVISA	868	-	-	18	-	845	-	-
BANCO DELLE TRE VENEZIE	-	35	-	-	-	-	15	10
COPORGEST	22 068	1 189	361	710	29	17 909	964	670
COREWORKS	-	214	-	-	-	152	90	-
DOMÁTICA	73	5	-	-	-	74	20	-
EDENRED	5	31 362	26	-	666	1	32 817	26
ENKROTT	333	2	57	4	-	382	88	57
ESIAM	224	-	-	-	-	198	-	-
FCR ESVInovação	-	3 028	-	-	3	-	879	-
GLOBAL ACTIVE	58	1	-	14	-	2 053	-	-
IBERIA	-	150	-	499	-	-	54	-
MCO2	550	1	-	-	-	-	1	-
MOZA BANCO	35 029	7 401	2 148	2 664	12	49	46 714	1 949
NUTRIGREEN	24 168	17	2 614	1 939	-	23 706	2	2 614
OUTSYSTEMS	-	5 056	-	-	10	-	5 735	-
SOUSACAMP	64	-	-	-	-	5 712	-	-
YDREAMS	7 300	-	9	654	-	7 974	-	200
YUNIT	4 093	55	67	-	-	3 995	82	67
	923 468	**84 833**	**30 119**	**98 441**	**9 330**	**988 107**	**120 563**	**33 459**

The asset registered in the balance sheet relating to associated companies included in the above table relate mainly to loans and advances and shareholder loans granted or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

All the transactions made with related parties are carried out at normal market prices, complying with the fair value principle.

Credit granted to members of the Board of Directors of credit institutions is regulated by article 85 of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF) and by the Banco de Portugal's Instruction no. 17/2011. The Directors of NOVO BANCO are related parties and as at 31 December 2014 there were no transactions between them and the Group.

From the above mentioned regulations, the following rules are highlighted:

(i) credit concession is prohibited in any form, including in the form of guarantees, whether directly or indirectly:

- to executive members of the Board of Directors, to the Supervisory Board members and to companies or other legal entities directly or indirectly controlled by those members, with the exception of operations of a social nature or purpose, those arising out of company personnel policies or those resulting from the use of credit cards tied to deposit accounts on conditions similar to those applied to other customers with similar risk profiles, under the terms laid down in no. 4 of article 85 of RGICSF;

- to spouses and relatives in the 1st degree of executive members of the Board of Directors or of the Supervisory Board and to companies or other legal entities directly or indirectly controlled by any of those people, except when there has been a defeat of the presumption (foreseen in no. 2 of article 85 of RGICSF) that the credit granted to those people and entities is indirect credit to the executive members of the Board of Directors or of the Supervisory Board, whichever is the case, or in the situations foreseen in the scope of no. 4 of article 85 of RGICSF, mentioned above;

(ii) certain procedures have to be mandatorily complied with, namely up-front communication to Banco de Portugal of cases in which the indirect credit presumption is defeated, foreseen under no. 2 of article 85 of RGICSF;

(iii) mandatory compliance with approval requirements establishing the need for a qualified majority of at least two-thirds of the remaining members of the Board of Directors (in which the beneficiary directors cannot intervene) and a favourable opinion issued by the Supervisory Body when the credit is granted to non-executive members of the Board of Directors (that are not members of the Supervisory Body) and / or companies or other legal entities directly or indirectly controlled by them; and

(iv) mandatory compliance with approval requirements establishing the need for a majority of at least two-thirds of the remaining members of the Board of Directors (in which the beneficiary directors cannot intervene) and a favourable opinion issued by the Supervisory Body when credit is granted to entities (not controlled, directly or indirectly, by the Executive Directors or by members of the Supervisory Body) in which the members of the Board of Directors or of the Supervisory Body hold qualified shareholdings or hold managerial positions. These rules are reflected in the internal regulations of NOVO BANCO.

To improve the credit granting process to members of the corporate bodies and other employees of NOVO BANCO Group (GNB), the Board of Directors of NOVO BANCO, in December 2014, deliberated a set of principles and rules to apply to credit operations. These regulations apply to all the entities / organic units of NOVO BANCO, that is, to all the companies whose voting rights exercised or directors nominated by NOVO BANCO, are equal to or exceed 50%, directly or indirectly, those units including the company branches or representation offices of any of the companies referred to. Any loans of any nature, with or without collateral, that are granted, namely, to the members of the corporate bodies (including directors, members of the Supervisory Board and statutory auditor), advisors, and general managers, must be submitted for prior approval by the Board of Directors of NOVO BANCO.

All credit granted to related parties is included in the impairment model, being subject to impairment assessments equal to the commercial credit granted by the Group.

NOTE 48 – SECURITISATION OF ASSETS

As at 31 December 2014 and as at 4 August 2014, the outstanding securitisation transactions realised by the Group were as follows:

(in thousands of Euros)

Issue	Initial date	Original amount	Current amount	Asset securitised
Lusitano Mortgages No.1 plc	December 2002	1 000 000	298 553	Mortgage loan (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	299 387	Mortgage loan (general and subsidised regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	444 692	Mortgage loan (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	516 264	Mortgage loan (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	725 295	Mortgage loan (general regime)
Lusitano SME No.1 plc	October 2006	862 607	137 923	Loans to small- and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	687 131	Mortgage loan (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	105 414	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 646 516	Mortgage loan (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516 534	1 610	Leverage Finance
Lusitano Finance No.3	November 2011	657 981	186 105	Consumer loans

Additionally, as at 31 December 2014 and as at 4 August 2014, the following synthetic securitisation operations were in progress:

(in thousands of Euros)

Issue	Start date	Original amount of CDS	Current amount of CDS	Asset securitised
Lusitano Synthetic Limited	December 2012	1 000 000	1 000 000	Medium-/long-term financing of SME's
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 832 081	Current accounts

The loans and advances to customers covered by the securitization operations Lusitano Mortgages No.3 and Lusitano Leverage Finance No.1 were not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised as the bank substantially transferred all the risks and rewards of ownership.

In accordance with the consolidation rules established in IFRS 10, Lusitano SME No.1 plc, Lusitano Mortgages No.6 plc, Lusitano Project Finance No.1 FTC and Lusitano Mortgages No.7 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 given that they do not meet the rules defined in IFRS 10.

Lusitano Synthetic Limited and Lusitano synthetic II Limited are synthetic loan securitisation operations involving the Bank contracting a credit default swap (CDS) for each operation, with the objective of eliminating the credit risk associated with a portfolio of loans granted to companies. The loans relating to this portfolio continue to be recognised in the Bank's balance sheet under the Loans and advances to customers' caption.

The main characteristics of these operations, as at 31 December 2014, may be analysed as follows:

(in thousands of Euros)

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
						Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	217 648	-	December 2035	AAA	Aaa	AAA	-	A+	A	A	-
	Class B	32 500	32 500	-	December 2035	AA	Aa3	AA	-	A+	Baa2	A-	-
	Class C	25 000	25 000	-	December 2035	A	A2	A	-	A+	Ba2	BB	-
	Class D	22 500	22 500	-	December 2035	BBB	Baa2	BBB	-	A	B2	BB-	-
	Class E	5 000	5 000	-	December 2035	BB	Ba1	BB	-	BBB	Caa1	B-	-
	Class F	10 000	10 000	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	215 483	-	December 2036	AAA	Aaa	AAA	-	A+	A3	A	-
	Class B	30 000	30 000	-	December 2046	AA	Aa3	AA	-	A+	Baa3	BBB+	-
	Class C	28 000	28 000	5 000	December 2046	A	A3	A	-	A+	Ba2	BB	-
	Class D	16 000	16 000	4 000	December 2046	BBB	Baa3	BBB	-	BBB+	B3	B	-
	Class E	6 000	6 000	-	December 2046	BBB-	Ba1	BB	-	BB	Caa2	B-	-
	Class F	9 000	9 000	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	399 561	-	December 2047	AAA	Aaa	AAA	-	A	Baa3	A-	-
	Class B	27 000	15 679	-	December 2047	AA	Aa2	AA	-	BBB	B2	BBB	-
	Class C	18 600	10 801	-	December 2047	A	A2	A	-	BB	Caa1	BB-	-
	Class D	14 400	8 362	-	December 2047	BBB	Baa2	BBB	-	B	Caa2	B-	-
	Class E	10 800	7 819	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	427 263	3 579	December 2048	AAA	Aaa	AAA	-	BBB-	Baa3	A-	-
	Class B	22 800	21 553	-	December 2048	AA	Aa2	AA	-	BB+	B3	BBB	-
	Class C	19 200	18 150	3 309	December 2048	A+	A1	A+	-	B+	Caa1	B+	-
	Class D	24 000	22 687	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	630 708	4 290	December 2059	AAA	Aaa	AAA	-	BB+	Ba1	BBB+	-
	Class B	26 600	25 494	-	December 2059	AA	Aa2	AA	-	B+	Caa1	B+	-
	Class C	22 400	21 469	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	26 836	5 271	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	11 900	1 700	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	6 686	1 707	December 2028	A+	-	A-	-	A+	-	A-	-
	Class B	40 974	29 080	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	24 182	-	December 2028	CCC	-	B	-	CCC	-	B	-
	Class D	28 035	19 897	19 897	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	4 313	4 313	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	499 840	39 929	March 2060	AAA	Aaa	AAA	-	BBB	Baa3	BBB	-
	Class B	65 450	65 450	58 950	March 2060	AA	Aa3	AA	-	BB-	Ba3	B+	-
	Class C	41 800	41 800	31 800	March 2060	A	A3	A	-	B-	Caa1	B	-
	Class D	17 600	17 600	17 600	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	107 118	99 194	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	1 156 035	1 156 035	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	294 500	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage Finance No.1 BV	Class A	352 000	-	-	January 2020	-	-	AAA	-	-	-	-	-
	Class X	21 850	21 850	20 633	January 2020	-	-	-	-	-	-	-	-
	Class Sub	206 800	3 255	-	January 2020	-	-	-	-	-	-	-	-
Lusitano Finance No.3	Class A	450 700	-	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	197 929	197 930	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	10 000	10 000	November 2029	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	895 007	895 007	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	16 671	13 337	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ltd.	Senior	1 800 000	1 797 941	1 797 941	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	180 000	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	17 484	13 987	November 2023	-	-	-	-	-	-	-	-

NOTE 49 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities measured at fair value and measured at amortised cost, of the Group, is as follows:

(in thousands of Euros)

	Amortised Cost	At fair value			Book value	Fair value	
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)			
31 December 2014							
Cash and deposits with Central Banks	2 747 077	-	-	-	2 747 077	2 747 077	
Deposits with banks	490 856	-	-	-	490 856	490 856	
Financial assets held for trading	-	55 364	1 007 123	30	1 062 517	1 062 517	
Securities							
Bonds issued by government and public entities	-	*51 557*	-	-	*51 557*	*51 557*	
Bonds issued by other entities	-	*39*	-	*30*	*69*	*69*	
Shares	-	*3 648*	*14*	-	*3 662*	*3 662*	
Other variable income securities	-	*120*	-	-	*120*	*120*	
Derivatives							
Exchange rate contracts	-	-	*69 023*	-	*69 023*	*69 023*	
Interest rate contracts	-	-	*850 596*	-	*850 596*	*850 596*	
Credit derivatives	-	-	*20 524*	-	*20 524*	*20 524*	
Other	-	-	*66 966*	-	*66 966*	*66 966*	
Other Financial assets at fair value through profit or loss	-	1 576 821	158 546	495 021	2 230 388	2 230 388	
Bonds issued by government and public entities	-	*237 017*	-	-	*237 017*	*237 017*	
Bonds issued by other entities	-	*584 197*	*105 292*	*36 273*	*725 762*	*725 762*	
Shares and other variable income securities	-	*755 607*	*53 254*	*458 748*	*1 267 609*	*1 267 609*	
Available-for-sale financial assets	6 611 [a]	5 836 935	854 803	2 780 120	9 478 469	9 478 469	
Bonds issued by government and public entities	*1 848*	*4 228 853*	-	*28 222*	*4 258 923*	*4 258 923*	
Bonds issued by other entities	-	*924 303*	*751 717*	*1 156 431*	*2 832 451*	*2 832 451*	
Shares	*4 763* [a]	*339 407*	*103 086*	*782 283*	*1 229 539*	*1 229 539*	
Other variable income securities	-	*344 372*	-	*813 184*	*1 157 556*	*1 157 556*	
Loans and advances to banks	814 329	-	229 957	-	1 044 286	1 044 286	
Loans and advances to customers	34 602 916	-	*326 398*	-	34 929 314	32 754 084	*
Derivatives held for risk management purposes	-	-	404 582	-	404 582	404 582	
Exchange rate contracts	-	-	*335*	-	*335*	*335*	
Interest rate contracts	-	-	*334 309*	-	*334 309*	*334 309*	
Credit derivatives	-	-	*69 938*	-	*69 938*	*69 938*	
Other	-	-	-	-	-	-	
Financial assets	**38 661 789**	**7 469 120**	**2 981 409**	**3 275 171**	**52 387 489**	**50 212 259**	
Deposits from Central Banks	8 611 709	-	-	-	8 611 709	8 611 709	
Financial liabilities held for trading	-	-	1 045 648	-	1 045 648	1 045 648	
Derivatives							
Exchange rate contracts	-	-	*44 177*	-	*44 177*	*44 177*	
Interest rate contracts	-	-	*902 654*	-	*902 654*	*902 654*	
Credit derivatives	-	-	*5 636*	-	*5 636*	*5 636*	
Other	-	-	*93 181*	-	*93 181*	*93 181*	
Other financial liabilities held for trading	-	-	-	-	-	-	
Deposits from banks	2 152 054	-	471 810	-	2 623 864	2 576 333	*
Due to customers	24 126 321	-	3 811 732	-	27 938 053	27 938 053	*
Debt securities issued	7 219 789	-	1 813 167	-	9 032 956	10 339 514	*
Derivatives held for risk management purposes	-	-	104 140	-	104 140	104 140	
Exchange rate contracts	-	-	*176*	-	*176*	*176*	
Interest rate contracts	-	-	*103 962*	-	*103 962*	*103 962*	
Credit derivatives	-	-	*2*	-	*2*	*2*	
Other	-	-	-	-	-	-	
Investment contracts	2 975 244	-	1 404 198	-	4 379 442	4 397 134	
Subordinated debt	54 794	-	-	-	54 794	93 022	*
Financial Liabilities	**45 139 911**	**-**	**8 650 695**	**-**	**53 790 606**	**55 105 553**	

[a] Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by unlisted entities in respect of which no recent transactions were identified nor is possible to estimate reliably its fair value.

(in thousands of Euros)

	Amortised Cost	At fair value			Book Value	Fair value
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)		
4 August 2014						
Cash and deposits at Central Banks	5 401 256	-	-	-	5 401 256	5 401 256
Deposits with banks	673 488	-	-	-	673 488	673 488
Financial assets held for trading	-	214 105	2 044 621	128	2 258 854	2 258 854
Securities						
Bonds issued by government and public entities	-	*79 019*	*695 456*	-	*774 475*	*774 475*
Bonds issued by other entities	-	*35 708*	*27 255*	*128*	*63 091*	*63 091*
Shares	-	*99 090*	*8 699*	-	*107 789*	*107 789*
Other variable income securities	-	*288*	-	-	*288*	*288*
Derivatives						
Exchange rate contracts	-	-	39 548	-	39 548	*39 548*
Interest rate contracts	-	-	1 215 505	-	1 215 505	*1 215 505*
Credit derivatives	-	-	25 395	-	25 395	*25 395*
Other	-	-	32 763	-	32 763	*32 763*
Other Financial assets at fair value through profit or loss	-	1 592 853	426 724	547 720	2 567 297	2 567 297
Bonds issued by government and public entities	-	*164 045*	-	-	*164 045*	*164 045*
Bonds issued by other entities	-	*697 948*	*255 245*	*52 913*	*1 006 106*	*1 006 106*
Shares and other variable income securities	-	*730 860*	*171 479*	*494 807*	*1 397 146*	*1 397 146*
Available-for-sale financial assets	4 830 a)	7 322 223	1 278 513	2 892 687	11 498 253	11 498 253
Bonds issued by government and public entities	-	*4 686 040*	*280 705*	*180*	*4 966 925*	*4 966 925*
Bonds issued by other entities	-	*1 565 018*	*957 740*	*1 298 816*	*3 821 574*	*3 821 574*
Shares	*4 830* a)	*420 254*	*40 066*	*737 139*	*1 202 289*	*1 202 289*
Other variable income securities	-	*650 911*	*2*	*856 552*	*1 507 465*	*1 507 465*
Loans and advances to banks	1 100 617	-	-	-	1 100 617	1 100 617
Loans and advances to customers	38 033 219	-	*536 212*	-	38 569 431	36 327 979
Derivatives for risk management purposes	-	-	391 761	-	391 761	391 761
Exchange rate contracts	-	-	*610*	-	*610*	*610*
Interest rate contracts	-	-	*304 697*	-	*304 697*	*304 697*
Credit derivatives	-	-	*70 044*	-	*70 044*	*70 044*
Other	-	-	*16 410*	-	*16 410*	*16 410*
Financial assets	**45 213 410**	**9 129 181**	**4 677 831**	**3 440 535**	**62 460 957**	**60 219 505**
Deposits from Central Banks	13 824 376	-	-	-	13 824 376	13 824 376
Financial liabilities held for trading	-	1 484	1 402 765	-	1 404 249	1 404 249
Derivatives						
Exchange rate contracts	-	-	*40 081*	-	*40 081*	40 081
Interest rate contracts	-	-	*1 186 675*	-	*1 186 675*	1 186 675
Credit derivatives	-	-	*81 628*	-	*81 628*	81 628
Other	-	-	*81 713*	-	*81 713*	81 713
Other financial liabilities held for trading	-	1 484	12 668	-	14 152	14 152
Deposits from banks	3 936 238	-	244 009	-	4 180 247	4 123 773
Due to customers	18 976 678	-	7 681 237	-	26 657 915	26 657 915
Debt securities issued	8 040 707	-	3 112 864	-	11 153 571	12 230 428
Derivatives held for risk management purposes	-	-	121 187	-	121 187	121 187
Exchange rate contracts	-	-	*470*	-	*470*	*470*
Interest rate contracts	-	-	*84 513*	-	*84 513*	*84 513*
Credit derivatives	-	-	*3 618*	-	*3 618*	*3 618*
Other	-	-	*32 586*	-	*32 586*	*32 586*
Investment contracts	3 224 800	-	1 664 537	-	4 889 337	5 253 064
Subordinated debt	74 971	-	280	-	75 251	117 243
Financial Liabilities	**48 077 770**	**1 484**	**14 226 879**	**-**	**62 306 133**	**63 732 235**

a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by unlisted entities in respect of which no recent transactions were identified nor is possible to estimate reliable its fair value.

NOVO BANCO Group determines the fair value of its financial assets and liabilities at fair value in accordance with IFRS 13 – Fair Value:

Quoted market prices (level 1)

This category includes financial instruments with available quoted market prices in official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these financial instruments traded on active markets.

The priority in terms of which price is used is given to prices observed in official markets; if there is more than one official market the choice falls on the main market where those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming these act in their own economic benefit and that such prices are representative of the active market, using whenever possible prices supplied by more than one entity (for a specific asset and / or liability). For the process of re-evaluating financial instruments, the Group analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Group in favour of a specific price.

This category includes, amongst others, the following financial instruments:

i) Derivatives traded on an organised market;
ii) Shares quoted on a stock exchange;
iii) Open investment (securities) funds quoted on a stock exchange;
iv) Closed investment funds whose subjacent assets are solely financial instruments quoted on a stock exchange;
v) Bonds with more than one provider and for which the instruments are 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 and/or 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 whose 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 certain regularity in the market.

This category includes, amongst others, the following financial instruments:

i) Unquoted debt securities;
ii) OTC (over-the-counter) derivatives; and
iii) Commercial paper for which there are observable market inputs, namely interest rate curves and credit spreads, applicable to the issuer.

Valuation models based on non-observable market parameters (level 3)
This level consists in using models relying on internal valuation techniques or quotations provided by third parties but which parameters imply the use of non-observable market information.

This category includes, amongst others, the following financial instruments:

i) Debt securities valued using non-observable market inputs;
ii) Unquoted shares;
iii) Closed real estate funds;
iv) Hedge Funds;
v) Private equities; and
vi) Restructuring Funds.

The movement in financial assets valued based on non-observable market information, during the period from 4 August to 31 December 2014, may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	3 440 535
Acquisitions	766 722
Attainment of maturity	(642 145)
Disposals	(300 272)
Transfers in	28 050
Transfers out	(5 756)
Changes in value	(11 963)
Balance at the end of the period	3 275 171

The main parameters used in the valuation models during the period from 4 August to 31 December 2014 are as follows:

Interest rate curves
The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the swap interest rate quotations for the respective periods:

(%)

	31.12.2014			04.08.2014		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0,0100	0,1750	0,4500	-0,0150	0,1700	0,4500
1 month	0,0180	0,3100	0,5250	0,0731	0,1700	0,5500
3 months	0,0780	0,1900	0,6000	0,2080	0,2800	0,6100
6 months	0,1710	0,5000	0,7400	0,3070	0,3900	0,7600
9 months	0,1662	0,6000	0,7393	0,3049	0,4800	0,9400
1 year	0,1635	0,4325	0,6476	0,3070	0,3180	0,8136
3 years	0,2240	1,2610	1,1400	0,4080	1,0995	1,6588
5 years	0,3600	1,7900	1,4490	0,6447	1,7650	2,1117
7 years	0,5320	2,0390	1,6450	0,9410	2,1900	2,3869
10 years	0,8195	2,2790	1,8430	1,3546	2,5940	2,6540
15 years	1,1528	2,5020	2,0673	1,7850	2,9610	2,9010
20 years	1,3268	2,6160	2,1838	1,9701	3,1270	3,0150
25 years	1,4169	2,6660	2,2211	2,0380	3,2000	3,0450
30 years	1,4718	2,6910	2,2320	2,0550	3,2360	3,0510

Credit spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2014						
CDX USD Main	**23**	-	38,57	66,09	88,32	107,10
iTraxx Eur Main	**22**	**-**	35,46	62,95	84,44	101,20
iTraxx Eur Senior Financial	**22**	**-**	-	67,38	-	99,77
4 August 2014						
CDX USD Main	**22**	12,13	37,61	65,52	86,93	106,90
iTraxx Eur Main	**21**	**-**	38,57	65,58	88,03	106,02
iTraxx Eur Senior Financial	**21**	**-**	-	70,18	-	106,18

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2014			04.08.2014		
	EUR	USD	GBP	EUR	USD	GBP
1 year	283,60	69,94	49,46	55,15	60,45	38,53
3 years	102,30	57,67	61,19	59,47	56,66	43,27
5 years	94,22	49,13	59,26	65,82	45,47	40,23
7 years	84,35	44,41	55,17	58,28	42,85	36,82
10 years	67,52	40,68	49,61	46,68	36,95	33,07
15 years	53,72	35,58	41,94	37,57	35,59	29,03

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

Foreign exchange rate	31.12.2014	04.08.2014	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1,2141	1,3422	9,57	9,34	9,03	8,93	8,93
EUR/GBP	0,7789	0,7972	7,67	7,69	8,30	8,18	8,10
EUR/CHF	1,2024	1,2167	2,95	3,42	3,70	4,08	4,28
EUR/NOK	9,0420	8,4285	15,57	13,61	11,50	10,65	10,40
EUR/PLN	4,2732	4,1716	7,29	7,42	7,50	7,58	7,75
EUR/RUB	72,3370	48,0252	68,60	56,00	48,96	22,50	41,69
USD/BRL [a)]	2,6527	2,2548	15,00	14,50	14,45	14,55	14,65
USD/TRY [b)]	2,3326	2,1352	12,55	12,92	13,58	13,96	14,30

[a)] Calculated based on the EUR/USD and EUR/BRL rates

[b)] Calculated based on the EUR/USD and EUR/TRY rates

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

Presented in the table below, is the evolution of the main market equity indexes and their respective volatilities, used for the valuation of equity derivatives:

	Quotation 31.12.2014	04.08.2014	% change	Historical volatility 1 month	3 months	Implicit volatility
DJ Euro Stoxx 50	3 146	3 070	2,47	24,58	21,31	27,02
PSI 20	4 799	5 854	-18,03	24,45	23,11	-
IBEX 35	10 280	10 496	-2,06	25,94	22,61	-
FTSE 100	6 566	6 678	-1,67	18,03	14,69	15,03
DAX	9 806	9 154	7,12	22,50	19,73	19,50
S&P 500	2 059	1 939	6,18	13,76	13,10	15,04
BOVESPA	50 007	56 616	-11,67	33,78	34,02	26,38

The main methodologies and assumptions used in estimating the fair value of the assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

(in thousands of Euros)

	Assets/ Liabilities at amortised cost	At fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)	Total fair value
31 December 2014					
Cash and deposits at Central Banks	2 747 077	2 747 077	-	-	2 747 077
Deposits with credit institutions	490 856	490 856	-	-	490 856
Available-for-sale financial assets (shares)	6 611	-	-	6 611	6 611
Loans and advances to credit institutions	814 329	-	814 329	-	814 329
Loans and advances to customers	34 602 916	-	32 427 686	-	32 427 686
Financial assets	**38 661 789**	**3 237 933**	**33 242 015**	**6 611**	**36 486 559**
Deposits from Central Banks	8 611 709	8 611 709	-	-	8 611 709
Deposits from credit institutions	2 152 054	-	2 104 523	-	2 104 523
Due to customers	24 126 321	-	24 126 321	-	24 126 321
Debt securities issued	7 219 789	7 706 794	9 903	828 149	8 544 846
Investment contracts	2 975 244	-	2 992 936	-	2 992 936
Subordinated debt	54 794	37 966	55 056	-	93 022
Financial Liabilities	**45 139 911**	**16 356 468**	**29 288 739**	**828 149**	**46 473 357**

(in thousands of Euros)

	Assets/ Liabilities at amortised cost	At fair value			
		Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable market information (Level 3)	Total fair value
4 August 2014					
Cash and deposits at Central Banks	5 401 256	5 401 256	-	-	5 401 256
Deposits with credit institutions	673 488	673 488	-	-	673 488
Available-for-sale financial assets (shares)	4 830	-	-	4 830	4 830
Loans and advances to credit institutions	1 100 617	-	1 100 617	-	1 100 617
Loans and advances to customers	38 033 219	-	35 791 767	-	35 791 767
Financial assets	**45 213 410**	**6 074 744**	**36 892 384**	**4 830**	**42 971 958**
Deposits from Central Banks	13 824 376	13 824 376	-	-	13 824 376
Deposits from credit institutions	3 936 238	-	3 879 764	-	3 879 764
Due to customers	18 976 678	-	18 976 678	-	18 976 678
Debt securities issued	8 040 707	6 842 403	328 411	1 956 074	9 126 887
Investment contracts	3 224 800	-	3 588 527	-	3 588 527
Subordinated debt	74 971	38 074	55 038	20 781	113 893
Financial Liabilities	**48 077 770**	**20 704 853**	**26 828 418**	**1 976 855**	**49 510 125**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions

Considering the short-term nature of these financial instruments, their carrying value is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of capital and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as home mortgages, are estimated collectively. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from Central Banks and Deposits from credit institutions

The fair value of deposits from Central Banks and Deposits from banks is estimated based on the discounted expected future cash flows of capital and interest.

Due to customers and other loans

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of capital and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods substantially inferior to one year, the differences between their fair value and their book value are not significant.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of capital and interest.

NOTE 50 –RISK MANAGEMENT

The Group is exposed to a number of risks arising from the use of financial instruments, which are analysed below:

Credit risk

Credit Risk represents the potential financial loss arising from the failure of borrowers or counterparty to honour the contractual obligations established with the Group in the scope of the credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and contingent liabilities. In the credit default swaps (CDS), the net exposure between selling and buying positions relating to each reference entity, is also considered a credit risk by NOVO BANCO Group. CDSs are recorded at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires 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 monitoring of credit losses.

NOVO BANCO Group's credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Deposits with and loans and advances to banks	3 382 042	2 186 164
Financial assets held for trading	1 058 735	2 150 777
Other financial assets at fair value through profit or loss	962 779	1 170 151
Available-for-sale financial assets	7 091 374	8 788 499
Loans and advances to customers	34 929 314	38 569 431
Derivatives held for risk management purposes	404 582	391 761
Other assets	481 611	569 476
Guarantees provided	6 172 304	7 220 732
Documentary credits	2 384 896	3 215 444
Irrevocable commitments	1 526 985	1 885 246
Credit risk associated with the credit derivatives' reference entities	71 276	311 382
	58 465 898	**66 459 063**

The Group calculates impairment on an individual basis for all financial assets that are overdue. If the value of the collateral, net of haircuts, equals or exceeds the exposure, the impairment may be nil. Hence, the Group does not have any overdue financial assets for which it has not performed a review as to itsr recovery and subsequent recognition of impairment when necessary.

The exposure of the subsidiaries of NOVO BANCO Group to Grupo Espírito Santo is presented as follows:

(in thousands of Euros)

	Loans and advances to banks	Loan and advances to customers	Other assets	Guarantees provided	Total exposure	Impairment
RIO FORTE	-	2	412	-	414	(375)
ES HEALTH CARE	-	-	17 049	-	17 049	-
ES FINANCIAL GROUP	-	-	2 111	-	2 111	(2 065)
ESF PORTUGAL	-	-	64	-	64	-
BANQUE PRIVÉE ESPÍRITO SANTO	15 541	-	15	-	15 556	(14 937)
ES BANK PANAMÁ	339 871	16		-	339 887	(339 871)
OPWAY	-	-	1 871	-	1 871	-
CONSTRUCCIONES SARRIÓN	-	2 161	-	-	2 161	-
OTHER	16 751	214	113	100	17 178	(116)
TOTAL	**372 163**	**2 393**	**21 635**	**100**	**396 291**	**(357 364)**

As at 31 December 2014 the breakdown of the gross loan exposure and the impairment by segment is as follows:

(in thousands of Euros)

Segment	31-12-2014													
	Loans and advances not at risk						Loans and advances at risk						Total loans and advances	
	Without impairment indications		With impairment indications		Total		Days overdue				Total			
							<= 90 days*		>90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	12 840 123	71 735	9 780 101	1 862 099	22 620 224	1 933 834	1 819 951	734 769	3 568 621	2 047 437	5 388 571	2 782 206	28 008 795	4 716 039
Mortgage Loans	8 323 441	10 262	1 139 668	25 861	9 463 110	36 123	31 918	2 218	735 033	152 633	766 951	154 851	10 230 061	190 974
Consumer and other loans	1 005 783	9 444	378 314	5 335	1 384 097	14 779	42 534	14 166	394 770	194 985	437 304	209 151	1 821 401	223 930
Total	**22 169 347**	**91 440**	**11 298 084**	**1 893 295**	**33 467 431**	**1 984 735**	**1 894 403**	**751 152**	**4 698 424**	**2 395 055**	**6 592 826**	**3 146 207**	**40 060 257**	**5 130 942**

* Loans and advances w ith principal or interest overdue under 90 days, but for w hich there is evidence justifying their classification as loans and advances at risk, such as bankruptcy or liquidation of the debtor, amongst others

As at 31 December 2014 the loan portfolio by segment and by year of production, is analysed as follows:

(in thousands of Euros)

Year of production	31-12-2014											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and before	39 192	1 785 943	531 065	66 488	2 186 951	56 564	207 678	154 989	11 971	313 358	4 127 883	599 599
2005	6 948	627 491	143 278	12 382	670 729	16 583	45 394	61 014	12 751	64 724	1 359 233	172 612
2006	8 610	1 237 844	280 620	20 313	1 173 480	23 587	54 339	80 282	12 148	83 262	2 491 606	316 356
2007	13 461	1 535 336	274 921	32 219	1 749 769	32 479	71 590	125 509	35 504	117 270	3 410 615	342 904
2008	10 221	2 350 514	396 018	21 623	1 293 365	18 875	67 732	139 724	31 585	99 576	3 783 602	446 478
2009	10 632	2 121 611	396 992	14 910	906 601	15 103	52 678	145 467	22 816	78 220	3 173 680	434 911
2010	20 151	2 219 404	418 010	14 054	952 146	12 884	55 580	199 446	28 457	89 785	3 370 997	459 351
2011	13 590	2 281 130	384 379	8 563	464 842	6 365	48 338	192 166	22 558	70 491	2 938 138	413 301
2012	15 948	3 238 641	621 475	5 350	242 961	4 843	54 379	171 474	17 442	75 677	3 653 077	643 760
2013	35 202	4 767 060	593 683	5 900	327 851	2 767	52 378	244 461	21 158	93 480	5 339 372	617 608
2014	36 233	5 843 821	675 599	3 835	261 365	923	43 108	306 868	7 539	83 176	6 412 054	684 062
Total	**210 188**	**28 008 795**	**4 716 039**	**205 637**	**10 230 061**	**190 974**	**753 194**	**1 821 401**	**223 930**	**1 169 019**	**40 060 257**	**5 130 942**

As at 31 December 2014 the gross loan exposure and the impairment evaluated individually and collectively, by segment, is analysed as follows:

(in thousands of Euros)

	31-12-2014					
	Individual assessment (1)		Collective assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	10 441 769	3 904 942	17 567 026	811 097	28 008 795	4 716 039
Mortgage Loans	46 579	10 916	10 183 482	180 058	10 230 061	190 974
Consumer and other loans	284 073	63 831	1 537 328	160 098	1 821 401	223 930
Total	**10 772 422**	**3 979 689**	**29 287 835**	**1 151 253**	**40 060 257**	**5 130 942**

(1) Loans and advances w hich final impairment w as determined and approved by the Impairment Committee
(2) Loans and advances w hich final impairment w as determined automatically by the Impairment Model

The loans analyzed by the Impairment Committee for which the impairment amount, automatically determined by the Model, was not changed are included and presented in the “Collective evaluation”.

As at 31 December 2014 the gross loan exposure and the impairment evaluated individually and collectively, by geography, is analysed as follows:

(in thousands of Euros)

	31-12-2014					
	Individual assessment (1)		Collective assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	7 955 905	3 610 177	23 795 706	753 086	31 751 611	4 363 263
Luxembourg	103 517	14 171	629 984	12 594	733 501	26 765
Venezuela	-	-	97 942	103	97 942	103
Cape Verde	-	-	38 108	970	38 108	970
United Kingdom	64 144	13 277	1 907 724	1 403	1 971 868	14 681
Spain	996 116	218 202	1 828 926	132 365	2 825 042	350 567
Cayman Islands	43 883	1 629	722 945	248 991	766 828	250 620
USA	-	-	87 468	1 554	87 468	1 554
France	1 377 524	62 521	-	-	1 377 524	62 521
Ireland	231 333	59 712	95 734	188	327 067	59 900
Macao	-	-	83 298	-	83 298	-
Total	**10 772 422**	**3 979 689**	**29 287 835**	**1 151 254**	**40 060 257**	**5 130 943**

* Loans and advances w hich impairment w as determined on an individual basis (defined and approved by the Impairment Committee)
** Loans and advances w hich impairment w as determined on a collective basis and determined automatically by the Impairment Model

As at 31 December 2014 and as at 4 August 2014 the risk exposure by industry sector is analysed as follows:

(in thousands of Euros)

	31.12.2014							
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees provided
	Gross amount	Impairment				Gross amount	Impairment	
Agriculture, Forestry and Fishery	491 934	(54 681)	2 376	-	-	4 986	-	21 816
Mining	193 870	(15 738)	432	9 853	-	14 675	(1 546)	7 316
Food, Beverages and Tobacco	783 292	(85 665)	20 522	1 501	-	35 656	(382)	73 536
Textiles and Clothing	372 085	(68 003)	573	-	-	33 806	(2 105)	13 987
Leather and Shoes	73 056	(10 212)	139	-	-	44	(44)	1 527
Wood and Cork	141 161	(44 531)	786	4 141	-	1 329	(1 329)	6 017
Paper and Printing Industry	310 067	(50 759)	764	-	-	23 716	(15 195)	38 688
Refining of Petroleum	4 408	(347)	521	24 536	-	6 831	(388)	9 033
Chemicals and Rubber	468 311	(37 033)	5 321	2 616	-	19 417	(13 571)	54 866
Non-metallic Minerals	233 569	(40 519)	107	-	-	47 879	(9 940)	15 778
Metallurgical Industries and Metallic Products	739 055	(129 952)	6 714	7 755	-	6 497	(68)	88 419
Production of Machinery, Equipment and Electrical Devi	219 108	(25 181)	103	2 005	-	15 830	(7 363)	126 971
Production of Transport Material	77 024	(5 271)	-	20 475	-	10 620	(40)	18 353
Other Transforming Industries	236 250	(43 800)	28	11 270	-	18 343	(11 395)	26 650
Electricity, Gas and Water	927 240	(13 211)	84 772	15 377	-	196 097	(12 416)	274 475
Construction and Public Works	2 707 991	(801 274)	234 209	8 725	-	254 295	(555)	1 532 602
Wholesale and Retail Trade	2 420 903	(656 117)	1 441	757	-	82 600	(28 277)	391 866
Tourism	1 281 469	(165 508)	3 166	6 104	-	20 812	(8 023)	91 177
Transport and Communication	1 259 654	(73 702)	185 504	30 546	-	104 550	(48 090)	654 001
Financial Activities	2 032 879	(44 948)	365 255	1 759 296	404 582	5 820 066	(198 103)	131 439
Real Estate Activities	4 542 881	(865 612)	9 720	137 998	-	156 897	(15 965)	310 230
Services Provided to Companies	4 191 147	(971 324)	78 096	90 413	-	1 164 058	(316 888)	1 230 423
Public Administration and Services	1 480 284	(50 100)	51 816	63 336	-	2 010 483	-	189 562
Other activities of collective services	2 771 152	(457 067)	10 046	20 845	-	163 130	(52 568)	148 700
Mortgage Loans	10 230 061	(190 974)	-	-	-	-	-	679 116
Consumers Loans	1 821 401	(223 929)	-	-	-	-	-	34 028
Other	50 006	(5 486)	106	12 839	-	22 924	(12 821)	1 728
TOTAL	**40 060 258**	**(5 130 944)**	**1 062 517**	**2 230 388**	**404 582**	**10 235 541**	**(757 072)**	**6 172 304**

(in thousands of Euros)

	04.08.2014							
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees provided
	Gross amount	Impairment				Gross amount	Impairment	
Agriculture, Forestry and Fishery	553 241	(36 704)	2 724	-	-	7 228	-	29 617
Mining	214 087	(16 697)	18 292	18 049	-	79 130	(2 376)	15 524
Food, Beverages and Tobacco	973 799	(80 957)	21 870	17 653	-	43 264	(346)	72 126
Textiles and Clothing	386 108	(59 432)	641	-	-	31 807	(2 105)	15 213
Leather and Shoes	91 243	(9 659)	273	-	-	44	(44)	1 612
Wood and Cork	147 034	(41 294)	323	37 919	-	13 074	(1 329)	7 874
Paper and Printing Industry	390 928	(49 756)	3 100	-	-	61 475	(14 995)	46 519
Refining of Petroleum	3 092	(305)	1 569	54 568	-	86 794	-	6 983
Chemicals and Rubber	510 360	(26 086)	9 156	13 248	-	49 138	(13 431)	71 782
Non-metallic Minerals	255 048	(38 312)	2 741	-	-	22 282	(9 938)	16 200
Metallurgical Industries and Metallic Products	802 498	(192 494)	6 177	7 280	-	38 280	(68)	82 893
Production of Machinery, Equipment and Electrical Device	234 902	(23 123)	1 501	5 306	-	23 286	(7 363)	114 329
Production of Transport Material	136 105	(8 530)	178	39 445	-	68 958	(40)	71 411
Other Transforming Industries	217 576	(38 042)	14	43 452	-	32 518	(11 341)	28 532
Electricity, Gas and Water	1 339 827	(24 734)	122 396	39 652	-	437 373	(12 416)	365 858
Construction and Public Works	3 246 302	(716 261)	224 672	33 382	-	93 109	(555)	1 781 753
Wholesale and Retail Trade	2 731 567	(515 284)	3 466	80 485	-	74 157	(20 788)	421 425
Tourism	1 400 180	(198 292)	2 936	6 519	-	37 833	(7 994)	93 594
Transport and Communication	1 653 427	(92 925)	294 202	76 549	-	237 780	(5 587)	930 700
Financial Activities	2 066 008	(273 485)	576 227	1 659 152	391 761	4 424 815	(225 361)	240 135
Real Estate Activities	4 784 150	(772 262)	19 520	146 578	-	224 557	(15 965)	360 653
Services Provided to Companies	4 831 120	(1 094 674)	152 973	92 990	-	1 128 360	(253 810)	1 332 562
Public Administration and Services	1 554 526	(40 260)	781 411	154 057	-	4 738 559	(725)	194 907
Non-profit Organisations	2 821 203	(482 728)	11 660	40 571	-	173 987	(35 206)	163 728
Mortgage Loans	10 410 774	(182 618)	-	-	-	-	-	612 496
Consumers Loans	1 948 319	(222 509)	-	-	-	-	-	139 595
Other	114 273	(10 843)	832	442	-	21 927	(9 699)	2 711
TOTAL	**43 817 697**	**(5 248 266)**	**2 258 854**	**2 567 297**	**391 761**	**12 149 735**	**(651 482)**	**7 220 732**

Regarding loans restructured due to clients' financial difficulties, as defined in Instruction no. 32/2013 of the Banco de Portugal, the amounts as at 31 December 2014 are as follows.

(in thousands of Euros)

	31.12.2014
Corporate	3 950 208
Mortgage loans	339 850
Consumer and other loans	118 696
Loans to non-residents	1 484 416
Total	**5 893 170**

The restructuring measures applied to the restructured loans up till 31 December 2014 can be analysed as follows :

(in thousands of Euros)

Measure	31-12-2014								
	Loans and advances not at risk			Loans and advances at risk			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Pardon of principal or interest	6	2 426	605	121	128 446	84 959	127	130 871	85 565
Capitalisation of interest	26	103 964	70 141	74	49 157	13 219	100	153 121	83 360
New loans for the total or partial liquidation of existing debt	1 999	929 873	393 296	547	194 870	89 848	2 546	1 124 742	483 144
Extension of the maturity date	1 137	1 096 884	182 685	592	512 234	193 005	1 729	1 609 118	375 691
Introduction of a grace period for the principal or interest	1 498	630 105	60 668	220	317 223	116 686	1 718	947 328	177 354
Reduction of the interest rate	92	304 858	74 385	37	69 878	24 978	129	374 736	99 362
Change in lease payment plan	178	98 450	3 408	84	71 716	26 748	262	170 165	30 155
Change in interest payment periods	25	197 381	49 369	28	150 228	24 377	53	347 608	73 746
Other	11 473	780 723	81 824	5 679	254 757	77 265	17 152	1 035 481	159 089
Total	**16 434**	**4 144 664**	**916 382**	**7 382**	**1 748 507**	**651 085**	**23 816**	**5 893 170**	**1 567 467**

As at 31 December 2014 and as at 4 August 2014, the analysis of the loans and advances to customers' portfolio by rating is as follows:

(in million of Euros)

Rating / Scoring models	Internal scale	31.12.2014		04.08.2014	
		Loan amount	(%)	Loan amount	(%)
Large company models	[aaa;a-]	2	-	4	0,01%
	[bbb+;-bbb-]	1 529	3,82%	1 737	3,96%
	[bb+;bb-]	3 289	8,21%	4 279	9,77%
	[b+;b-]	5 324	13,29%	6 574	15,00%
	ccc+	1 814	4,53%	1 745	3,98%
Medium-sized company models	8-9	548	1,37%	593	1,35%
	10-11	463	1,16%	519	1,18%
	12-13	538	1,34%	554	1,26%
	14-15	445	1,11%	457	1,04%
	16-17	385	0,96%	425	0,97%
	18-19	275	0,69%	265	0,60%
	20-21	191	0,48%	233	0,53%
	22-23	264	0,66%	231	0,53%
	24-25	1 446	3,61%	1 394	3,18%
Small-sized company models	A	59	0,15%	63	0,14%
	B	204	0,51%	242	0,55%
	C	476	1,19%	520	1,19%
	D	202	0,50%	217	0,50%
	E	141	0,35%	139	0,32%
	F	354	0,88%	539	1,23%
Mortgage loan models	01	1 272	3,18%	1 250	2,85%
	02	4 477	11,18%	4 397	10,03%
	03	1 350	3,37%	1 399	3,19%
	04	613	1,53%	649	1,48%
	05	465	1,16%	486	1,11%
	06	465	1,16%	489	1,12%
	07	554	1,38%	595	1,36%
	08	522	1,30%	571	1,30%
Consumer loan models	01	59	0,15%	74	0,17%
	02	42	0,10%	46	0,10%
	03	100	0,25%	96	0,22%
	04	250	0,62%	226	0,52%
	05	95	0,24%	131	0,30%
	06	111	0,28%	115	0,26%
	07	111	0,28%	110	0,25%
	08	88	0,22%	98	0,22%
	09	184	0,46%	181	0,41%
	10	2	-	3	0,01%
Loans with no internal rating / scoring		11 351	28,32%	12 172	27,81%
TOTAL		**40 060**	**99,99%**	**43 818**	**100,00%**

Market risk

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

Market risk management is integrated in the balance sheet management through the CALCO (Capital, Asset and Liability Committee) structure, set at the entity's top level. CALCO is responsible for defining the policies governing the composition and structure of the balance sheet as well as for controlling the exposure to the interest rate, currency and liquidity risks.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. For the calculation of the VaR, NOVO BANCO Group uses 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. As a complement to VaR, stress testing has been developed, allowing to evaluate the impact of potential higher losses than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2014				04.08.2014
	December	Annual average	Maximum	Minimum	August
Foreign exchange risk	15 534	11 239	20 127	8 786	8 786
Interest rate risk	4 094	3 727	5 256	1 718	1 718
Shares and commodities	33 616	22 766	39 860	9 085	9 085
Volatility	2 157	3 133	1 411	2 328	2 328
Credit spread	8 826	11 522	14 833	10 158	10 158
Diversification effect	(14 492)	(10 014)	(17 057)	(7 175)	(7 175)
Total	**49 735**	**42 373**	**64 431**	**24 900**	**24 900**

NOVO BANCO Group has a VaR of Euros 49 735 thousand (4 August 2014: Euros 24 900 thousand), for its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 by the Banco de Portugal, NOVO BANCO Group calculates its exposure to its balance sheet interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance sheet and off-balance sheet captions which are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2014						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	4 296 202	286 252	3 278 797	11 762	14 645	354 503	350 243
Loans and advances to customers	42 124 271	-	24 116 522	9 131 776	2 396 009	5 488 968	990 996
Securities	13 062 871	5 419 090	2 339 586	1 161 463	674 394	1 050 052	2 418 286
Total			**29 734 905**	**10 305 001**	**3 085 048**	**6 893 523**	**3 759 525**
Deposits from Banks	11 848 059	-	8 465 491	134 953	259 782	2 580 185	407 648
Due to customers	26 670 670	-	11 972 321	2 967 162	5 317 552	6 252 953	160 682
Debt Securities	9 896 918	-	2 540 345	404 199	1 295 140	4 409 092	1 248 142
Investment contracts	4 372 003	1 439 393	59 015	37 300	971 857	476 852	1 387 586
Technical reserves	1 461 070	50 132	9 391	10 036	779 181	175 547	436 783
Total			**23 046 563**	**3 553 650**	**8 623 512**	**13 894 629**	**3 640 841**
Balance sheet GAP (Assets - Liabilities)	1 018 807		6 688 342	6 751 351	(5 538 464)	(7 001 106)	118 684
Off-Balance sheet	(11 783)		(1 186 370)	(1 202 026)	1 248 309	1 200 720	(87 599)
Structural GAP	**991 841**		**5 501 972**	**5 549 325**	**(4 290 155)**	**(5 800 386)**	**31 085**
Accumulated GAP			**5 501 972**	**11 051 297**	**6 761 142**	**960 756**	**991 841**

(in thousands of Euros)

	04.08.2014						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	9 712 608	419 041	6 713 669	1 442 320	1 128 920	8 635	23
Loans and advances to customers	44 037 032	-	25 207 029	10 103 939	3 018 327	5 091 037	616 700
Securities	14 899 601	6 137 635	2 829 312	750 461	1 688 550	1 189 576	2 304 067
Total			**34 750 010**	**12 296 720**	**5 835 797**	**6 289 248**	**2 920 790**
Deposits from Banks	18 493 803	-	16 448 299	197 299	41 494	1 356 939	449 772
Due to customers	25 070 471	-	10 186 568	3 307 658	5 126 657	6 440 438	9 150
Debt Securities	11 051 272	-	1 784 711	736 834	1 892 230	5 567 463	1 070 034
Investment contracts	4 891 657	1 741 976	60 154	493 410	183 078	598 207	1 814 832
Technical reserves	1 722 024	78 365	19 850	822 676	23 971	285 950	491 212
Total			**28 499 582**	**5 557 877**	**7 267 430**	**14 248 997**	**3 835 000**
Balance sheet GAP (Assets - Liabilities)	2 683 679		6 250 428	6 738 843	(1 431 633)	(7 959 749)	(914 210)
Off-Balance sheet	(11 783)		(3 210 039)	(525 616)	1 307 495	2 511 649	(107 050)
Structural GAP	**2 660 118**		**3 040 389**	**6 213 227**	**(124 138)**	**(5 448 100)**	**(1 021 260)**
Accumulated GAP			**3 040 389**	**9 253 616**	**9 129 478**	**3 681 378**	**2 660 118**

Sensitivity analyses of the interest rate risk of the bank's prudential portfolios are performed, based on the duration model approach and considering several scenarios of movements of the yield curve at all interest rate levels.

(in thousands of Euros)

	31.12.2014			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	106 628	(106 628)	52 563	(52 563)
Average for the period	117 885	(117 885)	66 737	(66 737)
Maximum for the period	129 141	(129 141)	80 911	(80 911)
Minimum for the period	106 628	(106 628)	52 563	(52 563)

The following table presents the average balances, interest for the period and average interest rates relating to the Group's major financial asset and liability categories, for the period from 4 August to 31 December 2014:

(in thousands of Euros)

	31.12.2014		
	Average balance for period	Interest for period	Average interest rate
Monetary assets	5 524 539	12 278	0,54%
Loans and advances to customers	41 009 144	570 386	3,38%
Securities and other	6 935 627	162 736	5,71%
Differential applications	-	-	-
Financial assets	**53 469 310**	**745 400**	**3,39%**
Monetary Liabilities	13 748 801	31 191	0,55%
Due to customers	24 622 102	149 775	1,48%
Debt securities and other	13 777 843	298 774	5,28%
Differential liabilities	1 320 564	-	-
Financial liabilities	**53 469 310**	**479 740**	**2,18%**
Net interest income		**265 660**	**1,21%**

Regarding theforeign exchange risk, the breakdown of assets and liabilities by currency as at 31 December 2014 and as at 4 August 2014, is analysed as follows:

(in thousands of Euros)

		31.12.2014				04.08.2014			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(454 785)	(56 256)	355 112	(155 929)	(672 292)	(1 899 585)	213 337	(2 358 540)
GBP	GREAT BRITISH POUND	320 682	(313 927)	1 093	7 848	405 303	(273 967)	3 969	135 305
BRL	BRAZILIAN REAL	237 496	(193 742)	1 105	44 859	252 222	(9 645)	(183)	242 394
MOP	MACAO PATACA	127 624	(143 593)	-	(15 969)	(86 831)	73 296	-	(13 535)
JPY	JAPANESE YEN	(5 460)	3 038	(8 867)	(11 289)	(6 367)	2 940	(14 783)	(18 210)
CHF	SWISS FRANC	524	3 593	(2 750)	1 367	(7 530)	9 214	-	1 684
SEK	SWEDISH KRONE	1 647	(1 208)	-	439	(8 180)	7 967	-	(213)
NOK	NORWEGIAN KRONE	(29 211)	29 379	-	168	(39 959)	46 889	-	6 930
CAD	CANADIAN DOLLAR	7 933	(2 954)	-	4 979	4 827	(752)	-	4 075
ZAR	SOUTH AFRICAN RAND	(3 691)	3 755	-	64	(5 127)	5 145	-	18
AUD	AUSTRALIAN DOLLAR	(15 253)	16 759	-	1 506	(9 422)	11 111	(191)	1 498
VEB	VENEZUELAN BOLIVAR	64 469	-	-	64 469	54 171	-	-	54 171
PLN	POLISH ZLOTY	25 830	(4 727)	19	21 122	16 048	(7 048)	66	9 066
MAD	MOROCCAN DIRHAM	23	83 778	-	83 801	25	81 966	-	81 991
MXN	MEXICAN PESO	(942)	895	-	(47)	(29 780)	2 612	(1 121)	(28 289)
AOA	ANGOLAN KWANZA	55 950	-	-	55 950	-	-	-	-
CVE	CAPE VERDEAN ESCUDO	21 341	-	-	21 341	1 053	-	-	1 053
HKD	HONG-KONG DOLLAR	42 841	(25 727)	-	17 114	38 828	(23 725)	-	15 103
	OTHER	11 513	339	519	12 371	35 673	1 630	(38 426)	(1 123)
		408 531	**(600 598)**	**346 231**	**154 164**	**(57 338)**	**(1 971 952)**	**162 668**	**(1 866 622)**

Note: asset / (liability)

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2014 and as at 4 August 2014, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2014				
	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	1 374 949	157 119	5 736	1 790 786	3 328 590
Spain	63 877	37 303	(18)	648 568	749 730
Greece	-	14 417	-	20 841	35 258
Italy	-	47 904	-	1 657 073	1 704 977
	1 438 826	**256 743**	**5 718**	**4 117 268**	**5 818 555**

[1] Net values: receivable / (payable)

(in thousands of Euros)

	04.08.2014				
	Loans and advances to customers	Financial Assets held for trading and at Fair value	Derivative instruments [1]	Available-for-sale financial assets	Total
Portugal	1 418 636	178 008	5 990	1 602 979	3 205 613
Spain	103 515	12 546	(33)	691 153	807 181
Greece	-	3 481	-	72 106	75 587
Italy	-	30 681	-	2 122 359	2 153 040
	1 522 151	**224 716**	**5 957**	**4 488 597**	**6 241 421**

[1] Net values: receivable / (payable)

All the exposures presented above, except those relating to loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding securities registered as Available-for-sale financial assets, and as Financial assets held for trading and as Financial assets at fair value through profit or loss, is as follows:

(in thousands of Euros)

	31.12.2014					
	Nominal Amount	Market quotation	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**1 611 720**	**1 764 761**	**26 025**	**1 790 786**	**-**	**106 837**
Maturity up to 1 year	511 692	511 986	240	512 226	-	(1 465)
Maturity exceeding 1 year	1 100 028	1 252 775	25 785	1 278 560	-	108 302
Spain	**552 802**	**642 651**	**5 917**	**648 568**	**-**	**36 455**
Maturity up to 1 year	75 000	74 976	-	74 976	-	(16)
Maturity exceeding 1 year	477 802	567 675	5 917	573 592	-	36 471
Greece	**25 000**	**20 000**	**841**	**20 841**	**-**	**(2 105)**
Maturity exceeding 1 year	25 000	20 000	841	20 841	-	(2 105)
Italy	**1 620 000**	**1 654 337**	**2 736**	**1 657 073**	**-**	**15 859**
Maturity up to 1 year	1 410 000	1 409 281	207	1 409 488	-	742
Maturity exceeding 1 year	210 000	245 056	2 529	247 585	-	15 117
	3 809 522	**4 081 749**	**35 519**	**4 117 268**	**-**	**157 046**
Financial assets held for trading						
Portugal	45 766	50 613	944	51 557	-	-
	45 766	**50 613**	**944**	**51 557**	**-**	**-**
Financial assets at fair value						
Portugal	104 027	103 808	1 754	105 562	-	-
Spain	31 989	37 030	273	37 303	-	-
Greece	17 200	14 244	173	14 417	-	-
Italy	52 916	47 837	67	47 904	-	-
	206 132	**202 919**	**2 267**	**205 186**	**-**	**-**

(in thousands of Euros)

	04.08.2014					
	Nominal Amount	Market quotation	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**1 459 840**	**1 585 558**	**17 421**	**1 602 979**	**-**	**62 956**
Maturity up to 1 year	528 820	553 440	1 149	554 589	-	737
Maturity exceeding 1 year	931 020	1 032 118	16 272	1 048 390	-	62 219
Spain	**620 717**	**680 900**	**10 253**	**691 153**	**-**	**7 527**
Maturity up to 1 year	299 650	299 565	-	299 565	-	81
Maturity exceeding 1 year	321 067	381 335	10 253	391 588	-	7 446
Greece	**81 003**	**71 493**	**613**	**72 106**	**-**	**64**
Maturity up to 1 year	25 000	24 953	-	24 953	-	-
Maturity exceeding 1 year	56 003	46 540	613	47 153	-	64
Italy	**2 065 000**	**2 115 554**	**6 805**	**2 122 359**	**-**	**5 545**
Maturity up to 1 year	1 690 000	1 687 348	20	1 687 368	-	656
Maturity exceeding 1 year	375 000	428 206	6 785	434 991	-	4 889
	4 226 560	**4 453 505**	**35 092**	**4 488 597**	**-**	**76 092**
Financial assets held for trading						
Portugal	70 016	75 524	1 343	76 867	-	-
Spain	45	53	-	53	-	-
	70 061	**75 577**	**1 343**	**76 920**	**-**	**-**
Financial assets at fair value						
Portugal	97 775	100 517	624	101 141	-	-
Spain	12 346	12 465	28	12 493	-	-
Greece	3 390	3 440	41	3 481	-	-
Italy	30 133	30 607	74	30 681	-	-
	143 644	**147 029**	**767**	**147 796**	**-**	**-**

Liquidity risk

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

Liquidity risk can be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid / offer spread or the application of a haircut to its market value;

- Funding liquidity risk – the impossibility to obtain market funding to finance assets and / or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

As at 31 December 2014, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB amounted to Euros 12.9 thousand million. The amount includes all the exposure to Portuguese sovereign debt, in the amount of approximately Euros 1.8 thousand million (of which Euros 0.6 thousand million has a maturity of under 1 year).

In order to evaluate the global liquidity risk exposure, reports are prepared which permit not only the identification of negative mismatches, but also lead to a dynamic coverage of these situations.

(millions of Euros)

	31.12.2014						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	286	286	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	4 010	3 235	27	11	12	9	716
Loans and advances to customers	31 970	357	478	909	1 220	1 920	27 086
Securities	23 262	2 270	429	1 351	1 386	1 088	16 737
Technical reserves	-	-	-	-	-	-	-
Other net assets	1 788	615	15	-	9	108	1 042
Off-balance sheet (Commitments and Derivatives)	1 819	281	623	311	273	331	-
Total		**7 044**	**1 572**	**2 582**	**2 900**	**3 456**	**45 581**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	11 996	1 231	1 881	5 163	110	310	3 302
Due to customers	26 523	1 013	396	692	332	630	23 459
Debt securities issued	9 817	1	498	1 170	388	1 306	6 454
Investments contracts	4 372	44	2	4	122	846	3 354
Technical reserves	1 461	58	5	13	20	168	1 197
Other short-term liabilities	2 628	2 256	64	9	39	47	213
Off-balance sheet (Commitments and Derivatives)	10 949	304	766	313	377	474	8 715
Total		**4 907**	**3 612**	**7 364**	**1 388**	**3 781**	**46 694**
GAP (Assets - Liabilities)		**2 136**	**(2 040)**	**(4 783)**	**1 512**	**(324)**	
Accumulated GAP		**2 136**	**96**	**(4 687)**	**(3 175)**	**(3 499)**	
Net Assets Buffer > 12 months							**11 073**

(millions of Euros)

	04.08.2014						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	419	419	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	9 294	5 586	189	100	54	4	3 361
Loans and advances to customers	34 749	336	450	1 064	1 933	2 031	28 933
Securities	25 373	2 642	737	1 509	1 419	3 522	15 544
Technical reserves	17	-	17	-	-	-	-
Other assets, net	2 278	1 135	8	-	20	117	998
Off-Balance sheet (Commitments and Derivatives)	3 281	975	446	528	392	369	572
Total		**11 093**	**1 847**	**3 201**	**3 818**	**6 043**	**49 408**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	18 620	7 213	123	315	3 151	5 193	2 625
Due to customers	24 944	590	209	285	245	322	23 292
Debt securities issued	10 951	2	303	708	829	1 610	7 499
Investments contracts	4 892	109	43	123	140	265	4 212
Technical reserves	1 722	80	8	11	55	43	1 524
Other short-term liabilities	2 995	2 526	129	14	22	37	267
Off-balance sheet (Commitments and Derivatives)	10 782	1 015	487	741	477	353	7 709
Total		**11 535**	**1 302**	**2 197**	**4 919**	**7 823**	**47 128**
GAP (Assets - Liabilities)		**(442)**	**545**	**1 003**	**(1 100)**	**(1 780)**	
Accumulated GAP		**(442)**	**103**	**1 106**	**6**	**(1 774)**	
Net Assets Buffer > 12 months							**11 300**

The one-year cumulative gap moved from Euros - 1 774 million on 4 August 2014 to Euros - 3 499 million on 31 December 2014, with the net assets buffer over 12 months reaching Euros 11 073 million (4 August 2014: Euros 11 300 million). It should be noted that these amounts include GNB Vida.

Additionally, and in accordance with Instruction no. 13/2009 of the Banco de Portugal, the liquidity gap is defined through the indicator [(Net Assets - Volatile Liabilities) / (Assets - Net assets) * 100] at each residual maturity cumulative level. Net assets include cash and net securities and volatile liabilities include debt securities issued, commitments assumed, derivatives and other liabilities. This indicator allows for a characterisation of the wholesale risk of institutions.

As at 31 December 2014, NOVO BANCO Group's one year liquidity gap was -2.00, which compares to -7.88 as at 4 August 2014. It is to be noted that the above figures, calculated in accordance with Instruction no. 13/2009 of Banco de Portugal, do not include GNB Vida, whose activity is regulated by the Portuguese Insurance Authority ("Instituto de Seguros de Portugal"), which establishes exposure limits for diversification and prudential spread.

In order to try to anticipate possible constraints, the group considers extreme stress scenarios in terms of liquidity (moderate and severe), different timeframes and different impact areas (systemic, specific to the Bank and combined). For example, in the systemic scenario is simulated the closure of the wholesale market, while in the scenario specific to the Bank is simulated the run-off of customer deposits from retail and non-retail, with different severity levels.

On 1 January 2014, the CRD IV/CRR, within the prudential framework designated Basel III, came into force. Concerning to liquidity risk, the highlights are the mandatory requirements regarding the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). In January 2014, the Bank of International Settlements published a draft document relating to the review of the NSFR calculation. The Group continues to follow each legislative change so as to comply with its regulatory obligations.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of the Banco de Portugal (it is to be noted that this information is prepared from a prudential perspective, which consolidation perimeter differs from that of the consolidation perimeter subjacent to the financial statements presented) is as follows:

(in thousands of Euros)

Model A - Assets	31.12.2014			
	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution disclosing the informatior	**16 796 360**		**43 544 234**	
Equity instruments	-	-	3 466 300	3 466 300
Debt securities	2 638 701	2 638 701	1 299 686	1 299 686
Other assets	14 157 659		38 778 248	

(in thousands of Euros)

Model B - Collateral received	31.12.2014 Fair value of encumbered collateral received or of own debt securities issued	31.12.2014 Fair value of collateral received or of own debt securities issued and encumberable
Collateral received by the institution disclosing the information	**-**	**-**
Equity instruments	-	-
Debt securities	-	-
Other assets	-	-
Own debt securities issued that are not own covered bonds or ABS	**3 664 637**	**205 163**

(in thousands of Euros)

Model C - encumbered assets, encumbered collateral received and associated liabilities	31.12.2014 Associated liabilities, contingent liabilities and securities lent	31.12.2014 Assets, collateral received and own debt securities issued that are not own covered bonds or encumbered ABS
Carrying value of the financial liabilities selected	11 900 825	16 796 360

Operational risk

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

To manage operational risk, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organisational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Insurance business specific risk (life insurance)

The insurance business specific risk reflects at the moment of the underwriting of a policy, the fact that it is not possible to estimate with certainty the effective real cost of future claims as well as the moment in which they will occur. This risk may be broken down into longevity risk, mortality risk, disability risk and non-collection risk.

Insurance specific risk is managed through a combination of underwriting, pricing, reserving and reinsurance policies.

Underwriting

There are written rules that establish the guidelines to be considered in respect of risk acceptance, that are based on the analysis of several portfolio statistical indicators performed in order to match the best possible price to the risk. Information provided by the Company's Reinsurers is also taken into account and the underwriting policies are defined by business segment.

Pricing

GNB Seguros Vida aims to set prices that are sufficient and adequate to cover all commitments (outstanding claims, expenses and cost of capital).

Before the products are launched they are analysed and discussed by the Products Committee, in which all the departments of the Company are represented. This Committee's function is to analyse the technical and operational aspects of the product to be launched, formulating recommendations for the Managing Director and for subsequent decision by the Board of Directors.

Initially, the adequacy of the price is tested using realistic cash flow projection techniques and subsequently, the profitability of each product or group of products is annually monitored when calculating the Market Consistent Embedded Value.

Metrics and guidelines have been defined by the Company, both for setting out the minimum profitability requirements for any new product as well as for performing sensitivity analyses. Both the Market Consistent Embedded Value and the Traditional Embedded Value calculations are performed once a year by the Company and reviewed by external consultants.

Reserving

In general, GNB VIda's reserving policy is prudential and relies on recognised actuarial methods to comply with the legislation in force. The main policy objective is to record appropriate and adequate reserves so that GNB Vida can meet all its future liabilities. For each line of business, GNB Vida records reserves in the respective liability captions against future claims and segregates assets to represent these reserves. This requires the preparation of estimates and the use of assumptions that may affect the asset and liability amounts in future periods.

Such estimates and assumptions are periodically evaluated, including statistical analyses of historical internal and / or external data. The adequacy of the estimated liabilities of the insurance activity is reviewed annually. If the technical reserves are insufficient to cover the present value of expected future cash outflows (claims, costs and commissions), such insufficiency is immediately recognised through the creation of additional reserves.

Claims management

The risk subjacent to claims management derives from the possibility of liability increases due to the insufficient or inadequate quality of the data used in the reserving process or increased management and litigation expenses due to an inadequate management of claims.

To address this risk, a clear set of rules and procedures have been established, together with controls for claims management.

GNB Vida has implemented a claims workflow, through which it can monitor and identify the tasks performed, in progress or pending, as well as compliance with deadlines and time-management of claims.

Reinsurance

GNB Seguros Vida signs reinsurance treaties to limit its risk exposure. Reinsurance coverage can be made on a policy by policy basis (facultative reinsurance), namely when the level of coverage required by the policyholder exceeds internal underwriting limits or on a portfolio basis (treaty reinsurance), when individual policyholder exposures are within internal limits but there is an unacceptable cumulative risk.

The main objective of reinsurance is to mitigate large individual claims in which indemnity levels are high, as well as the impact of multiple claims due to a single occurrence.

The following table presents the sensitivity analyses (net of tax) in the Market Consistent Embedded Value of the Company, that includes the Equity and the future income associated with existing contracts:

	2014
Increase of 10% in costs	(2 503 339)
Increase of 10% in redemptions	5 060 186
Decrease of 10% in redemptions	(5 118 323)
Increase of 5% in mortality rate (life except annuities)	346 622
Decrease of 5% in mortality rate (life except annuities)	(360 394)

Insurance specific risks

Biometric risks

Biometric risks include the risks of longevity, mortality and disability. The longevity risk covers the uncertainty as to the effective loss due to policyholders living longer than expected and can be more important, for example, in annuities. The longevity risk is managed through the pricing, the underwriting policy and by regularly reviewing the mortality tables used to set the prices and create mandatory reserves. The mortality risk is linked to an increase in the mortality rate, which may impact insurance policies that guarantee capital in the event of death. This risk is mitigated through the underwriting policies, a regular review of the mortality tables used and reinsurance. The disability risk covers the uncertainty of effective losses due to the disability rates being higher than expected.

The sensitivity of the portfolio to biometric risks is analysed using realistic cash flow projections - Market Consistent Embedded Value Model.

Non-collection risk

The non-collection risk relates to the risk of non-payment of premiums and cancellation of policies. The redemption and cancellation rates are monitored regularly in order to assess their impact on GNB Vida's portfolio. The portfolio's sensitivity to this risk is analysed using realistic cash flow projections – Market Consistent Embedded Value Model.

The main assumptions used by type of contract are as follows:

	Mortality Table	Technical rate
Retirement savings plans and capitalisation products		
Up to December 1997	GKM 80	4%
From January 1998 to June 1999	GKM 80	3.25%
From 1 July 1999 to February 2003	GKM 80	2.25% and 3%
From 1 March 2003 to December 2003	GKM 80	2.75%
After 1 January 2004	GKM 80	Set per calender year (*)
Insurance in case of life		
Annuities		
Up to June 2002	TV 73/77	4%
From 1 July 2002 to December 2003	TV 73/77	3%
From 1 January 2004 to August 2006	GKF 95	3%
After September 2006	GKF - 3 years	2%
Other insurance		
Insurance in case of death		
Up to December 2004	GKM 80	4%
After 1 January 2005	GKM 80	0% to 2%
Mixed insurance		
Up to September 1998	GKM 80	4%
After 1 October 1998	GKM 80	3%

(*) In the year 2013 the technical rate w as 3%

For liability adequacy testing purposes, the mortality assumptions are based on the best estimates derived from portfolio experience analyses. Future cash flows are evaluated using the internal embedded value model and discounted at risk-free interest rates. GNB Vida uses the models adopted by the CFO Forum for the purpose.

The mortality assumptions used are as follows:

	Mortality Table
Annuities	GRM 95
Savings and other contracts	30% GKM 80

Capital Management and Solvency Ratio

The main objective of the Group's capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by the supervisory entities.

The definition of the strategy for capital adequacy management rests with the Board of Directors and is integrated in the global definition of the Group objectives.

The Group is subject to prudential supervision by the European Central Bank, working in close cooperation with the Banco de Portugal. In accordance with the Capital Adequacy Directive of the EU, the supervisory body establishes the prudential rules to be observed by the institutions under its supervision. These rules determine the minimum ratio of Own funds to Capital requirements for the risks assumed that the institutions are required to fulfil.

The Group is authorised to apply the approach based on the use of internal models for credit risk (Internal Ratings-Based Approach "IRB") and the standardised method (The Standardised Approach "TSA") for operational risk.

The European Parliament and Council approved, on 26 June 2013, EU Directive 2013/36/EU and EU Regulation no. 75/2013 that regulates in the European Union the access to the credit institution and investment company activity and determine the prudential requirements to be observed by these entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, normally designated Basel III.

Notice no. 6/2013, of 23 December, of the Banco de Portugal regulates the transitory regime foreseen in that Regulation regarding to own funds, capital preservation measures and the determination of a Common Equity Tier I (CET1) ratio not below 7%.

The capital adequacy calculations of NOVO BANCO Group as at 31 December 2014 and as at 4 August 2014, based on information available, the Basel III European Regulatory Framework and considering the transitory period foreseen in the Notice referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2014	04.08.2014
Realised ordinary share capital		4 900	4 900
Reserves and Retained earnings		948	982
Net income / (loss) for the period		(498)	-
Revaluation reserves		(70)	84
Non-controlling interests		212	125
A - Equity		**5 492**	**6 091**
Revaluation reserves		(214)	(115)
Non-controlling interests		(107)	(15)
B - Prudential adjustments to Equity		**(321)**	**(130)**
Goodwill and other intangibles		(423)	(414)
Deferred taxes		(277)	(291)
Equity participations in financial entities		(101)	(63)
Other		72	(25)
C - Prudential deductions		**(729)**	**(793)**
D - Common Equity Tier I (A+B+C)		**4 442**	**5 168**
Eligible instruments for Tier I		2	2
Deductions from Tier I		(2)	(2)
E - Tier I		**4 442**	**5 168**
Eligible instruments for Tier II		136	143
Deductions from Tier II		(136)	(128)
F - Tier II		**-**	**15**
G - Eligible Own Funds		**4 442**	**5 183**
H - Risk Weighted Assets		**46 982**	**50 406**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**9,5%**	**10,3%**
Tier I	**(E / H)**	**9,5%**	**10,3%**
Solvency	**(G / H)**	**9,5%**	**10,3%**

NOTE 51 – CONTRACTUAL COMMITMENTS

Contract Support Annex (CSA)

NOVO BANCO has a number of contracts negotiated with counterparts with whom it trades derivatives on the Over-The-Counter market. The CSAs take the form of collateral agreements established between two parties negotiating OTC 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 margin requirements that may change according to the rating of the parties.

NOTE 52 – ASSET TRANSFERS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds that, through concentration, aggregation, mergers and integrated management, could achieve the synergies needed to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and, which in turn now hold almost all of the share capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans.

Since 2012, a number of assignments of financial assets (namely loans and advances to customers) were made to the subsidiaries of those parent companies. These entities are responsible for managing the assets received as collateral and for implementing a plan to increase their value. Almost all of the financial assets assigned under these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the banks, appointed on the date of their incorporation and have the following main responsibilities:

- to define the entity’s purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities’ valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent entities and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operation, the Group subscribed:

- equity instruments, representing the parent companies' share capital, which recovery will be through the cash flows expected to be generated by the wide range of assets assigned by the various banks. These securities are recorded in the financial assets available for sale portfolio and are measured at market value, with valuations being regularly disclosed by the those companies whose accounts are audited at the end of each year;
- junior instruments issued by the asset acquiring companies, which are fully provided for reflecting the best impairment estimate of the financial assets transferred.

The instruments subscribed by NOVO BANCO Group represent clear minority positions in the share capital of the parnt companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, NOVO BANCO Group, in accordance with IAS 39.21, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has also no control, it proceeded in accordance with IAS 39.20c (i) with the de-recognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amount of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (senior securities)	Junior securities	Total	Impairment	Net carrying value
As at 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 681	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 969	(23 000)	161 969
As at 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
As at 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	9 664	-	9 664	-	9 664
Fundo Aquarius	325 895	289 654	(36 241)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
	1 531 120	**1 491 253**	**(39 867)**	**1 247 377**	**119 515**	**1 366 892**	**(106 333)**	**1 260 559**

As at 31 December 2014, the Group's total exposure to securities associated with operations relating to the assignment of loans and advances to customers amounts to Euros 1 325.2 million (4 August: Euros 1 290.0 million).

The Group maintains an indirect exposure to the assets ceded, considering its minority participation in the pool of assets ceded by other financial institutions, due to the minority shareholdings subscribed in the parent companies. There was, however, an operation with the company FLITPTREL VIII in 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. Considering the above, the operation amounting to Euros 60 million remains recognised in the Group's balance sheet under Loans and advances to customers.

NOTE 53 – DISCONTINUING ACTIVITIES

On 8 December 2014, NOVO BANCO has agreed with Haitong International Holdings Limited, a contract for the sale of 100% of the share capital of its subsidiary Banco Espírito Santo Investimento (BESI). This company has its registered office in Hong Kong, and is wholly owned by Haitong Securities Co., Ltd, with shares listed on the Shanghai Stock Exchange and on the Hong Kong Stock Exchange.

The execution of the transaction is dependent of the necessary approvals, namely, of the European Commission, of the Competition Authorities and of a number of other authorities that have supervisory functions over the international units of BESI. On 5 February 2015, the Banco de Portugal, whilst national resolution authority, informed that it had authorised the sale of BESI.

According to IFRS 5 – Non-current assets held for sale and discontinued operations, BESI ceased to be consolidated using the full consolidation method but is, instead, classified in the financial statements as an activity being discontinued. The impact of this operation translates into the recognition of a loss in the amount of Euros 38.9 million, calculated based on the 30 November 2014 (transaction date) financial statements of BESI. The Group must, between that date and the date of the financial closing of the transaction, apply IFRS 5 and measure the asset being discontinued at the lower of two values: the carrying book value or the fair value less selling costs (Euros 379 million). The equity changes occurring subsequent to that date consubstantiate gains or losses in NOVO BANCO Group. As such, and as presented below, the result of the activities under discontinuation has the following breakdown:

		(thousands of Euros)
		31.12.2014
	Transaction amount	379 000
	BESI equity at 31 December 2014	392 167
	Consolidated capital loss	(13 167)
(+)	Net income / (loss) of BESI for the period from 4 August to 31 December 2014	(33 445)
=	**Profit / (loss) generated by activities being discontinued**	**(46 612)**

For the purposes of consolidating the assets and liabilities of activities under discontinuation, the respective balance sheet operations with Group companies are eliminated from the balance sheet, the amount determined being as follows:

	(thousands of Euros)
	31.12.2014
Total assets of BESI as at 31 December 2014	4 436 620
Intragroup operations	(226 820)
Assets of units being discontinued	**4 209 800**
Total liabilities of BESI as at 31 December 2014	3 995 709
Intragroup operations	(922 989)
Liabilities of units being discontinued	**3 072 720**

The data relating to BESI presented above, as well as the preliminary financial statements as at 31 December 2014, presented below, were considered for purposes of the NOVO BANCO Group's consolidation process, with the differences compared to the audited accounts released by BESI to the market not changing the measurement of this asset being discontinued in accordance with IFRS 5.

BESI Group

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

(in thousands of Euros)

	31.12.2014
Assets	
Cash and deposits with Central Banks	1 524
Deposits with banks	49 067
Financial assets held for trading	1 468 475
Available-for-sale financial assets	554 679
Loans and advances to banks	34 308
Loans and advances to customers	1 551 145
Derivatives held for risk management purposes	25 754
Non-current assets held for sale	3 600
Other tangible assets	15 494
Intangible assets	77 397
Investments in associated companies	26 877
Current tax assets	5 173
Deferred tax assets	95 520
Other assets	527 607
Total Assets	**4 436 620**
Liabilities	
Deposits from Central Banks	61 108
Financial liabilities held for trading	621 546
Deposits from banks	1 397 285
Due to customers	448 912
Debt securities issued	1 072 211
Derivatives held for risk management purposes	33 940
Provisions	46 425
Current tax liabilities	17 728
Subordinated debt	37 096
Other liabilities	259 458
Total Liabilities	**3 995 709**
Equity	
Share capital	326 269
Share premium	8 796
Other equity instruments	3 731
Reserves, Retained earnings and Other comprehensive income / (losses)	86 816
Profit / (loss) for the period attributable to shareholders of the Bank	(33 445)
Total Equity attributable to shareholders of the Bank	**392 167**
Non-controlling interests	48 744
Total Equity	**440 911**
Total Equity and Liabilities	**4 436 620**

BESI Group

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	31.12.2014
Interest and similar income	126 738
Interest expense and similar charges	99 837
Net interest income	**26 901**
Dividend income	13
Fee and commission income	25 064
Fee and commission expenses	(5 937)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	53 900
Net gains / (losses) from available-for-sale financial assets	4 855
Net gains / (losses) from foreign exchange revaluation	(38 284)
Net gains/ (losses) from the disposal of other assets	924
Other operating income and expenses	(4 273)
Operating income	**63 163**
Staff costs	35 223
General and administrative expenses	22 439
Depreciation and amortisation	3 131
Provisions, net of reversals	4 916
Impairment of loans and advances, net of reversals and recoveries	(3 172)
Impairment of other financial assets, net of reversals and recoveries	16 630
Impairment of other assets, net of reversals and recoveries	15 201
Operating expenses	**94 368**
Share of profits of associated companies	111
Profit / (loss) before income tax	**(31 094)**
Income tax	
Current tax	(8 170)
Deferred tax	11 053
	2 883
Net profit / (loss) for the period	**(33 977)**
Attributable to shareholders of the Bank	**(33 445)**
Attributable to non-controlling interests	**(532)**
	(33 977)

BESI Group

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD FROM 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	31.12.2014
Cash flows from operating activities	
Interest and similar income received	99 519
Interest expense and similar charges paid	(92 290)
Fees and commission received	23 641
Fees and commission paid	4 823
Cash payments to employees and suppliers	(57 879)
	(22 186)
Changes in operating assets and liabilities:	
Deposits with Central Banks	1 861
Deposits from Central Banks	(51 788)
Financial assets and liabilities held for trading	58 944
Acquisition of available-for-sale financial assets	(6 109)
Disposal of available-for-sale financial assets	194 421
Loans and advances to banks	104 217
Deposits from banks	(144 517)
Loans and advances to customers	296 937
Due to customers and other loans	(71 100)
Derivatives held for risk management purposes	27 901
Other operating assets and liabilities	(56 549)
Net cash from operating activities before income tax	**332 032**
Income taxes paid	(2 113)
Net cash from operating activities	**329 919**
Cash flows from investing activities	
Disposal of investments in subsidiaries and associated companies	31
Dividends received	13
Acquisition of tangible and intangible assets and investment properties	(1 716)
Disposal of tangible and intangible assets and investment properties	2 080
Net cash from investing activities	**408**
Cash flows from financing activities	
Issue of bonds and other debt securities	34 453
Reimbursement of bonds and other debt securities	(346 408)
Reimbursement of subordinated debt	(1 024)
Interest from other capital instruments	(113)
Dividends on ordinary shares paid out by subsidiaries	(476)
Net cash from financing activities	**(313 568)**
Net changes in cash and cash equivalents	**16 759**
Cash and cash equivalents at beginning of period	32 321
Cash and cash equivalents at end of period	49 080
	16 759
Cash and cash equivalents include:	
Cash	13
Deposits with banks	49 067
Total	**49 080**

NOTE 54 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Impact of the adoption of standards and interpretations that became effective on 1 January 2014

IAS 32 (amendment), 'Offsetting of financial assets and liabilities. This amendment is part of the project 'Offsetting assets and liabilities' of the IASB, which aims to clarify the concept 'currently has a legal enforceable right of set-off', and clarifies that some gross amount clearing systems (clearing houses) may be equivalent to net amount offsetting. The adoption of this amendment did not produce an impact on the financial statements of the Group.

IAS 36 (amendment), 'Disclosure of the recoverable amount of non-financial assets'. This amendment deals with the disclosure requirements regarding the recoverable amount of impaired assets, when that amount is based on fair value less costs to sell. The adoption of this amendment did not produce an impact on the financial statements of the Group.

IAS 39 (amendment), 'Novation of derivatives and continuation of hedge accounting'. This amendment to IAS 39 permits an entity to continue hedge accounting, when a counterpart of a derivative, which has been designated as a hedging instrument, changes to a clearing house, or equivalent, as a result of changes in laws or regulations. The adoption of this amendment did not produce an impact on the financial statements of the Group.

Amendments to IFRS 10, 12 and IAS 27 - 'Investment entities'. These amendments define Investment entities and introduce an exception to the application of the obligation to consolidate under IFRS 10, for entities that qualify as Investment entities, whose investments in subsidiaries must be measured at fair value through profit or loss, in accordance with IAS 39. Specific disclosures are required by IFRS 12. The adoption of these amendments did not produce an impact on the financial statements of the Group.

IFRS 10 (new), 'Consolidated financial statements'. IFRS 10 substitutes all procedures and accounting guidelines relating to control and consolidation, included in IAS 27 and SIC 12, changing the definition of control and the criteria applied to determine control. The fundamental principle that a consolidated entity presents the holding company and the subsidiaries as a single entity, remains unchanged. The adoption of this standard did not produce an impact on the financial statements of the Group.

IFRS 11 (new), 'Joint arrangements'. IFRS 11 focuses on the rights and obligations of joint arrangements in detriment of their legal form. Joint arrangements may be joint operations (rights over assets and obligations) or joint ventures (rights over net assets, applying the equity method). Proportional consolidation of joint ventures ceases to be allowed. The adoption of this standard did not produce an impact on the financial statements of the Group.

IFRS 12 (new), 'Disclosure of interests in other entities'. This standard establishes the disclosure requirements for all nature of interests in other entities, such as: subsidiaries, joint arrangements, associated companies and structured entities, so as to permit the evaluation of the nature, risks and financial effects associated with the interests of the Entity. The adoption of this standard did not produce an impact on the financial statements of the Group.

Amendments to IFRS 10, 11 and 12, 'Transition regime'. These amendments clarify that, when by adopting IFRS 10 results a different accounting treatment from the guidelines of the IAS 27 / SIC 12, the comparative information is only to be adjusted for the immediately preceding period, with the differences recognised in the beginning of the comparative period, under Equity. The amendment introduced in IFRS 11, relates to the mandatory testing for impairment of the financial investment that results from the discontinuation of proportionate consolidation. The specific disclosure requirements are included in IFRS 12. The adoption of these amendments did not produce an impact on the financial statements of the Group.

IAS 27 (revision 2011), 'Individual financial statements'. IAS 27 was revised, following the release of IFRS 10, and defines the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associated companies, when the Entity prepares individual financial statements. The adoption of this revision did not produce an impact on the financial statements of the Group.

IAS 28 (revision 2011), 'Investments in associated companies and joint ventures'. IAS 28 was revised, following the release of IFRS 11, and prescribes the accounting treatment for investments in associated companies and joint ventures, defining also the requirements for the application of the equity method. The adoption of this revision did not produce an impact on the financial statements of the Group.

IAS 19 (amendment), 'Defined benefit plans – Employee contributions'. The amendment to IAS 19 applies to contributions made by employees or third parties to defined benefit plans, and aims to simplify their accounting treatment, when the contributions are independent from the number of years of service. The adoption of this amendment did not produce an impact on the financial statements of the Group.

Improvements to standards 2010 – 2012. This improvement cycle impacts the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The adoption of these improvements did not produce an impact on the financial statements of the Group.

IFRIC 21 (new), 'Levies'. IFRIC 21 is an interpretation of IAS 37 and of the recognition of liabilities, clarifying that the past event that results in an obligation to pay a tax or levy (other than corporate income tax - IRC) corresponds to the activity described in the relevant legislation that mandates that payment. The adoption of this interpretation did not produce an impact on the financial statements of the Group.

<u>Standards, amendments to existing standards and interpretations that have already been published and whose application is mandatory for annual periods starting on or after 1 July 2014, or at a later date, and which the Bank decided not to early adopt:</u>

IAS 1 (amendment), 'Revision of the disclosures' (to be applied in the periods starting on or after 1 January 2016). This amendment is still awaiting endorsement by the European Union. The amendment provides indications as to materiality and aggregation, presentation of subtotals, structure of the financial statements and disclosure of accounting policies. The adoption of this amendment is not expected to produce a material impact on the financial statements of the Group.

IAS 16 and IAS 38 (amendments), 'Amortisation and depreciation methods permitted' (to be applied in the periods starting on or after 1 January 2016). These amendments are still awaiting endorsement by the European Union. These amendments clarify that the methods used to calculate the amortisation / depreciation of assets based on revenue earned, are generally not considered adequate measures of the consumption pattern of the economic benefits associated with the asset. It is to be prospectively applied. The adoption of these amendments is not expected to produce a material impact on the financial statements of the Group.

IAS 27 (amendment), 'Equity method in Separate Financial Statements' (to be applied in the periods starting on or after 1 January 2016). This amendment is still awaiting endorsement by the European Union. This amendment permits an entity to use in the separate financial statements the equity method in measuring investments in subsidiaries, joint ventures and associated companies. This amendment is to be retroactively applied. The adoption of this amendment is not expected to produce a material impact on the financial statements of the Group.

Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an Investor and its Associated company or Joint venture' (to be applied in the periods starting on or after 1 January 2016). These amendments are still awaiting endorsement by the European Union. These amendments clarify that on the sale or contribution of assets between an investor and one of its associated companies or jointly controlled entities, any gain / loss is recognised in full when the assets transferred constitute a business, and only partially (in the proportion held by third parties) when the assets transferred do not constitute a business. The adoption of these amendments is not expected to produce a material impact on the financial statements of the Group.

Amendments to IFRS 10, 12 and IAS 28, 'Investment entities: application of the exemption from consolidation' (to be applied in the periods starting on or after 1 January 2016). These amendments are still awaiting endorsement by the European Union. These amendments clarify that the exemption from the obligation to consolidate applies to an intermediate holding company that is a subsidiary of an investment company. Additionally, the option to use the equity method, in accordance with IAS 28, is extended to a company that is not an investment entity but that holds an interest in an associated company or joint venture that is an 'Investment entity'. The adoption of these amendments is not expected to produce a material impact on the financial statements of the Group.

IFRS 11 (amendment), 'Accounting for the acquisition of interests in a joint operation' (to be applied in the periods starting on or after 1 January 2016). This amendment is still awaiting endorsement by the European Union. This amendment provides guidance on the accounting of the acquisition of an interest in a joint operation that qualifies as a business, with the principles of IFRS 3 – Business combinations being applicable thereto. The adoption of this amendment is not expected to produce a material impact on the financial statements of the Group.

Improvements to standards 2012 - 2014, (to be applied, in general, in the periods starting on or after 1 January 2016). These improvements are still awaiting endorsement by the European Union. This improvement cycle affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The adoption of these improvements is not expected to produce a material impact on the financial statements of the Group.

Improvements to standards 2011 - 2013, (to be applied in the European Union in the periods starting on or after 1 January 2015). This improvement cycle affects the following standards: IFRS 1, IFRS 3, IFRS 13, and IAS 40. The adoption of these improvements is not expected to produce a material impact on the financial statements of the Group.

IFRS 9 (new), 'Financial instruments' (to be applied in the periods starting on or after 1 January 2018). This standard is still awaiting endorsement by the European Union. IFRS 9 substitutes the requirements of IAS 39, relating to: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment on amounts receivable (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. The adoption of this standard is not expected to produce a material impact on the financial statements of the Group.

IFRS 15 (new), ‘Revenue from contracts with customers’ (to be applied in the periods starting on or after 1 January 2017). This standard is still awaiting endorsement by the European Union. This new standard applies solely to contracts for the delivery of products or rendering of services, and requires that the entity recognises the revenue when the contractual obligation to deliver the assets or render the services is satisfied and for the amount that reflects the remuneration to which the company has a right, as foreseen in the ‘5 step methodology’. The adoption of this standard is not expected to produce a material impact on the financial statements of the Group.

NOTE 56 – SUBSEQUENT EVENTS

- According to the Banco de Portugal announcement dated 17 April 2015, following the analysis of the seven non-binding proposals for the acquisition of NOVO BANCO presented on 20 March, five entities were selected by Banco de Portugal to pass on to the third phase of the sale procedure.
  The decision of Banco de Portugal was preceded by a prior hearing procedure, under which the entities not selected under the preliminary decision were given a period of ten working days to comment on the decision. Banco de Portugal invited the entities selected to submit, by the end of June 2015, Binding Proposals for the acquisition of NOVO BANCO. The invitation will be accompanied by specific Terms of Reference establishing the procedures to be followed in Phase III, during which period the candidates will have access to more detailed information about NOVO BANCO and will have the opportunity to perform a due diligence;

- At the meeting of the Board of Directors of NOVO BANCO on 3 December 2014 it was decided as part of the restructuring of the NOVO BANCO Group to merge Avistar into NOVO BANCO.

2. Appendix - Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Circular Letters no. 97/2008/DSB, of 3 December and no. 58/2009/DSB of 5 August of the Banco de Portugal)

In its Circular Letter no. 58/2009/DSB of August 5th, 2009 the Banco de Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of July 15th, 2008 and no. 97/08/DSB of December 3rd, 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 appendix aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the body of the Management Report or in the Notes to the Financial Statements for period from the 4th August to 31st December 2014.

I. BUSINESS MODEL

1. Description of the business model

A detailed description of the Group's business model is provided in Item 2 of the Management Report . The performance of the main business areas (operational segments) of the Group is also presented in Note no. 4[1].

2. Strategy and Objectives

The Group's strategy and objectives are provided in Item 1 of the Management Report. The securitisation transactions are detailed in Note 48.

3., 4. and 5. Activities developed and contribution to the business

Item 2 of the Management Report and Note no. 4 contain information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of the risks incurred

Item 5 of the Management Report describes how the risk management function is organised within Group NOVO BANCO.

[1] The numbering refers to the Notes to the Consolidated Financial Statements

Note 50 contains diverse information that in total allows the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8.,9., 10 and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

Note 1 contains the information regarding the setup of NOVO BANCO on the 3rd August 2014.

12. Decomposition of realised and non realised write-downs

The profit and loss of assets and liabilities held for trading, assets and liabilities at fair value through profit or loss and assets available for sale are detailed by financial instrument in Notes 7 and 8. In addition, non realised gains and losses on assets available for sale are detailed in Notes 23 and 44, while the most significant positions are decomposed in Note 23.

13. Financial turmoil and the price of share

NOVO BANCO does not have listed shares.

14. Maximum loss risk

Item 5 of the Management Report and Note 50 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 49 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

At 31st December 2014 exposure to Portuguese sovereign debt totalled EUR 1948 million, EUR 686 million of Spanish sovereign debt, EUR 1705 million of Italian sovereign debt and EUR 35 million of Greek sovereign debt.

The information about the Group's exposures is provided in Note 50.

19. Movement in exposures between periods

Note 50 contains diverse information comparing the exposures to markets and results for the period from the 4th August to 31st December 2014. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non consolidated exposure

All the structures related to securitisation operations originated by the Group are presented in Note 48. None of the SPEs were consolidated due to the market turbulence.

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Summary of significant accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 48.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Appendix. Notes 2 and 49 contain the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

NOVO BANCO Group, within the context of accounting and financial information disclosure, aims to satisfy all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholder, clients, employees, supervisory entities and the public in general, we highlight the Annual and Half Year Management Reports, the Financial Statements and the respective Notes, and the Corporate Governance Report.

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 Corporate Governance Report provides a detailed view about the governing structure of the Group.

The Sustainability Report, which forms an integral part of the Annual Management Report, conveys the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

pwc

Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Consolidated Financial Information

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the consolidated Directors' Report and in the attached consolidated financial statements of Novo Banco, S.A. ("Novo Banco" or "Bank"), comprising the consolidated balance sheet as at 31 December 2014 (which shows total assets of Euro 65,417,480 thousand and total shareholder's equity of Euro 5,409,813 thousand including non-controlling interests of Euro 129,446 thousand and a net loss of Euro 497,645 thousand, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period 4 August 2014 through 31 December 2014 ("Period") then ended, and the corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Bank's Board of Directors (i) to prepare the consolidated Directors' Report and the consolidated financial statements which present fairly, in all material respects, the financial position of the group of companies included in the consolidation, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards as adopted by the European Union and which is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the group of companies included in the consolidation.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Accordingly, our audit included: (i) verification that the financial statements of the group of companies included in the consolidation have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation

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operations and the utilization of the equity method; (iii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the consolidated financial information.

5 Our audit also covered the verification that the information included in the consolidated Directors' Report is consistent with the financial statements as well as the verification set forth in paragraphs 4 and 5 of Article 451 of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Qualifications

7 As disclosed in Note 41 of the notes to the accounts, in accordance with sub-paragraph (iv) of paragraph (b) of point 1 of Appendix 2 of the Resolution of the Board of Directors of the Banco de Portugal of 3 August 2014, as amended by Resolution of the same Board of 11 August 2014 ("Resolution Deliberation") the liabilities relating to financial instruments that were, or that at some point had been, eligible for the own funds calculation of Banco Espírito Santo, SA ("BES"), which include subordinated debt and other equity instruments issued by the BES branch in the Cayman Islands, in the amounts, at 31 December 2014, of Euro 43 million and Euro 163 million, respectively, were not transferred to Novo Banco. These financial instruments were acquired upon their issuance and continue to be, as at this date, held by the company BES Finance, Ltd ("BES Finance"), currently a subsidiary of Novo Banco, which simultaneously carried out the issuance and sale to third parties of financial instruments, guaranteed by BES itself, on the same terms and conditions and for the same amount. Based on the above, the Board of Directors of Novo Banco, in conjunction with the Banco de Portugal, whilst resolution authority, considers that, under the Resolution Deliberation, the legal system subjacent to the resolution and the European Union rules on State aid, the Bank is not responsible for the repayment of the subordinated debt and other capital instruments issued by BES Finance, as these were indirectly expressed in BES' own patrimony and are guaranteed by same, and has therefore not reflected these in the consolidated balance sheet of the Bank at 31 December 2014, although as at this date, and strictly under International Financial Reporting Standards, the technical conditions for the non-recognition of such liabilities have not been met. Under these circumstances, had those liabilities been reflected in the consolidated balance sheet of the Bank at 31 December 2014, the subordinated debt and the other equity instruments captions would be higher by Euro 43 million and Euro 163 million, respectively, and the originating reserve would be lower by Euro 206 million.

8 As referred in Note 40 of the notes to the accounts, the consolidated balance sheet of the Bank at 31 December 2014 includes Euro 1,065 million relating to deferred tax assets recognized on tax losses, of which Euro 160 million relate to tax losses estimated by BES in 2013 that were transferred to Novo Banco under the Resolution Deliberation, and Euro 905 million relate to tax losses estimated in 2014, which effective recoverability is dependent on the generation of future taxable results. Given that the maximum period for the use of these tax losses is 5 and 12 years, depending on their having arisen in 2013 or 2014, respectively, we consider that the estimated recoverability of the aforementioned deferred tax assets made by the Board of Directors, based on a business plan covering the years 2015 through 2026 that assumes a stability of the results as from 2019, incorporates assumptions we consider optimistic given the current economic situation and the fact that it is a bridge bank. Under

these circumstances, the captions of deferred tax assets, originating reserve and result for the Period, contained in the consolidated balance sheet of the Bank at 31 December 2014, are overstated by an amount that we are unable to quantify with reasonable assurance, taking into account the multiple underlying assumptions and respective correlations, as well as the potential impact deriving from the projected entry of a new shareholder in the Bank.

Opinion

9 In our opinion, except for the effects on the consolidated financial statements of the matters referred to in paragraphs 7 and 8 above, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of Novo Banco, S.A. as at 31 December 2014, the consolidated results and the consolidated comprehensive income of its operations, the changes in consolidated equity and the consolidated cash flows for the Period then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and the information included is complete, true, up-to-date, clear, objective and lawful.

Report on other legal requirements

10 It is also our opinion that the information included in the Directors' Report is consistent with the consolidated financial statements for the Period and that the Corporate Governance Report includes the information required under Article 245-A of the Portuguese Securities Market Code.

Emphasis

11 Without further qualifying our opinion expressed in paragraph 9 above, we draw attention to:

11.1 As disclosed in Note 1 of the notes to the accounts, the commitments of the Portuguese State before the European Commission foresee Novo Banco being sold within a maximum period of two years. Nevertheless, the Bank's Board of Directors considers that, based on the business plan it has drawn up and the prospective information it has on profitability, cash flows and capital levels, the Bank has the means to continue to develop its activity in the foreseeable future, so much so that the financial statements for the Period ended on 31 December 2014 were prepared based on the going concern basis. We point out, however, that while the Bank is in a sale process, the compliance with the business plan presented by the Board of Directors, including, namely, the recoverability of the deferred tax assets recognized on the tax losses referred to in paragraph 8 above, is necessarily conditioned by the future shareholder's strategy and by its ability to generate significant business for Novo Banco.

11.2 As mentioned in Note 1 of the notes to the accounts, in accordance with the legal framework underlying the resolution, the Banco de Portugal may at any time decide to transfer or re-transfer, with retroactive effect, between BES and Novo Banco, assets, liabilities, off-balance sheet elements and assets under management, with the consequent impacts on the financial statements of the Bank.

11.3 Given that the incorporation of the Bank resulted from the application of a resolution measure to BES, which originated material impacts on third parties, the risk of litigation involving Novo Banco, related to the Resolution Deliberation and the definition of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to the latter, is significant. In preparing the consolidated financial statements of the Bank at 31 December 2014, and as referred to in Note 45 of the notes to the accounts, the Board of Directors reflected therein the Resolution Deliberation and related decisions taken by the Banco de Portugal, as well as the indication made by the latter that no responsibilities are expected to arise for Novo Banco from said litigation, given the legal grounds and the information available at the present date.

17 June 2015

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

José Manuel Henriques Bernardo, R.O.C.

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REPORT AND OPINION OF THE STATUTORY SUPERVISORY BOARD ON THE MANAGEMENT REPORT AND THE CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD FROM 4 AUGUST 2014 TO 31 DECEMBER 2014

To the Shareholder,

Under the mandate conferred to us as required by paragraph g) of Article 420º of the Código das Sociedades Comerciais (Portuguese Companies Code), the Company Bylaws and the Deliberations of the Board of Directors of Banco de Portugal (the Central Bank of Portugal) related to the resolution measure applied to Banco Espírito Santo, SA., we must issue the Annual Report and the Opinion about the Management Report and the individual and consolidated financial statements of Novo Banco, S.A., that includes the statement of individual and consolidated comprehensive income, the individual and consolidated Balance Sheet, the individual and consolidated Statement of changes in equity, the individual and consolidated cash-flow Statement, and the respective individual and consolidated notes to the financial statements, as well as the Board of Directors' proposal for the allocation of the Net Result for the period from 4 August 2014 to 31 December 2014.

During the period from 4 August 2014 to 31 December 2014 we oversaw the activity of the Bank and of the Bank's most relevant subsidiaries and associated entities, having periodically and when deemed necessary developed the following activities:

- Examined whether the Bank was compliant with the legal requirements and the bylaws;
- Analysed the legal and regulatory requirements of the RGICSF (the Portuguese General Law on Credit Institutions and Financial Companies) and the Notices from the Banco de Portugal (Central Bank of Portugal), having confirmed that some of the defined measures by the Decree Law nº 157/2014 of 24 October are still under review;
- Monitored the special audit process to the opening balance sheet performed by the External Statutory Auditors;
- Oversaw monthly, quarterly and annual accounts process
- Monitored the reports related to the exposure to Grupo Espírito Santo;
- Oversaw the daily liquidity reports;

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- Analysed the Anti-Money Laundering and Counter-Terrorism Financing Report (AML / CFT) published in 2014, however we could not issue an opinion as it referred to the period that preceded the establishment of Novo Banco, SA. and the appointment of the Supervisory Statutory Board currently in office;

- We have presented monthly activity reports to the Fundo de Resolução (Resolution Fund) and to the Banco de Portugal (Central Bank of Portugal).

This Supervisory Statutory Board, within the performance of its duties, met with the Board of Directors and the managing directors of the main departments, whenever necessary, and was present in ordinary and extraordinary meetings of the Board of Directors, to keep up with the Board's actions, and the Bank's business and activity, as well as to participate in the discussions of the most relevant matters arisen from the performed analysis.

In the scope, and for the purposes of the analysis and assessments performed, the Supervisory Statutory Board has required, and has obtained, all the documentation and clarifications requested, as a result of the several questions raised. Namely, we would like to highlight the regular meetings with the Internal Audit, Risk and Compliance departments, in order to keep up with the most relevant matters related to the activity of these departments and the efficiency of the internal control system.

Concerning the monitoring of the internal audit department activity, it is important to mention:

- The involvement of the Statutory Supervisory Board in the monitoring of the audit plans for 2014 and 2015, having had a direct participation in the discussion for the 2015 plan, already prepared in 2015; and

- The regular monitoring of the reports issued and the discussion of the main aspects, especially the most significant deficiencies including those, having been generated in previous years were not yet resolved.

During the period of 4 August 2014 to 31 December of 2014, the Statutory Supervisory Board issued 13 opinions resulting from requests by the Board of Directors and Managing Directors and related with:

- The renewal of the commercial relationship with Grupo Espírito Santo entities, bearing in mind the credit exposure restrictions imposed by the Banco de Portugal;

- The verification of the implementation of several measures related to credit concession to people and entities especially related with the Grupo Espírito Santo, taking into account the restrictions imposed by the Banco de Portugal; and

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- The independence of the external statutory auditors concerning to the independence of additional services provided.

This Statutory Supervisory Board met with the External Statutory Auditors, PricewaterhouseCoopers, SROC, Lda., both within the scope of the auditing of the opening balance sheet as well as during the auditing process of the financial statements as at 31 December 2014. Within this cooperation between the Statutory Supervisory Board and the External Statutory Auditors, the Statutory Supervisory Board obtained all the necessary and adequate clarifications to the questions raised in the course of their functions, namely concerning

- The conformity of the accounting records and the respective supporting documents;

- The existence of goods or assets belonging to the company, or received as security, deposit or other evidence; and

- If the adopted accounting policies and valuation criteria reflect an adequate representation of the assets and results of the Company, except for aspects stated as reserves and emphasis expressed in the External Statutory Auditor's Report and in the Audit Report regarding the Individual and Consolidated Financial Statements, issued by the External Statutory Auditor on 17 June 2015

In the scope of the closing process of the accounts for the period from 4 August 2014 to 31 December 2014, the Statutory Supervisory Board, analysed the Management Report, and the remaining documents related to the financial statements, presented by the Board of Directors, having carried out the checks and obtaining the clarifications considered necessary, which comply with the applicable legislation.

The individual and consolidated financial statements were audited by the External Statutory Auditor PricewaterhouseCopers, SROC, Lda., that has issued on 17 June 2015 the respective auditor report on the Individual and Consolidated Financial Information, with reserves and emphasis, that the Statutory Supervisory Board agrees with, in accordance with the number 2 of the article 452º of the Código das Sociedades Comerciais (the Portuguese Companies Code)

The Board of Directors' Management Report is sufficiently clear about the business evolution and the situation of the Bank, highlighting the most significant aspects as well as the description of the main risks and uncertainties faced by the Bank.

The corporate governance report complies with the requirements of the article 245º-A of the Código dos Valores Mobiliários (Portuguese Market Securities Code).

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The proposal for the allocation of the results does not contravene the legal and statutory provisions.

Considering the above mentioned, we are of the opinion that:

(a) The Management Report, and the remaining Financial Statements, for 2014, presented by the Board of Directors, should be approved, bearing in mind the reserves and emphasis included in the Auditor's Report;

(b) The Corporate Governance Report should be approved;

(c) The proposal for the allocation of the results presented by the Board of Directors in the Management Report should be approved;

(d) A general assessment of the Board of Directors and of the Statutory Fiscal Board should be made, pursuant to the article 455º of Código das Sociedades Comerciais (Portuguese Companies Code).

Finally, the Statutory Supervisory Board wishes to express its recognition towards the Board of Directors, the Managing Directors of the several Departments of the Bank and to all employees, as well as to the Statutory External Auditors for the cooperation and support given.

Lisbon, 17 June 2015

The Statutory Supervisory Board

José Manuel de Oliveira Vitorino
Chairman

José António Noivo Alves Fonseca
Member

José Francisco Claro
Member

NOVO BANCO, S.A.

INCOME STATEMENT
FOR THE PERIOD 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2014
Interest and similar income	4	639 666
Interest expense and similar charges	4	466 030
Net interest income		**173 636**
Dividend income	5	7 474
Fee and commission income	6	178 534
Fee and commission expenses	6	(43 803)
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	7	(29 023)
Net gains / (losses) from available-for-sale financial assets	8	22 375
Net gains / (losses) from foreign exchange differences	9	32 466
Net gains/ (losses) from the sale of other assets	10	(896)
Other operating income and expenses	11	(19 354)
Operating Income		**321 409**
Staff costs	12	(147 747)
General and administrative expenses	14	(126 219)
Depreciation and amortisation	25 & 26	(35 353)
Provisions, net of reversals	33	369 529
Impairment losses on loans, net of reversals and recoveries	22	(446 721)
Impairment losses on other financial assets, net of reversals and recoveries	20 & 21	(301 237)
Impairment losses on other assets, net of reversals and recoveries	24, 27 & 28	(136 078)
Operating expenses		**(823 826)**
Profit / (loss) before income tax		**(502 417)**
Income tax		
Current tax	34	(16 395)
Deferred tax	34	(129 808)
Net profit / (loss) for the period		**(648 620)**
Basic earnings per share (in Euros)	15	(0.13)
Diluted earnings per share (in Euros)	15	(0.13)

The accompanying notes are an integral part of the separate financial statements

NOVO BANCO, S.A.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2014
Net profit / (loss) for the period		**(648 620)**
Other comprehensive income / (loss) for the period		
Items that will not be reclassified to results		
Re-measurement of defined benefit plans	13	(258 524)
Pensions - transitory regime	a)	(2 282)
		(260 806)
Items that may be reclassified to results		
Foreign exchange differences	a)	18 038
Taxes on foreign exchange differences	a)	(5 231)
		12 807
Available-for-sale financial assets		
Potential gains and losses arising in the period	37	(93 629)
Reclassification of gains and losses included in profit and loss for the period	37	171 738
Deferred taxes	37	(21 903)
		56 206
Total other comprehensive income / (loss) for the period		**(191 793)**
Total comprehensive income / (loss) for the period		**(840 413)**

a) See Note 1 - Statement of Changes in Equity

The accompanying notes are an integral part of the separate financial statements

NOVO BANCO, S.A.

BALANCE SHEET
AT 31 DECEMBER 2014 AND 4 AUGUST 2014

(in thousands of Euros)

	Notes	31.12.2014	04.08.2014 restated with resolution of 22.12.2014 and 11.02.2015 (a)	04.08.2014 (b)
Assets				
Cash and deposits with Central Banks	16	2 724 884	5 361 395	5 361 395
Deposits with banks	17	214 258	369 414	369 414
Financial assets held for trading	18	1 295 491	1 274 803	1 274 803
Other financial assets at fair value through profit or loss	19	1 245 882	1 541 803	1 541 803
Available-for-sale financial assets	20	7 564 670	8 287 546	8 287 546
Loans and advances to banks	21	2 830 785	2 598 473	2 598 473
Loans and advances to customers	22	31 341 787	33 484 839	33 484 839
Derivatives held for risk management purposes	23	405 235	353 090	353 090
Non-current assets held for sale	24	1 713 729	1 167 172	1 167 172
Other tangible assets	25	304 889	315 311	315 311
Intangible assets	26	99 918	102 043	102 043
Investments in subsidiaires and associated companies	27	1 382 675	1 798 817	1 798 817
Current tax assets	34	14 928	14 818	14 818
Deferred tax assets	34	2 532 431	2 856 746	2 863 931
Other assets	28	2 619 286	3 101 138	3 175 914
Total Assets		**56 290 848**	**62 627 408**	**62 709 369**
Liabilities				
Deposits from Central Banks	29	8 471 659	13 472 827	13 472 827
Financial liabilities held for trading	18	1 078 260	1 087 235	1 087 235
Deposits from banks	30	4 347 939	5 365 817	5 365 817
Due to customers	31	27 838 824	26 223 970	26 847 070
Debt securities issued	32	7 785 141	7 927 383	7 927 383
Financial liabilities associated with assets transferred		230 555	271 802	271 802
Derivatives held for risk management purposes	23	104 669	83 307	83 307
Provisions	33	825 947	1 265 053	1 265 053
Current tax liabilities	34	25 537	18 326	18 326
Deferred tax liabilities	34	77 096	245 080	245 080
Other liabilities	35	687 540	993 416	974 796
Total Liabilities		**51 473 167**	**56 954 216**	**57 558 696**
Equity				
Share capital	36	4 900 000	4 900 000	4 900 000
Reserves, Retained earnings and Other comprehensive income / (loss)	37	566 301	773 192	250 673
Profit / (loss) for the period		(648 620)	-	-
Total Equity		**4 817 681**	**5 673 192**	**5 150 673**
Total Liabilities and Equity		**56 290 848**	**62 627 408**	**62 709 369**

a) The opening balance sheet is restated with the resolution of the Board of Directors of the Banco de Portugal of 22 December 2014, determining that the liabilities contracted by Banco Espírito Santo to Oak Finance Luxembourg are not transferred to NOVO BANCO (this decision resulted in adjustments to the originating reserve, corresponding to a positive change equivalent to Euros 548.3 thousand) and with the resolution of the Board of Directors of the Banco de Portugal of 11 February 2015, determining that the responsabilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo that have been members of its Executive Commission are not transferred to NOVO BANCO (corresponding to a negative change to the originating reserve equivalent to Euros 25.8

b) Opening balance sheet as determined by the resolution of the Board of Directors of Banco de Portugal of 3 and 11 August 2014, communicated by the Banco de Portugal to Novo Banco, in accordance with no. 7 of article 11 of Notice 13/2012, pursuant to letter NºADM/2014/0121, of 3 December 2014 (as published on www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=752398&fext=.pdf)

The accompanying notes are an integral part of the separate financial statements

NOVO BANCO

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 4 AUGUST 2014 TO 31 DECEMBER 2014

(in thousands of Euros)

	Share capital	Reserves, Retained earnings and Other comprehensive income / (losses)			Net profit / (loss) for the period	Total Equity
		Fair value reserves	Other reserves, Retained earnings and Other comprehensive income / (losses)	Total		
Balance as at 4 August 2014	**4 900 000**	**-**	**250 673**	**250 673**	**-**	**5 150 673**
Impact of restatement	-	-	522 519	522 519	-	522 519
Balance as at 4 August 2014 (restated)	**4 900 000**	**-**	**773 192**	**773 192**	**-**	**5 673 192**
Other comprehensive income / (loss)						
Changes in fair value, net of tax	-	56 206	-	56 206	-	56 206
Pensions - transitory regime	-	-	(2 282)	(2 282)	-	(2 282)
Remeasurement of defined benefit plans, net of tax	-	-	(258 524)	(258 524)	-	(258 524)
Foreign exchange differences, net of tax **(a)**	-	-	12 807	12 807	-	12 807
Net profit / (loss) for the period	-	-	-	-	(648 620)	(648 620)
Total comprehensive income / (loss) for the period	**-**	**56 206**	**(247 999)**	**(191 793)**	**(648 620)**	**(840 413)**
Adjustments to the originating reserve **(b)**			(16 711)	(16 711)	-	(16 711)
Other movements	-	-	1 613	1 613	-	1 613
Balance as at 31 December 2014	**4 900 000**	**56 206**	**510 095**	**566 301**	**(648 620)**	**4 817 681**

(a) Includes differences from the foreign exchange conversion of hyperinflationary economies

(b) Result from clarifications of the Resolution Measure issued by Banco de Portugal subsequent to the date of publication of the opening balance sheet (see Note 37)

The accompanying notes are an integral part of the separate financial statements

NOVO BANCO, S.A.

CASH FLOW STATEMENT
FOR THE PERIOD 4 AUGUST TO 31 DECEMBER 2014

(in thousands of Euros)

	Notes	31.12.2014
Cash flows from operating activities		
Interest and similar income received		776 394
Interest expense and similar charges paid		(449 591)
Fees and commission received		178 630
Fees and commission paid		(47 205)
Recoveries on loans previously written off		6 778
Contributions to pension fund		(377 434)
Cash payments to employees and suppliers		(264 706)
		(177 134)
Changes in operating assets and liabilities:		
Deposits with / from Central Banks		(4 945 880)
Financial assets at fair value through profit or loss		116 985
Acquisition of available-for-sale financial assets		(12 188 212)
Acquisition of available-for-sale financial assets		13 201 899
Loans and advances to banks		(408 901)
Deposits from banks		(1 028 951)
Loans and advances to customers		1 439 609
Due to customers and other loans		1 905 905
Derivatives held for risk management purposes		(38 977)
Other operating assets and liabilities		(481 528)
Net cash from operating activities before income tax		**(2 605 185)**
Income taxes paid		9 999
Net cash from operating activities		**(2 595 186)**
Cash flow from investing activities		
Dividends received		7 474
Acquisition of tangible and intangible assets and investment properties		(23 733)
Disposal of tangible and intangible assets and investment properties		1 479
Net cash from investing activities		**(14 780)**
Cash flows from financing activities		
Reimbursement of bonds and other covered debt securities		(296 828)
Net cash from financing activities		**(296 828)**
Net changes in cash and cash equivalents		**(2 906 794)**
Cash and cash equivalents at beginning of period (1)		**5 398 406**
Effect of exchange rate changes in cash and cash equivalents		187 703
Net changes in cash and cash equivalents		(2 906 794)
Cash and cash equivalents at end of period		**2 679 315**
Cash and cash equivalents include:		
Cash	16	178 943
Deposits with Central Banks	16	2 545 941
(of which, Restricted balances)		(259 827)
Deposits with banks	17	214 258
Total		**2 679 315**

(1) This amount includes Euros 4,815 million related to the increase of Capital realised in cash in the incorporation of the Bank. The remaining capital (Euros 85 million) w as realised on 6 August 2014.

The accompanying notes are an integral part of the separate financial statements

NOVO BANCO, S.A.

Explanatory notes to the separate financial statements at 31 December 2014

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

NOTE 1 – ACTIVITY

NOVO BANCO, S.A. was incorporated on 3 August 2014 by resolution of the Board of Directors of the Banco de Portugal dated 3 August 2014 (8 p.m.), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies (“Regime Geral das Instituições de Crédito e Sociedades Financeiras” (RGICSF)), approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied by the Banco de Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF.

As determined by Point Two of the resolution of the Board of Directors of Banco de Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August (5 p.m.), (hereafter “resolution of Banco de Portugal of 3 August 2014”), under the terms and for the purposes of article 145º-H/1 of the RGICSF, the assets, liabilities, off-balance-sheet items and assets under management of Banco Espírito Santo, S.A. were transferred to NOVO BANCO, S.A., as per the criteria established in Annex 2 to said resolution.

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

1. *Assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, SA (BES), registered in the accounting records, are transferred to NOVO BANCO, SA, according to the following criteria:*

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

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

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

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

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

(v) All credit claims on Espírito Santo International and its shareholders, the shareholders of Espírito Santo Control, entities under a control or group relationship, as provided under article 21 of the Portuguese Securities Code, with Espírito Santo International, and credit claims on entities under

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

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

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

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

(ii) Obligations contracted with entities included within the Espírito Santo Group that constitute subordinated claims under the terms of articles 48 and 49 of the Insolvency and Corporate Recovery Code, except for the entities of BES Group whose responsibilities to BES were transferred to NOVO BANCO, without prejudice, with regard to this last entity, to the exception foreseen in sub-paragraph (v);

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

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

(v) Any liability or contingency, namely those resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations;

(vi) Any liability or contingency of BES related to shares, instruments or contracts from which result subordinated credits to BES;

(vii) Any obligations, guarantees, liabilities or contingencies related to the trading, financial intermediation and distribution of debt instruments issued by entities integrating the Espírito Santo Group, without prejudice to any unsubordinated loans arising from contractual terms prior to 30 June 2014, provided that such terms can be evidenced through documents registered in BES's archives, in terms that allow the control and verification of the decisions taken.

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

(d) *All the other off-balance-sheet items of BES will be transferred in full to NOVO BANCO, SA, except those related to Banco Espírito Santo Angola, S.A., Espírito Santo Bank (Miami) and Aman Bank (Libya);*

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

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

(g) *Any guarantee related to any obligation transferred to NOVO BANCO, S.A. is also transferred to NOVO BANCO, S.A. Any guarantee related to any obligation that is not transferred to NOVO BANCO, S.A. will not be transferred to NOVO BANCO, S.A. either.*

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

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

4*.* *Considering that all the rating procedures within the scope of the permission under the IRB approach granted to BES on a consolidated basis, as from 31 March 2009, are fully transferred to NOVO BANCO, SA, the Banco de Portugal, satisfied that the requirements provided for in Part II, Title II, Chapter 3 of*

Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) are met, and that the systems for the management and rating of credit risk exposures are sound and implemented with integrity, decides, under Article 143 (1) of the same Regulation to consent NOVO BANCO, S.A. to calculate its risk-weighted exposure amounts using the IRB methodology, with immediate effect and under the terms of the permission granted to BES.

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

6. *Based on this valuation, the capital requirements for NOVO BANCO, SA, are calculated to be 4900 million of Euros.*

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

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

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

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

As a transition bank, NOVO BANCO has a limited duration (article 145-G/12 of the RGICSF). According to the commitments undertaken by the Portuguese State before the European Commission, NOVO BANCO must be sold within a maximum period of two years.

Under Article 153-B of the RGICSF, the Resolution Fund is the sole holder of the share capital of NOVO BANCO, S.A., which is represented by 4900 million registered shares with nominal value of EUR 1 per share, totalling 4900 million of Euros..

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

NOVO BANCO has a network of 639 bank branches in Portugal and abroad, including branches in London, Spain, New York, Nassau, Cayman Islands, Cape Verde, Venezuela and Luxembourg, an offshore branch in the Madeira Free Trade Zone and, 8 representative offices overseas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

In accordance with Regulation (EC) no. 1606/2002, of 19 July 2002, of the European Council and Parliament and Notice no. 1/2005 of the Bank of Portugal, the financial statements of NOVO BANCO, S.A. (the Bank or NB) are prepared in accordance with the Adjusted Accounting Standards (NCA), as defined by the Bank of Portugal at 31 December 2014.

The NCA translate into the application on the separate financial statements of the International Financial Reporting Standards (IFRS) as adopted by the European Union, except for certain issues regulated by the Banco de Portugal, such as impairment of loans to customers and the accounting treatment given to the recognition in retained earnings of adjustments in retirement and survival pension liabilities determined on the transition.

The IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and by their predecessor bodies.

These separate financial statements of NOVO BANCO are presented as at 31 December 2014, with the results covering the period from 4 August to 31 December 2014.

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

The preparation of financial statements in conformity with IFRS requires that the Bank make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences in the assumptions and the actual situation may impact the current estimates and judgements. The areas involving a higher level of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are analysed in Note 3.

These financial statements were approved at the Board of Directors' meeting held on 17 June 2015, and are to be submitted for approval at the Annual Shareholders General Meeting, which is to be held before the end of the month of June 2015, that has the power to change these. However, it is the Board of Director's conviction that these will be approved without significant changes.

In the following Notes relating to balance sheet balances, the comparative information presented reflects the restated opening balance sheet as at 4 August 2014.

In the table below is shown the reconciliation between (i) the opening balance sheet published on 3 December 2014 incorporating the deliberation by the Board of Directors of the Banco de Portugal dated 3 August 2014 communicated by the Banco de Portugal to NOVO BANCO, in accordance with no. 7 of article 11 of Notice 13/2012, (released www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=752398&fext=.pdf) and (ii) the initial balance sheet restated with the resolution of the Board of Directors of the Banco de Portugal on 22 December 2014 (that determined that the responsibility contracted by BES to Oak Finance Luxembourg was not transferred to NOVO BANCO resulting to an adjustment of the originating reserve, in a positive amount of Euros 548.3 thousand) and with the resolution dated 11 February 2015 by the Board of Directors of the Banco de Portugal, under the provisions of articles 145-G, no. 1, and 145-H, no. 2, paragraphs a) and b), of the RGICSF which deliberated as follows:

“a) *For purposes of executing the resolution of the Banco de Portugal, it is hereby clarified that the liabilities of Banco Espírito Santo not transferred to NOVO BANCO under the terms of subparagraph i) of paragraph b) of point 1 of Appendix 2 to Banco de Portugal`s Board of Directors resolution of 3 August 2014 (8 p.m.), drafted according to this Board of Directors resolution of 11 August 2014 (5 p.m.) include the responsibilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo that have been members of its Executive Committee and who are covered by subparagraph i) of paragraph b) of point 1 of Appendix 2 of the same resolution, as defined by the Articles of Association of Banco Espírito Santo and in the Regulations governing the General Meeting of Banco Espírito Santo to which said Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contracts with Banco Espírito Santo*.

b) NOVO BANCO and Banco Espírito Santo shall adjust their accounting records to reflect the present resolution, taking the necessary measures for its adequate application.”

The impact of the 11 February 2015 decision of the Banco de Portugal is reflected in the balance sheet of NOVO BANCO. However, to date, the ASF has not yet formalised its approval, for which reason the amounts recorded may still be subject to future corrections as a result of the final decision of the ASF (see Note 13).

NOVO BANCO, S.A.

BALANCE SHEET AT 4 AUGUST 2014

(in thousands of Euro

	Published on 03.12.2014	Resolution of 22.12.2014	Resolution of 11.02.2015	Restated with resolution of 22.12.2014 and 11.02.2015
Assets				
Cash and deposits with Central Banks	5 361 395	-	-	5 361 395
Deposits with banks	369 414	-	-	369 414
Financial assets held for trading	1 274 803	-	-	1 274 803
Other financial assets at fair value through profit or loss	1 541 803	-	-	1 541 803
Available-for-sale financial assets	8 287 546	-	-	8 287 546
Loans and advances to banks	2 598 473	-	-	2 598 473
Loans and advances to customers	33 484 839	-	-	33 484 839
Derivatives held for risk management purposes	353 090	-	-	353 090
Non-current assets held for sale	1 167 172	-	-	1 167 172
Other tangible assets	315 311	-	-	315 311
Intangible assets	102 043	-	-	102 043
Investments in subsidiaries and associated companies	1 798 817	-	-	1 798 817
Current tax assets	14 818	-	-	14 818
Deferred tax assets	2 863 931	-	(7 185)	2 856 746
Other assets	3 175 915	(74 777) **(a)**	-	3 101 138
Total Assets	**62 709 370**	**(74 777)**	**(7 185)**	**62 627 408**
Liabilities				
Deposits from Central Banks	13 472 827	-	-	13 472 827
Financial liabilities held for trading	1 087 235	-	-	1 087 235
Deposits from banks	5 365 817	-	-	5 365 817
Due to customers	26 847 070	(623 100)		26 223 970
Debt securities issued	7 927 383	-	-	7 927 383
Financial liabilities associated with assets transferred	271 802	-	-	271 802
Derivatives held for risk management purposes	83 307	-	-	83 307
Provisions	1 265 053	-	-	1 265 053
Current tax liabilities	18 326	-	-	18 326
Deferred tax liabilities	245 080	-	-	245 080
Other liabilities	974 796	-	18 620	993 416
Total Liabilities	**57 558 696**	**(623 100)**	**18 620**	**56 954 216**
Equity				
Share capital	4 900 000	-	-	4 900 000
Reserves, Retained earnings and Other comprehensive income / (loss)	250 674	548 323	(25 805)	773 192
Total Equity	**5 150 674**	**548 323**	**(25 805)**	**5 673 192**
Total Liabilities and Equity	**62 709 370**	**(74 777)**	**(7 185)**	**62 627 408**

(a) Related do deferred costs paid at the beginning of the operation and that were being acrrued during the contract period

2.2. Foreign currency transactions

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

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

Foreign exchange differences relating to cash flow hedges and the hedging of 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 financial liabilities designated at fair value through profit or loss that were not classified as hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

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

Derivatives traded on organised markets, namely futures and some options contracts, are recognised as trading derivatives and their fair value changes are recorded against the income statement. Since fair value changes in these derivatives are settled daily through margin accounts held by the Bank, these derivatives present a nil fair value on the balance sheet. The margin accounts are included under Other assets (see Note 28) and comprise the minimum collateral mandatory for open positions.

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

(iv) For cash flows hedges, the cash flows have a high probability of occurring.

- Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying 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 gain or loss relating to the ineffective portion is recognised in the income statement.

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

At 31 December 2014 the Bank had no hedging operations classified as cash flow hedges.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument and the host instrument is not carried at fair value through profit or loss.

These embedded derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

2.4. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short-term, being recognised on the date the cash is advanced to customers.

Loans and advances to customers are derecognised from the balance sheet when (i) the Bank’s contractual rights to receive the cash flows have expired, (ii) the Bank has transferred substantially all the risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

In accordance with its documented strategy for risk management, the Bank contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without resorting to hedge accounting as described in Note 2.3. In these situations, the initial recognition of the loan is made through their measurement at fair value through profit or loss allowing measurement consistency between the loans and the derivatives for risk management purposes. This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.5.

Impairment

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

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

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

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

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in the collective assessment for impairment.

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

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

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

In accordance with NCA, the amount of the loans and advances should be adjusted, applying criteria of rigor and prudence, so as to reflect, at all times, their realisable value. This value adjustment (impairment loss) may not be inferior to that determined in accordance with Notice no. 3/95, of the Bank of Portugal, which establishes the minimum reference framework for the constitution of specific and general provisions.

When a loan is considered uncollectible by the Bank and an impairment loss of 100% has been recognised, it is written off against the assets.

2.5. Other financial assets

Classification

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

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, that is those acquired principally for the purpose of selling in the short-term or that are owned as part of a portfolio of financial assets, normally securities, that are managed together and for which there is evidence of a recent pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception, with changes being recognised in the income statement.

The Bank classifies, at inception, certain financial assets at fair value through profit or loss when:

- such financial assets are managed, measured and analysed internally on a fair value basis;
- such financial assets are being hedged (from an economic perspective), in order to eliminate an accounting mismatch between the valuation of the assets and the derivatives; or
- such financial assets contain embedded derivatives.

Note 23 contains a summary of the assets and liabilities that were designated at fair value through profit or loss at inception.

The structured products acquired by the Bank that correspond to financial instruments containing one or more embedded derivatives are classified under the fair value through profit or loss category because they always meet one of the three above mentioned conditions.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the positive intention and ability to hold to maturity and which are not classified, at inception, at fair value through profit or loss or as available-for-sale.

Any reclassification or sale of financial assets recognised in this category that is not realised close to their maturity date or that is not foreseen in the exceptions listed in the accounting standard, will force the Group to reclassify the entire portfolio as Available-for-sale financial assets and will prevent it, during 2 years, from classifying any financial asset in this category.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time by the Bank, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the categories previously referred to.

Initial recognition and measurement and derecognition

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

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

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

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are recognised in the income statement.

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

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

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

Reclassifications between categories

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

Reclassifications between these categories are made at the fair value of the assets reclassified, determined at the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Subsequent to initial recognition, financial assets may not be reclassified to financial assets at fair value through profit or loss.

Impairment

In accordance with NCA, the Bank periodically assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired whenever there is objective evidence of impairment as a result of one or more events occurring after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the market value of the securities below their acquisition cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

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

When there is objective evidence that an impairment loss on available-for-sale financial assets has occurred, the potential cumulative loss recognised in reserves, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity securities, for which impairment losses may not be reversed and gains are recognised in reserves.

2.6. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, and the purchase price paid is recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities lent under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the Bank's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets that must be returned pursuant to the resale agreement. Gains and losses resulting from the change in their respective fair value are recognised directly in the income statement.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognised when the underlying obligation expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans received, debt securities, subordinated debt and short sales.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

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

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

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

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

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

2.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of NOVO BANCO, as well as in the event of default, bankruptcy or insolvency of the Bank or the counterpart.

2.9. Financial guarantees

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

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

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

2.10. Equity instruments

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

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

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

2.11. Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable.

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

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes same and receives the asset held as collateral in exchange for loans. Due to the provisions of the “Regime Geral das Instituições de Crédito e Sociedades Financeiras” (RGICSF), banks are prevented, unless authorised by the Banco de Portugal, from acquiring real estate property that is not essential to their daily operations or for the pursuit of their corporate purpose (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by the Bank. This property must be sold within 2 years, period which may, based on reasonable grounds, be extended by the Bank of Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

It is the Bank’s objective to immediately dispose of all real estate property received as settlement for loans. This real estate property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying value of the subjacent loans. Subsequently, this real estate property is measured at the lower of its initial carrying value and the corresponding fair value less costs to sell and is not depreciated. For real estate properties recorded in the balance sheet of the Bank, the amount recoverable from their immediate sale is considered to be their respective fair value;. Unrealised losses on these assets, so determined, are recorded in the income statement.

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

a) *Market Method*

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

b) *Income Method*

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

c) *Cost Method*

This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialised in these services. The valuation reports are analysed internally, namely comparing the sales value with the revalued amounts of the assets so as to ensure the adequacy of the valuation parameters and processes with the market evolution.

The assets / liabilities of subsidiaries acquired for resale reflect, fundamentally, assets and liabilities of companies acquired by the Bank in the scope of credit restructuring operations, that, the Group aims to dispose within one year. Because these entity acquisitions occur within credit restructuring operations, such acquisitions are recorded at fair value and any difference between this fair value and the amount of the credit extinguished on the acquisition, is recognised as a loan impairment.

2.12. Other tangible assets

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

Subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Bank. All repairs and maintenance are charged to the income statement during the year 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 reflecting their estimated useful lives:

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

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

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

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the carrying value is recognised under the caption “Other operating income / expenses”.

2.13. Intangible assets

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

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

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

2.14. Leases

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

Operating leases

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

Finance leases

- As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value.

Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.15. Employee benefits

Pensions

Pursuant to the signing of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 13, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans of the Bank are defined benefit plans, given that they define the criteria used to determine the pension benefit to be received by employees on retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities were calculated as at 4 August 2014 (with reference to 30 June 2014) and at 31 December 2014, for each plan individually, using the Projected Credit Unit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

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

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

The Bank recognises as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to the fact that the employees retire before reaching 65 years old.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by the Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past services costs for active employees shall be funded at a minimum level of 95%.

The Bank assesses the recoverability of any recognised excess in a fund in relation to the retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

Banking employees are assured health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and / or contributions with medical assistance expenses, diagnostics, medication, hospitalisation and surgeries, in accordance with its financing availability and internal regulations.

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

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

Long-term service bonuses

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

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

These Long-term service bonuses are accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits.

The Bank's liability with these Long-term service bonuses is calculated periodically using the Projected Credit Unit Method. The actuarial assumptions used are based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation is determined using the methodology described for retirement pensions.

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

Employees' variable remuneration

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

2.16. Corporate income tax

Corporate income tax for the period comprises current tax and deferred tax. Corporate income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Corporate income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when the gains or losses giving rise to said corporate income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction.

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

Deferred tax liabilities are recognised for all taxable timing differences except for differences arising on the initial recognition of assets and liabilities that neither affect accounting nor taxable profit, and that do not result on a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Bank does not control the timing of the reversal of the timing differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be deducted. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

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

2.17. Provisions and Contingent liabilities

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

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

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

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

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

2.18. Recognition of interest income and expense

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

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

When calculating the effective interest rate, the Bank estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the fees and commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss has been recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, excluding derivatives held for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.19. Recognition of fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial period in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. Recognition of dividend income

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

2.21. Segmental reporting

Pursuant to paragraph 4 of IFRS 8 – Operating segments, the Bank is dispensed from presenting segmental reporting on an individual basis, given that the separate financial statements are presented together with the consolidated financial statements.

2.22. Earnings per share

The basic earnings per share are calculated by dividing net income available to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares held as treasury stock by the Bank.

For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments are converted or the options granted exercised.

2.23. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities under three month from the inception date and which the risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions (hereafter generally referred to as ‘banks’). Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. Insurance and reinsurance brokerage services

NOVO BANCO is an entity authorised by the Instituto de Seguros de Portugal (hereafter also Portuguese Insurance Institute) to exercise insurance brokerage activities, under the Category of Dependent Insurance Broker, pursuant to article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, carrying out this insurance intermediation activity through the sale of life and non-life insurance contracts. As compensation for the insurance intermediation services rendered, the Bank receives commissions that are defined in agreements / protocols established between the Bank and the Insurance Companies.

The commissions received for the insurance intermediation services take the following forms:

- commissions that include a fixed and a variable component. The fixed component is determined by applying a predetermined rate to the amount of the subscriptions realised through the Bank and the variable component is calculated monthly following pre-established criteria, with the total annual commission being equal to the sum of the commissions calculated monthly;

- other variable commissions, which are determined annually and paid over by the Insurance Company at the beginning of the year subsequent to that to which they relate.

The commissions received for insurance brokering services are recognised on an accrual basis, meaning that commissions which are settled in a period subsequent to that to which they relate are recorded as an account receivable under Other assets.

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

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

3.1. Impairment of available-for-sale financial assets

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

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

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

Alternative methodologies and the use of different assumptions and estimates may result in a different level of impairment losses being recognised.

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

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

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

3.3. Impairment of loans and advances to customers

The Bank reviews its loan portfolio to assess impairment on a regular basis, as described in Note 2.4, having as its reference the minimum levels required by the Bank of Portugal indicated in Notice no. 3/95.

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

The use of alternative methodologies and different assumptions and estimates could result in a different level of impairment losses being recognised.

3.4. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. During the ordinary course of the business cycle there are many transactions and calculations in respect of which the determination of the ultimate tax amount is uncertain.

Different interpretations and estimates could result in a different level of corporate income tax, current and deferred, being recognised in the period.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank and of the subsidiaries resident in Portugal during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Board of Directors of the Bank and of its subsidiaries, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.5. Pensions and other employee benefits

Determining retirement pension liabilities requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions and salaries and discounts rates. These assumptions are based on the expectations of NOVO BANCO for the period during which the liabilities will be settled and other factors that could impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

3.6. Non-current assets held for sale

Non-current assets held for sale are measured at the lower of their carrying value and their fair value net of costs to sell.

The fair value of these assets is determined based on valuations, performed by independent entities specialised in these services, using market, income or cost methods, as defined in Note 2.11. The valuation reports are analysed internally, comparing the sales values with the revalued amounts of the assets, so as to ensure the adequacy of the valuation parameters and processes with the market evolution.

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

3.7. Provisions

The Bank recognises provisions intended to cover for losses arising from commercial offers approved by the Board of Directors of the Bank, when these are not opposed by the Banco de Portugal and CMVM. The amount of the provisions reflects NOVO BANCO's best estimate at the balance sheet date.

NOTE 4 – NET INTEREST INCOME

The breakdown of this of the Net interest Income is as follows:

(in thousands of Euros)

	31.12.2014		
	Assets / Liabilities at amortised cost and Available-for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total
Interest and similar income			
Interest from loans and advances	482 519	5 421	487 940
Interest from financial assets at fair value through profit or loss	-	7 615	7 615
Interest from deposits with and loans and advances to banks	13 033	623	13 656
Interest from available-for-sale financial assets	48 313	-	48 313
Interest from derivatives held for risk management purposes	-	76 094	76 094
Other interest and similar income	6 048	-	6 048
	549 913	**89 753**	**639 666**
Interest expense and similar charges			
Interest on debt securities	215 528	12 161	227 689
Interest on amounts due to customers	101 523	40 640	142 163
Interest on deposits from Central Banks and other banks	37 061	18 588	55 649
Interest on derivatives held for risk management purposes	-	36 176	36 176
Other expenses and similar charges	4 353	-	4 353
	358 465	**107 565**	**466 030**
	191 448	**(17 812)**	**173 636**

The Interest Income and Interest Expense relating to interest from derivatives held for risk management purposes include, in accordance with the accounting policy described in Notes 2.3 and 2.18, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.4, 2.5 and 2.7.

NOTE 5 – INCOME FROM EQUITY INSTRUMENTS

This balance is analysed as follows:

(in thousands of Euros)

	31.12.2014
Dividends from subsidiaries and associated companies	3 450
Dividends from available-for-sale financial assets	4 024
	7 474

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Fee and commission income	
From banking services	98 735
From guarantees provided	52 775
From transactions of securities	3 378
From commitments to third parties	8 148
Other fee and commission income	15 498
	178 534
Fee and commission expense	
With banking services rendered by third parties	19 775
With guarantees received	18 511
With transactions of securities	3 655
Other fee and commission expenses	1 862
	43 803
	134 731

The caption Fee and commission expense with guarantees received includes, as at 31 December 2014, an amount of Euros 17.8 million relating to commissions borne with the guarantee received from the Portuguese Government on the debt securities issue (see Note 32).

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousand of euros)

	31.12.2014		
	Gains	Losses	Total
Securities held for trading			
Bonds and other fixed income securities			
Issued by government and public entities	2 082	455	1 627
Issued by other entities	25 760	197	25 563
Shares	754	6 428	(5 674)
Other variable income securities	-	201	(201)
	28 596	**7 281**	**21 315**
Derivative financial instruments			
Foreign Exchange rate contracts	257 896	65 303	192 593
Interest rate contracts	690 195	764 429	(74 234)
Equity / Index contracts	188 225	200 662	(12 437)
Credit derivatives	30 860	68 990	(38 130)
Other	7 393	18 749	(11 356)
	1 174 569	**1 118 133**	**56 436**
Financial assets and liabilities at fair value through profit or loss			
Securities			
Bonds and other fixed income securities			
Issued by government and public entities	139	-	139
Issued by other entities	11 179	874	10 305
Shares	120	1 050	(930)
Other variable income securities	2 578	134 439	(131 861)
	14 016	**136 363**	**(122 347)**
Other financial assets[(1)]			
Loans and advances to banks	-	17	(17)
Loans and advances to customers	17 721	458	17 263
	17 721	**475**	**17 246**
Financial liabilities[(1)]			
Deposit from banks	291	20 853	(20 562)
Due to customers	37 000	23 728	13 272
Debt securities issued	11 116	5 499	5 617
	48 407	**50 080**	**(1 673)**
	80 144	**186 918**	**(106 774)**
	1 283 309	**1 312 332**	**(29 023)**

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

As at 31 December 2014, this caption includes a positive effect of Euros 27.5 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.

In accordance with the accounting policies followed by the Bank, financial instruments are initially recognised at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a intermediation fee, originating a day one profit.

The Bank recognises in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Bank's access to the wholesale market.

In the period from 4 August to 31 December 2014, the gains recognised in the income statement arising from built-in intermediation fees amounted to approximately Euros 4,600 thousand and are essentially related to foreign exchange transactions.

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014		
	Gains	**Losses**	**Total**
Bonds and other fixed income securities			
Issued by government and public entities	8 912	1 303	7 609
Issued by other entities	10 363	2 921	7 442
Shares	157	4	153
Other variable income securities	9 615	2 444	7 171
	29 047	**6 672**	**22 375**

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014		
	Gains	**Losses**	**Total**
Foreign exchange revaluation	567 909	535 443	32 466
	567 909	535 443	32 466

This caption includes the exchange differences from the forreign exchange revaluation of monetary assets and liabilities at the foreign exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.2.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Loans and advances to customers	(38)
Non-current assets held for sale	(1 321)
Other	463
	(896)

NOTE 11 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Other operating income / (expenses)	
IT services	96
Gains / (losses) on credit operations	6 778
Non-recurring consultancy services	884
Direct and indirect taxes	(5 359)
Contributions to the Deposits Guarantee Fund	(5 062)
Contributions to the Resolution Fund	(3 448)
Banking levy	(12 952)
Membership subscriptions and donations	(1 135)
Other	844
	(19 354)

NOTE 12 – STAFF COSTS

The breakdown of the Staff costs is as follows:

(in thousands of Euros)

	31.12.2014
Wages and salaries	103 433
Remuneration	103 005
Long-term service bonuses (see Note 13)	428
Mandatory social charges	28 287
Costs with post-employment benefits (see Note 13)	9 260
Other costs	6 767
	147 747

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

(in thousands of Euros)

	Board of Directors	Supervisory Board	Other key management personnel	Total
31 December 2014				
Salaries and other short-term benefits	479	108	1 251	1 838
Subtotal	**479**	**108**	**1 251**	**1 838**
Long-term benefits and other social charges	110	-	502	612
Total	**590**	**108**	**1 752**	**2 450**

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

At 31 December 2014, loans granted by NOVO BANCO to key management personnel amounted to Euros 3,968 thousand.

At 31 December 2014, the number of employees of the Bank, considering both effective and fixed-term contracted employees, by professional category, has the following breakdown:

	31.12.2014
Senior management	595
Managerial functions	823
Specific functions	2 582
Administrative functions and other	2 327
	6 327

NOTE 13 – EMPLOYEE BENEFITS

Retirement pension and health-care benefits

In compliance with the Collective Labour Agreement (ACT) for the banking sector, established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in function of years of service, applied to each year's negotiated salary table for the active work force.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS), managed by the respective Union, with the annual contribution by the Bank to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy. The measurement and recognition of the Bank's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

For employees hired before 31 December 2008, the disability related retirement pensions and the disability, survival and death pensions defined 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 afforded employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, considering that by Decree-Law no. 1-A/2011, of 3 January, all banking employees that were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the second tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions, however, banking employees are entitled to receive a pension under the General Regime that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime in substitution of the "Caixa de Abono de Família dos Empregados Bancários" (CAFEB), abolished by said Decree-Law. In consequence of this change, pension entitlement of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment service between 1 January 2011 and their retirement date. The differential required to make up the guaranteed pension under the ACT is paid by the Banks.

At the end of financial 2011 and pursuant to the third tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition at 31 December 2011.

This tripartite agreement established the transfer to the General Social Security Regime, of all the liabilities with pensions in payment 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 responsibilities 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 deferral survivor` pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions pension fund assets in the part allocated to the coverage of the transferred liabilities be transferred to the State.

In compliance with the resolution of the Board of Directors of the 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.), no liabilities incurred by BES to members of the management body of BES, including to those who exercised those functions in the four years prior to the incorporation of NOVO BANCO and whose actions or omissions gave rise to the financial difficulties of the credit institution or contributed to the worsening of such situation, were transferred to NOVO BANCO. Per the resolution of the Board of Directors of the Banco de Portugal, of 11 February 2015, the Banco de Portugal clarified that the liabilities of BES not transferred to NOVO BANCO on the above terms include the responsibilities of Banco Espírito Santo relating to retirement and survival pensions and complementary retirement and survival pensions of the Directors of Banco Espírito Santo that have been members of its Executive Committee, as defined by the Articles of Association of Banco Espírito Santo and in the Regulations governing the General Meeting of Banco Espírito Santo to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the responsibilities relating exclusively to the employment contract with BES.

The liabilities arising exclusively from the employment contract with BES were transferred to NOVO BANCO. In light of the foregoing, only the pension fund liabilities arising from the Complementary EC Plan were split, one 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 the Banco de Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing as at 3 August 2014 were split in proportion to the liabilities calculated as at the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Board that is equal for each of the associates of the Fund (NOVO BANCO and BES).

The splitting method applied to the liabilities and assets of the Pension Fund between NOVO BANCO and BES, described in the preceding paragraph, was based on the recommendation of the ASF to the Sociedade Gestora do Fundo de Pensões (Managing Company of the Pension Fund). However, until today, the ASF has not yet formalized its approval and the amounts presented in the Note may be subject to future corrections resulting from the final decision by the ASF.

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

	31-12-2014	
	Assumptions	**Actual**
Actuarial Assumptions		
Projected rate of return on plan assets	2.5%	-16.0%
Discount rate	2.5%	-
Pension increase rate	0.5%	-1.5%
Salary increase rate	1.0%	0.1%
Mortality table men	TV 73/77 - 1 year	
Mortality table women	TV 88/90	

Disability decreases are not considered in the liabilities' calculation. The determination of the discount rate as at 31 December 2014 was based on: (i) the evolution in the main indexes for high quality corporate bonds and (ii) the duration of the liabilities.

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

	31.12.2014
Employees	5 271
Pensioners and survivors	5 956
TOTAL	**11 227**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2014 is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Assets / (liabilities) recognised in the balance sheet		
Total liabilities (a)	**(1 470 481)**	**(1 319 604)**
Coverage		
Fair value of plan assets	**1 475 786**	**1 168 027**
Net assets / (liabilities) in the balance sheet (See Note 28 and 35)	**5 305**	**(151 577)**
Acumulated actuarial deviations recognised in other comprehensive income (b)	**227 004**	-

(a) the allocation of liabilities between pensioners and employees is not available at date since it refers to provisional figures awaiting for approval

(b) at NOVO BANCO's opening balance sheet date, the actuarial deviations that were transferred from the Originating Bank were included in the Originating reserve

In accordance with the accounting policy described in Note 2.15 – Employees Benefits, the Bank's liability with retirement pensions and the actuarial gains and losses are calculated half-yearly and assesses at each balance sheet date and for each plan individually, the recoverability of the fund's excess coverage in relation to the pension liabilities.

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

(in thousands of Euros)

	31.12.2014
Liabilities at beginning of period	**1 319 604**
Active service cost	3 340
Interest cost	20 096
Plan participants' contribution	1 247
Actuarial (gains) / losses in the period:	
- Changes in assumptions (financial)	125 002
- Experience adjustments (gains) / losses	13 005
Pensions paid by the fund	(16 330)
Early retirement	6 006
Foreign exchange differences and other	(1 489)
Liabilities at end of period	**1 470 481**

The change in the fair value of the pension funds' assets may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Fair value of fund assets at beginning of period	**1 151 147**
Expected return from the fund	17 526
Actuarial gains / (losses)	(118 921)
Bank contributions	377 434
Plan participants' contributions	1 247
Pensions paid by the fund	(16 330)
Foreign exchange differences and other	(1 768)
Fair value of fund assets at end of period	**1 410 335**

The pension funds' assets may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Shares	275 415
Bonds	312 300
Real estate	348 546
Other	474 074
Total	**1 410 335**

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

(in thousands of Euros)

	31.12.2014
Real estate	269 363
Total	**269 363**

The changes in the actuarial deviations may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Accumulated actuarial losses recognised in other comprehensive income at beginning of period	**-**
Actuarial (gains) / losses in the period:	
- Changes in assumptions	125 002
- Experience adjustments (gains) / losses	133 522
Accumulated actuarial losses recognised in other comprehensive income at end of period	**258 524**

During 2013, the legal retirement age in Portugal, for active employees covered by the General Social Security Regime, increased from 65 to 66 year old. However, the Bank's defined benefits plan was not altered, the retirement age being maintained at 65 years old. This legal change has an impact at the co-financing level of the General Social Security Regime as regards the liabilities of active employees covered by the plan and who were transferred to the General Social Security Regime under the tripartite agreements mentioned above.

The impact resulting from the change in the legal retirement age in 2013, from 65 to 66 years old, with consequences at the Social Security co-funding level, regarding liabilities for active employees covered by the plan and transferred to the General Social Security Regime under the tripartite agreements, gave rise to an actuarial loss of approximately Euros 8 million.

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

(in thousands of Euros)

	31.12.2014
Active service cost	3 340
Interest expense / (income)	3 029
Early retirement	6 006
Other	(86)
Cost with post-employment benefits	**12 289**

The changes in net assets / (liabilities) recognised in the balance sheet may be analysed as follows:

(in thousands of Euros)

	31.12.2014
At beginning of period	**(168 457)**
Cost for period	(12 289)
Actuarial gains / (losses) recognised in other comprehensive income	(258 524)
Contributions made in the period	377 434
Other	1 690
At the end of the period	**(60 146)**

The liabilities and balances of the funds, as well as the experience adjustments (gains and losses) as at 31 December 2014 are analysed as follows:

(in thousands of Euros)

	31.12.2014
Liabilities	(1 470 481)
Fair value of fund assets	1 410 335
(Under) / overfunding of liabilities	**(60 146)**
(Gains) / losses on experience adjustments in liabilities	13 005
(Gains) / losses on experience adjustments in fair value of assets	87 401

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

No contributions to the defined benefits plans for the subsequent period are foreseen, considering that is expected that the fund's return will be sufficient to cover for changes in the liabilities.

Long-term service bonuses

As referred to in Note 2.15, for employees attaining a certain number of years of service, the Bank pays Long-term service bonuses, calculated based on the effective monthly remuneration earned on the year that the bonuses become due. At the date of their early retirement for presumed disability, employees have the right to a bonus proportional to that which they would receive if they have remained in service until the next bonus payment date.

As at 31 December 2014 and as at 4 August 2014, the Bank's liabilities with this benefit amount to Euros 29,057 thousand and Euros 29,131 thousand, respectively (see Note 35). The costs incurred during the period from 4 August to 31 December 2014 with Long-term service bonuses amount to Euros 428 thousand.

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

NOTE 14 – GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2014
Rentals	17 052
Advertising	6 705
Communication	7 905
Maintenance and repairs	5 855
Travelling and representation	2 373
Transportation of valuables	2 020
Insurance	2 183
IT services	23 588
Independent work	2 154
Temporary work	1 507
Electronic payment systems	2 930
Legal costs	8 597
Consultancy and audit fees	16 263
Water, energy and fuel	3 285
Consumables	1 204
Cleaning	2 244
Security and vigilance	1 848
Other costs	18 506
	126 219

Other costs includes costs incurred with training and services rendered by the Joint Ventures (ACEs) in which NOVO BANCO participates.

The outstanding lease instalments related to non-cancellable operating lease contracts are as follows:

(in thousands of Euros)

	31.12.2014
Up to 1 year	1 456
1 to 5 years	9 781
	11 237

The fees invoiced during the period from 4 August to 31 December 2014 by the Statutory Audit Firm, disclosed in accordance with article 508-F of the Commercial Companies Code, have the following breakdown:

(in thousands of Euros)

	31.12.2014
Statutory audit fees	1 271
Audit related fees	835
Tax consultancy services	63
Other services	85
Total amount of services invoiced	**2 254**

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share is calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the period.

(in thousands of Euros)

	31.12.2014
Net profit / (loss) attributable to shareholders of the Bank	**(648 620)**
Weighted average number of ordinary shares outstanding (thousands)	4 900 000
Basic earnings per share attributable to shareholders of the Bank (in Euros)	**(0.13)**

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share.

NOTE 16 – CASH AND DEPOSITS WITH CENTRAL BANKS

At 31 December 2014 and 4 August 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Cash	178 943	135 802
Demand deposits with Central Banks		
Bank of Portugal	707 465	4 841 493
Other Central Banks	1 838 476	384 100
	2 545 941	5 225 593
	2 724 884	**5 361 395**

As at 4 August 2014 the caption Demand deposits with the Bank of Portugal included an amount of Euros 4,815 million relating to capital subscribed and realised by the Resolution Fund "Fundo de Resolução". The remaining capital, in the amount of Euros 85 million, was realised on 6 August 2014.

As at 31 December 2014, this caption includes mandatory deposits intended to satisfy the minimum legal cash requirements, in an amount of Euros 201 million (4 August 2014: Euros 26 million). According to European Central Bank Regulation no. 1348/2011, of 12 December 2011, minimum cash requirements deposited with the Bank of 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. At 31 December 2014, the average interest rate on these deposits was 0.17% (4 August 2014: 0.15%).

Compliance with minimum cash requirements, for a given observation period, is monitored considering the average amount of the deposits with the Bank of Portugal over said period. The balance of the bank's account with the Bank of Portugal as at 31 December 2014, was included in the observation period running from 10 December 2014 to 27 January 2015, to which corresponded an average minimum cash requirement of Euros 196.7 million.

NOTE 17 – DEPOSITS WITH OTHER BANKS

As at 31 December 2014 and as at 4 August 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Deposits with banks in Portugal		
Uncollected cheques	93 032	276 084
Repayable on demand	14 633	6 809
	107 665	**282 893**
Deposits with banks abroad		
Repayable on demand	106 593	86 498
Uncollected cheques	-	23
	106 593	**86 521**
	214 258	**369 414**

Uncollected cheques in Portugal and abroad were sent for collection during the first business days subsequent to the balance sheet dates.

NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2014 and as at 4 August 2014, the caption financial assets and liabilities held for trading has the following breakdown:

(in thousands of Euros)

	31.12.2014	04.08.2014
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	51 557	72 986
Issued by other entities	102 737	76 310
Shares	36 515	113 855
Other variable income securities	119	288
	190 928	**263 439**
Derivatives		
Derivative financial instruments with a positive fair value	1 104 563	1 011 364
	1 295 491	**1 274 803**
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with a negative fair value	1 078 260	1 087 235
	1 078 260	**1 087 235**

As at 31 December 2014 and as at 4 August 2014, the analysis of the securities held for trading, by maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	982	1 259
3 months to 1 year	5 148	50
1 to 5 years	33 156	54 169
More than 5 years	115 007	93 815
Undetermined	36 635	114 146
	190 928	**263 439**

As at 31 December 2014 and as at 4 August 2014, the caption Financial assets held for trading, split between quoted and unquoted securities, and has the following breakdown:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	51 557	-	51 557	72 986	-	72 986
Issued by other entities	39	102 698	102 737	81	76 229	76 310
Shares	3 647	32 868	36 515	80 964	32 891	113 855
Other variable income securities	119	-	119	288	-	288
	55 362	**135 566**	**190 928**	**154 319**	**109 120**	**263 439**

A breakdown of the securities held for trading by fair value is presented in Note 41.

As at 31 December 2014, the exposure to sovereign debt of “peripheral” Eurozone countries is analysed in Note 42 – Risk management.

As at 31 December 2014 and 4 August 2014, derivative financial instruments are analysed as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forwards						
- buy	759 821	9 543	9 287	893 687	11 923	5 336
- sell	760 384			887 336		
Currency Swaps						
- buy	212 388	92	64	1 885 550	198	123
- sell	211 511			1 883 406		
Currency Futures a)						
- buy	1 748	-	-	1 474	-	-
- sell	-			-		
Currency Interest Rate Swaps						
- buy	32 310	24 282	11 061	32 285	22 479	9 961
- sell	29 525			29 764		
Currency Options						
- buy	1 505 368	50 856	24 574	962 289	18 287	17 887
- sell	1 399 200			510 888		
		84 773	**44 986**		**52 887**	**33 307**
Interest rate contracts						
Forward Rate Agreements						
- buy	-	-	23	-	150	-
- sell	200 000			600 000		
Interest Rate Swaps						
- buy	11 275 527	904 299	907 442	14 219 035	883 816	866 854
- sell	11 299 486			14 257 231		
Interest Rate Caps & Floors						
- buy	173 639	14 294	14 190	280 864	14 214	13 802
- sell	210 051			313 812		
		918 593	**921 655**		**898 180**	**880 656**
Equity / Index contracts						
Equity / Index Swaps						
- buy	310 169	46 659	39 940	284 905	14 489	21 986
- sell	301 646			276 383		
Equity / Index Options						
- buy	147 816	29 733	57 909	322 092	16 015	61 974
- sell	847 081			1 043 894		
Equity / Index Futures a)						
- buy	17 288	-	-	79 238	-	-
- sell	92 456			18 398		
Future Options a)						
- buy	-	-	-	70 036	-	-
- sell	-			-		
		76 392	**97 849**		**30 504**	**83 960**
Credit default contracts						
Credit Default Swaps						
- buy	594 218	24 805	13 770	864 965	29 793	89 312
- sell	594 218			864 965		
		24 805	**13 770**		**29 793**	**89 312**
Total		**1 104 563**	**1 078 260**		**1 011 364**	**1 087 235**

a) Derivatives traded on organised markets, whose market value is settled daily through the margin account (see Note 28)

The Bank calculates the Credit Value Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, on the aggregate exposure of each counterpart, of an expected loss and a rate of recovery considering the estimated average duration period for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastically methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, an expected loss and a recovery rate are applied to the exposure so determined.

As at 31 December 2014 and 4 August 2014, the analysis of derivative financial instruments held for trading, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 788 922	2 821 675	(39 598)	3 629 351	3 210 028	(86 732)
3 months to 1 year	2 420 001	3 100 692	39 597	3 513 572	4 194 442	(4 051)
1 to 5 years	2 458 397	2 620 388	(40 306)	3 488 094	3 986 681	(53 572)
More than 5 years	7 362 972	7 402 803	66 610	9 265 404	9 294 925	68 484
	15 030 292	**15 945 558**	**26 303**	**19 896 421**	**20 686 076**	**(75 871)**

NOTE 19 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this balance is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Bonds and other fixed income securities		
Issued by government and public entities	3 401	3 187
Issued by other entities	20 072	26 967
Shares and other variable income securities	1 222 409	1 511 649
	1 245 882	**1 541 803**

The Bank's option considering IAS 39 and in accordance with the accounting policy presented in Note 2.5, to define these financial assets at fair value through profit or loss, is in accordance with its documented risk management strategy, given that these financial assets (i) are managed and evaluated on a fair value basis and / or (ii) have embedded derivative instruments.

As at 31 December 2014 and as at 4 August 2014, the analysis of the financial assets at fair value through profit or loss, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	202	59 490
3 months to 1 year	89 382	13 969
1 to 5 years	-	111 040
More than 5 years	23 114	16 475
Undetermined	1 133 184	1 340 829
	1 245 882	**1 541 803**

The balance split between quoted and unquoted securities has the following breakdown:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	3 401	-	3 401	3 187	-	3 187
Issued by other entities	-	20 072	20 072	10 396	16 571	26 967
Shares and other variable income securities	4 897	1 217 512	1 222 409	6 746	1 504 903	1 511 649
	8 298	**1 237 584**	**1 245 882**	**20 329**	**1 521 474**	**1 541 803**

A breakdown of the securities held at fair value through profit or loss, by fair value, is presented in Note 41.

NOTE 20 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	Cost (1)	Fair value reserves		Accumul. impairment losses	Carrying value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by govern. and public entities	**2 069 339**	**17 611**	**(6 906)**	**-**	**2 080 044**
Resident	781 655	14 543	(37)	-	796 161
Non-resident	1 287 684	3 068	(6 869)	-	1 283 883
Issued by other entities	**3 181 842**	**60 397**	**(27 244)**	**(46 110)**	**3 168 885**
Resident	1 894 405	1 743	(24 864)	(23 866)	1 847 418
Non-resident	1 287 437	58 654	(2 380)	(22 244)	1 321 467
Shares	**1 009 736**	**35 886**	**(1 614)**	**(185 251)**	**858 757**
Resident	249 976	2 267	(1 614)	(90 628)	160 001
Non-resident	759 760	33 619	-	(94 623)	698 756
Other variable income securities	**2 050 301**	**2 969**	**(2 899)**	**(593 387)**	**1 456 984**
Resident	2 007 897	1 657	(2 899)	(570 454)	1 436 201
Non-resident	42 404	1 312	-	(22 933)	20 783
Balance at 31 December 2014	**8 311 218**	**116 863**	**(38 663)**	**(824 748)**	**7 564 670**
Bonds and other fixed income securities					
Issued by govern. and public entities	**2 241 647**	**-**	**-**	**-**	**2 241 647**
Resident	792 070	-	-	-	792 070
Non-resident	1 449 577	-	-	-	1 449 577
Issued by other entities	**3 851 728**	**-**	**-**	**(42 730)**	**3 808 998**
Resident	2 227 641	-	-	(20 053)	2 207 588
Non-resident	1 624 087	-	-	(22 677)	1 601 410
Shares	**912 725**	**-**	**-**	**(161 681)**	**751 044**
Resident	228 912	-	-	(68 598)	160 314
Non-resident	683 813	-	-	(93 083)	590 730
Other variable income securities	**1 923 857**	**-**	**-**	**(438 000)**	**1 485 857**
Resident	1 866 654	-	-	(423 251)	1 443 403
Non-resident	57 203	-	-	(14 749)	42 454
Balance at 4 August 2014	**8 929 957**	**-**	**-**	**(642 411)**	**8 287 546**

(1) Acquisition cost relating to shares and other equity instruments and amortised cost relating to debt securities

In accordance with the accounting policy presented in Note 2.5, the Bank performs periodic assessments as to the existence of objective evidence of impairment in its portfolio of Available-for-sale financial assets, applying the judgment criteria described in Note 3.1.

As at 31 December 2014 the exposure under this balance to sovereign debt of the Eurozone "peripheral" countries is presented in Note 42 – Risk management.

The changes occurring in the impairment losses of Available-for-sale financial assets are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	642 411
Increase for the period	201 549
Utilisation during period	(13 948)
Write-back for the period	(7 436)
Foreign exchange differences and other	2 172
Balance at end of period	**824 748**

As at 31 December 2014 and as at 4 August 2014, the analysis of Available-for-sale financial assets, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	1 491 186	1 508 074
3 months to 1 year	1 201 147	1 672 400
1 to 5 years	179 225	366 030
More than 5 years	2 320 341	2 441 902
Undetermined	2 372 771	2 299 140
	7 564 670	**8 287 546**

Available-for-sale financial assets split between quoted and unquoted securities are as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	2 051 822	28 222	2 080 044	2 189 664	51 983	2 241 647
Issued by other entities	111 224	3 057 661	3 168 885	680 943	3 128 055	3 808 998
Shares	6 157	852 600	858 757	4 770	746 274	751 044
Other variable income securities	61 139	1 395 845	1 456 984	85 536	1 400 321	1 485 857
	2 230 342	5 334 328	7 564 670	2 960 913	5 326 633	8 287 546

A breakdown of the available-for-sale securities, by fair value, is presented in Note 41.

NOTE 21 – LOANS AND ADVANCES TO CREDIT INSTITUTIONS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Loans and advances to credit institutions in Portugal		
Deposits with banks	271 517	645 596
Loans	50 753	99 571
Very short-term deposits	585 756	121 360
Other loans and advances	50 562	53 919
	958 588	**920 446**
Loans and advances to credit institutions abroad		
Deposits	874 847	3 812 991
Very short-term deposits	241 522	180 782
Loans	408 667	363 009
Other loans and advances	455 974	72 128
	1 981 010	**4 428 910**
	2 939 598	**5 349 356**
Impairment losses	(108 813)	(2 750 883)
	2 830 785	**2 598 473**

Impairment losses as at 4 August 2014 included Euros 2 750.4 million for the exposure in Banco Económico in the amount of Euros 3,438.1 million.

During October 2014, the Banco Nacional de Angola ((BNA) the Angolan Central Bank) made several financial restructuring decisions in respect of BES Angola (now Banco Económico) with an impact on the NOVO BANCO loan. In this context, (i) a new senior loan in an amount equivalent to Euros 317 million, 50% of which covered by Angolan sovereign debt securities, and (ii) a subordinated loan of Euros 317 million were constituted and Euros 54 million of debt were converted into 9.7% of Banco Económico's share capital. The difference to the original debt, amounting to Euros 2,750.4 million, fully provided in the opening balance sheet, was derecognised and the referred provision was used.

In December, the restructuring measures imposed to Banco Económico, included the approval of a share capital increase of Kwanza 65 million, to be realised in cash, which, together with the Kwanza 7 million NOVO BANCO debt conversion, resulted in a share capital totalling Kwanza 72 million (equivalent to Euros 575 million, at the 31 December 2014 foreign exchange rate), detailed as follows:

	Amount (millions of Euros)	%
GENI	108	19.7
LEKTRON CAPITAL	170	31.0
SONANGOL	88	16.1
SONANGOL VIDA	88	16.1
SONANGOL HOLDINGS	41	7.5
NOVO BANCO	53	9.7
	548	100.0

Taking into account (i) the implicit haircut of 80% as a result of the restructuring measures applied by the BNA, which resulted in an impairment already recognised by NOVO BANCO of Euros 2,750.4 million, (ii) the capital inflow (new money) from the new Banco Económico shareholder structure (iii) the current performance of the loans from NOVO BANCO, the Board of Directors of NOVO BANCO does not expect any additional impairment loss on NOVO BANCO's total exposure to Banco Económico amounting to Euros 688 million as at 31 December 2014.

As at 31 December 2014 and as at 4 August 2014, the analysis of loans and advances to credit institutions by residual maturity date is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	2 130 398	2 124 651
3 months to 1 year	56 544	3 086 136
1 to 5 years	387 860	80 506
More than 5 years	314 757	5 473
Undetermined	50 039	52 590
	2 939 598	**5 349 356**

The movements occurring during the period in the impairment losses of loans and advances to credit institutions are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	2 750 883
Allocation in the period	107 124
Utilization during the period	(2 940 961)
Foreign exchange differences and other [(a)]	191 767
Balance at end of period	**108 813**

(a) includes Euros 190,580 thousand of foreign exchange rate variation on the allowance for the exposure to Banco Economico, which was used during the month of October.

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Domestic loans and advances		
Corporate		
Current account loans	3 613 971	4 197 900
Loans	11 737 270	12 157 327
Discounted bills	190 821	245 698
Factoring	758 445	860 186
Overdrafts	16 207	82 150
Financial leases	1 933 695	2 043 457
Other loans and advances	39 723	79 468
Private individuals		
Mortgage loans	6 804 771	6 947 362
Consumer credit and other loans	1 090 244	1 201 077
	26 185 147	**27 814 625**
Foreign loans and advances		
Corporate		
Loans	3 685 714	4 259 667
Current account loans	868 334	1 041 284
Overdrafts	289 793	80 936
Discounted bills	395 560	396 240
Financial leases	72 115	93 229
Factoring	76 025	52 238
Other loans and advances	107 353	165 660
Private individuals		
Mortgage loans	764 769	762 525
Consumer credit and other loans	315 197	369 257
	6 574 860	**7 221 036**
Overdue loans and advances and interest		
Up to 3 months	340 654	162 058
3 months to 1 year	581 459	418 059
1 to 3 years	1 494 908	1 584 226
More than 3 years	1 091 494	891 597
	3 508 515	**3 055 940**
	36 268 522	**38 091 601**
Impairment losses	**(4 926 735)**	**(4 606 762)**
	31 341 787	**33 484 839**

As at 31 December 2014, Loans and advances include Euros 5,359.3 million in mortgage loans that collateralise the issue of covered debt securities (4 August 2014: Euros 5,351.9 million) (see Note 32).

This balance includes, as at 31 December 2014, Euros 322,967 thousand recorded in the balance sheet at fair value through profit or loss (4 August 2014: Euros 306,878 thousand) (see Note 41).

As at 31 December 2014, the amount of interest income and commission and fees recorded in the balance sheet relating to credit operations amounts to Euros 24,629 thousand (4 August 2014: Euros 55,951 thousand).

As at 31 December 2014 and as at 4 August 2014, the analysis of loans and advances to customers by residual maturity date is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	5 906 072	5 445 665
3 months to 1 year	3 559 702	5 434 660
1 to 5 years	6 716 797	6 683 611
More than 5 years	16 577 436	17 471 725
Undetermined	3 508 515	3 055 940
	36 268 522	**38 091 601**

The changes occurring during the period in the impairment losses of loans and advances to customers are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	4 606 762
Allocation for the period	950 253
Utilisation during the period	(134 841)
Write-back for the period	(503 532)
Foreign exchange differences and other	8 093
Balance at end of period	**4 926 735**

As at 31 December 2014, performing loans and advances to customers include Euros 355,145 thousand in loans renegotiated (4 August 2014: Euros 250,171 thousand). These correspond, according to the definition of the Banco de Portugal, to loans and advances that were previously overdue, and that through a process of renegotiation regained their definition of performing loans and advances to customers.

Additionally, at that same date, the Bank has Euros 323,901 thousand in provisions for general credit risks (4 August 2014: Euros 359,424 thousand) which, according to NCA are presented under liabilities (see Note 33).

Loans and advances to customers by interest rate type are analysed as follows:

(in thousands of Euros)

	31.12.2014
Fixed interest rate	2 823 413
Variable interest rate	33 445 109
	36 268 522

The analysis of the financial lease loans by residual maturity period is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Gross investment in finance leases receivable		
Up to 1 year	332 154	343 284
1 to 5 years	953 895	1 049 768
More than 5 years	1 002 031	1 053 991
	2 288 080	2 447 043
Unrealised finance income in finance leases		
Up to 1 year	56 476	51 254
1 to 5 years	139 498	173 733
More than 5 years	43 072	40 046
	239 046	265 033
Present value of minimum lease payments receivable		
Up to 1 year	275 678	292 030
1 to 5 years	814 397	876 035
More than 5 years	958 959	1 013 945
	2 049 034	2 182 010
Impairment	(299 609)	(275 628)
	1 749 425	**1 906 383**

NOTE 23 – DERIVATIVES HELD FOR RISK MANAGEMENT PURPOSES

As at 31 December 2014 and as at 4 August 2014, the fair value of the derivatives held for risk management purposes is analysed as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives held for risk management purposes						
Derivatives held for risk management purposes - assets	153 100	252 135	405 235	138 392	214 698	353 090
Derivatives held for risk management purposes - liabilities	(100 587)	(4 082)	(104 669)	(76 647)	(6 660)	(83 307)
	52 513	**248 053**	**300 566**	**61 745**	**208 038**	**269 783**
Fair value component of assets and liabilities hedged or recorded at fair value through profit or loss						
Financial assets						
Loans and advances to banks	1 143	-	1 143	1 131	-	1 131
Loand and advances o customers	76 800	-	76 800	59 536	-	59 536
	77 943	**-**	**77 943**	**60 667**	**-**	**60 667**
Financial liabilities						
Deposits from banks	(90 571)	-	(90 571)	(70 009)	-	(70 009)
Due to customers	-	(41 970)	(41 970)	(180)	(43 333)	(43 513)
Debt securities issued	(12 871)	(4 334)	(17 205)	(17 517)	(9 626)	(27 143)
	(103 442)	**(46 304)**	**(149 746)**	**(87 706)**	**(52 959)**	**(140 665)**
	(25 499)	**(46 304)**	**(71 803)**	**(27 039)**	**(52 959)**	**(79 998)**

As mentioned in the accounting policy presented in Note 2.3, derivatives held for risk management purposes include hedging derivatives and derivatives contracted to manage the economic risk of certain Financial assets and liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

Hedging derivatives – fair value

As at 31 December 2014 and as at 4 August 2014, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2014								
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative(1)	Change in fair value of derivative in period	Fair value component of item hedged (2)	Change in fair value of hedged item in period (2)
Interest Rate Swap / Currency Interest Rate Swap	Loans and advances to customers	Interest rate	1 030 205	(80 167)	(18 537)	77 943	17 246
Interest Rate Swap	Deposits from banks	Interest rate	348 000	96 414	20 637	(90 571)	(20 562)
Interest Rate Swap	Due to customers	Interest rate	-	-	(180)	-	180
Interest Rate Swap	Debt securities issued	Interest rate	3 561 300	36 266	(7 307)	(12 871)	4 646
			4 939 505	**52 513**	**(5 387)**	**(25 499)**	**1 510**

(1) Includes accrued interest
(2) Attributable to hedged risk

(in thousands of Euros)

04.08.2014							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative(1)	Change in fair value of derivative in period	Fair value component of item hedged (2)	Change in fair value of hedged item in period (2)
Interest Rate Swap / Currency Interest Rate Swap	Loans and advances to customers	ıterest and exchange rate:	1 030 398	(61 856)	-	60 667	-
Interest Rate Swap	Deposits from banks	Interest rate	348 000	76 396	-	(70 009)	-
Interest Rate Swap	Due to customers	Interest rate	10 463	2 180	-	(180)	-
Interest Rate Swap	Debt securities issued	Interest rate	3 582 300	45 025	-	(17 517)	-
			4 971 161	**61 745**	**-**	**(27 039)**	**-**

(1) Includes accrued interest
(2) Attributable to hedged risk

Changes in the fair value of the hedged assets and liabilities above mentioned and of the respective hedging derivatives are recognised in the income statement under Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2014, the ineffective portion of the fair value hedging operations resulted in a loss of Euros 3.9 million that was recognised in the income statement. 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 presented in Notes 2.5, 2.6 and 2.7 and that the Bank did not designate for hedge accounting.

The carrying value of financial assets and liabilities at fair value through profit or loss may be analysed as follows:

(in thousands of Euros)

31.12.2014									
		Derivative			Associated financial asset / liability				
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	267 783	69 939	-	-	-	-	267 783
	Liabilities							
Interest Rate Swap	Deposits from banks	468 494	122 138	16 952	-	-	207 239	234 168
Interest Rate Swap	Due to customers	6 360 000	49 151	(15 183)	(41 970)	13 092	3 811 411	3 769 441
Interest Rate Swap/FX Forward/Index Swap	Debt securities issued	627 731	6 825	(18 740)	(4 334)	971	79 334	75 000
		7 724 008	**248 053**	**(16 971)**	**(46 304)**	**14 063**	**4 097 984**	**4 346 392**

(in thousands of Euros)

04.08.2014								
		Derivative			Associated financial asset / liability			
Derivative	Associated financial asset / liability	Notional	Fair value	Change in fair value during period	Fair value	Change in fair value during period	Carrying value	Redemption amount at maturity
	Assets							
Credit default swaps	Loans and advances to customers	267 799	52 743	-	-	-	-	267 799
	Liabilities							
Interest Rate Swap	Deposits from banks	468 494	99 444	-	-	-	217 776	234 168
Interest Rate Swap	Due to customers	9 550 000	49 362	-	(43 333)	-	7 676 078	7 632 745
Interest Rate Swap/ FX Forward	Debt securities issued	1 015 084	6 489	-	(9 626)	-	107 826	98 200
		11 301 377	**208 038**	**-**	**(52 959)**	**-**	**8 001 680**	**8 232 912**

The credit default swaps associated with loans and advances to customers relates to synthetic securitisation operations, as mentioned in Note 40.

As at 31 December 2014, the fair value of the financial liabilities at fair value through profit or loss includes a positive cumulative effect of Euros 137.2 million (4 August 2014: positive cumulative effect of Euros 109.7 million) attributable to the Bank's own credit risk. The change in fair value attributable to the Bank's own credit risk resulted in the recognition, in 2014, of a gain amounting to Euros 27.5 million (see Note 7).

As at 31 December 2014 and as at 4 August 2014, the analysis of derivatives held for risk management purposes, by maturity period, may be analysed as follows:

(in thousands of Euros)

	31.12.2014			04.08.2014		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	2 719 997	2 718 760	23 835	1 785 415	1 784 581	9 840
3 months to 1 year	1 317 979	1 317 231	2 833	2 786 906	2 787 976	35 781
1 to 5 years	1 145 240	1 145 240	46 430	2 413 240	2 413 240	44 731
More than 5 years	1 149 550	1 149 516	227 468	1 167 701	1 133 479	179 431
	6 332 766	**6 330 747**	**300 566**	**8 153 262**	**8 119 276**	**269 783**

NOTE 24 – NON-CURRENT ASSETS HELD FOR SALE

This balance as at 31 December 2014 and as at 4 August 2014 is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Non-current assets held for sale		
Real estate property held for sale	1 737 191	1 584 775
Equipment held for sale	12 263	10 661
Other tangible assets held for sale	423 471	7 268
	2 172 925	**1 602 704**
Impairment losses	(459 196)	(435 532)
	1 713 729	**1 167 172**

The amounts presented relate to real estate property and equipment acquired in exchange for loans and discontinued premises available for immediate sale. As at December 2014, the amount relating to discontinued premises ascended to Euros 36,272 thousand (4 August 2014: Euros 21,009 thousand), the Bank having registered impairment losses on these assets in a total amount of Euros 8,426 thousand (4 August 2014: Euros 10,803 thousand).

The Bank has implemented a plan aiming for the immediate sale of all non-current assets held for sale. However, due to delays in updating the Property Registrars and given current market conditions, it has been unable to sell some of the assets within the expected time frame. However, the Bank continues its efforts to meet the sale programme, which efforts include (i) a web site specifically aimed at the sale of real estate property; (ii) the development and participation in real estate events in Portugal and abroad; (iii) the celebration of protocols with several real estate agents; (iv) the regular sponsorship of auctions; and (v) sales campaigns in the major emigration centres. The Bank, despite its intention to sell these assets, regularly requests to the Banco de Portugal's authorisation, under article 114 of RGICSF, to extend the time period the Bank has to hold foreclosed assets.

In the beginning of December 2014, NOVO BANCO agreed with Haitong International Holdings Limited, a contract for the sale of 100% of the share capital of its subsidiary Banco Espírito Santo Investimento, SA (BESI), in consequence of which under IFRS 5 it reclassified the shareholding, as a non-current asset held for sale (see Note 27).

The movements occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	435 532
Allocation / (Write-back) for the period	(4 694)
Utilisation during the period	(8 752)
Transfers **(a)**	37 108
Foreign exchange differences and other	2
Balance at end of period	**459 196**

(a) refers to the provison created for BES Investimento, which was transferred together with the respective shareholding to Non-current assets held for sale

The changes occurred in non-current assets held for sale during the period from 4 August to 31 December 2014 are as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	1 602 704
Transfer of the shareholding in BES Investimento	416 103
Additions	188 808
Disposals	(34 690)
Balance at end of period	**2 172 925**

As at 31 December 2014 and as at 4 August 2014, the detail of the real estate included in non-current assets held for sale, by type, is as follow:

(in thousands of Euros)

	31.12.2014					04.08.2014	
	Number of properties	Gross value	Impairment	Carrying value	Fair value	Number of properties	Gross value
Land							
Urban	1 755	322 896	80 614	242 282	279 159	1 686	323 568
Rural	524	197 504	56 643	140 861	158 509	474	155 119
	2 279	520 400	137 257	383 143	437 668	2 160	478 687
Buildings under construction							
Commercial	181	16 073	3 648	12 425	15 373	156	10 627
Residential	531	84 448	17 555	66 893	75 252	870	77 052
Other	61	61 477	15 851	45 626	53 134	22	28 563
	773	161 998	37 054	124 944	143 759	1 048	116 242
Buildings constructed							
Commercial	1 157	240 196	83 133	157 063	195 535	1 009	150 739
Residential	6 298	629 700	87 646	542 054	625 805	5 099	560 159
Other	643	183 086	46 291	136 795	170 790	607	277 401
	8 098	1 052 982	217 070	835 912	992 130	6 715	988 299
Other	**-**	**1 811**	**20 967**	**(19 156)**	**(19 156)**	**-**	**1 547**
	11 150	**1 737 191**	**412 348**	**1 324 843**	**1 554 401**	**9 923**	**1 584 775**

The analysis of real estate included in non-current assets held for sale by ageing is as follows:

(in thousands of Euros)

	31.12.2014				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total carrying value
Land					
Urban	42 665	107 603	79 143	12 871	242 282
Rural	47 759	67 913	22 999	2 190	140 861
	90 424	175 516	102 142	15 061	383 143
Buildings under construction					
Commercial	523	3 293	7 073	1 536	12 425
Residential	2 403	10 043	47 830	6 617	66 893
Other	26 296	12 576	5 866	888	45 626
	29 222	25 912	60 769	9 041	124 944
Buildings constructed					
Commercial	37 397	43 237	61 839	14 590	157 063
Residential	129 844	183 148	190 602	38 460	542 054
Other	30 829	56 734	34 644	14 588	136 795
	198 070	283 119	287 085	67 638	835 912
Other	**(19 156)**	**-**	**-**	**-**	**(19 156)**
	298 560	**484 547**	**449 996**	**91 740**	**1 324 843**

(in thousands of Euros)

	04.08.2014				
	Up to 1 year	**1 to 2.5 years**	**2.5 to 5 years**	**More than 5 years**	**Total carrying value**
Land					
Urban	67 998	158 010	85 853	11 707	323 568
Rural	64 179	41 848	32 630	16 462	155 119
	132 177	199 858	118 483	28 169	478 687
Buildings under construction					
Commercial	898	2 140	4 241	3 348	10 627
Residential	13 935	19 798	31 563	11 756	77 052
Other	4 954	8 313	6 529	8 767	28 563
	19 787	30 251	42 333	23 871	116 242
Buildings constructed					
Commercial	28 054	56 240	34 765	31 680	150 739
Residential	137 091	207 512	178 848	36 708	560 159
Other	67 347	79 050	105 259	25 745	277 401
	232 492	342 802	318 872	94 133	988 299
Other	**1 482**	**-**	**-**	**65**	**1 547**
	385 938	**572 911**	**479 688**	**146 238**	**1 584 775**

NOTE 25 – OTHER TANGIBLE ASSETS

As at 31 December 2014 and as at 4 August 2014, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Real estate property		
For own use	319 843	331 714
Improvements in leasehold property	183 966	185 468
	503 809	**517 182**
Equipment		
Computer equipment	253 901	254 525
Fixtures	125 195	124 864
Furniture	113 455	116 154
Security equipment	34 050	34 029
Office equipment	29 376	29 327
Motor vehicles	1 939	1 726
Other	4 842	1 982
	562 758	**562 607**
Other	24	21
	1 066 591	**1 079 810**
Work in progress		
Improvements in leasehold property	400	324
Real estate property	45	203
Equipment	1 416	411
Other	-	5
	1 861	**943**
	1 068 452	**1 080 753**
Accumulated depreciation	(763 563)	(765 442)
	304 889	**315 311**

The movement in this caption is as follows:

(in thousands of Euros)

	Real estate property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 4 August 2014	**517 182**	**562 607**	**21**	**943**	**1 080 753**
Acquisitions	140	11 089	-	2 419	13 648
Disposals / write-offs	(3 449)	(15 913)	-	-	(19 362)
Transfers **(a)**	(22 918)	643	-	(1 501)	(23 776)
Foreign exchange differences and other	12 854	4 332	3	-	17 189
Balance as at 31 December 2014	**503 809**	**562 758**	**24**	**1 861**	**1 068 452**
Accumulated depreciation					
Balance as at 4 August 2014	**268 538**	**496 904**	**-**	**-**	**765 442**
Depreciation	6 889	10 040	-	-	16 929
Disposals / write-offs	(3 448)	(14 452)	-	-	(17 900)
Transfers **(a)**	(3 823)	(40)	-	-	(3 863)
Foreign exchange differences and other	817	2 138	-	-	2 955
Balance as at 31 December 2014	**268 973**	**494 590**	**-**	**-**	**763 563**
Carrying value as at 31 December 2014	**234 836**	**68 168**	**24**	**1 861**	**304 889**
Carrying value as at 4 August 2014	**248 644**	**65 703**	**21**	**943**	**315 311**

(a) Includes Euros 23 776 thousand if real estate property and equipment and Euros 3 863 thousand in accumulated depreciation relating to bank branches discontinued that were transferred at their carrying value to the appropriate captions of the balance sheet

NOTE 26 – INTANGIBLE ASSETS

As at 31 December 2014 and as at 4 August 2014, this balance is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Internally developed		
Software - Automatic data processing system	90 327	63 070
Acquired from third parties		
Software - Automatic data processing system	623 661	625 128
Work in progress	19 165	25 736
	733 153	**713 934**
Accumulated amortisation	(633 235)	(611 891)
	99 918	**102 043**

The caption Intangible assets developed internally includes costs incurred by the Bank units specialised in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.13).

The movement in this caption is as follows:

(in thousands of Euros)

	Automatic data processing system	Work in progress	Total
Acquisition cost			
Balance as at 4 August 2014	**688 198**	**25 736**	**713 934**
Acquisitions:			
Internally developed	(219)	3 621	3 402
Acquired from third parties	4 228	5 857	10 085
Disposals / write-offs	(4)	-	(4)
Transfers **(a)**	15 572	(16 049)	(477)
Foreign exchange differences and other	6 213	-	6 213
Balance as at 31 December 2014	**713 988**	**19 165**	**733 153**
Accumulated amortisation			
Balance as at 4 August 2014	**611 891**	-	**611 891**
Amortisation for the period	18 424	-	18 424
Foreign exchange differences and other	2 920	-	2 920
Balance as at 31 December 2014	**633 235**	**-**	**633 235**
Carrying value as at 31 December 2014	**80 753**	**19 165**	**99 918**
Carrying value as at 4 August 2014	**76 307**	**25 736**	**102 043**

(a) Includes Euros 477 thousand of discontinued investment projects that were taken to costs

NOTE 27 – INVESTIMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

The financial information relating to subsidiaries and associated companies is presented in the following tables:

(in thousands of Euros)

	31.12.2014				04.08.2014			
	No. of shares	Direct share-holding % in capital	Nominal amount (Euros)	Cost of shareholding	No. of shares	Direct share-holding % in capital	Nominal amount (Euros)	Cost of shareholding
NB AÇORES	2 144 191	57.52%	5.00	10 308	2 144 191	57.52%	5.00	10 308
BES FINANCE	100 000	100.00%	1.00	25	100 000	100.00%	1.00	25
NB ÁSIA	199 500	99.83%	103.18	21 341	199 500	99.75%	93.52	21 341
GNB Vida	50 000 000	100.00%	1.00	620 472	50 000 000	100.00%	1.00	620 472
BESI	-	0.00%	0.00	-	65 253 800	100.00%	5.00	416 103
BESNAC	1 000	100.00%	0.82	36	1 000	100.00%	0.74	36
BEST	47 249 700	75.00%	1.00	77 837	47 249 700	75.00%	1.00	77 837
BES VÉNÉTIE	2 244 082	44.81%	15.00	55 070	2 244 082	0.45%	15	55 070
AVISTAR	300 000 000	100.00%	1.00	300 000	300 000 000	100.00%	1.00	300 000
BIBL	10 200 000	100.00%	1.00	224 197	10 200 000	100.00%	1.00	224 197
ES Plc	29 994	99.98%	5.00	38	29 994	99.98%	5.00	38
GNB SEGUROS	749 800	24.99%	5.00	3 749	749 800	24.99%	5.00	3 749
ES TECH VENTURES	71 500 000	100.00%	1.00	71 500	71 500 000	100.00%	1.00	71 500
ESAF SGPS	2 114 700	89.99%	5.00	60 388	2 114 700	89.99%	5.00	60 388
ES CONCESSÕES	682 306	71.66%	5.00	20 602	682 306	71.66%	5.00	20 602
ESEGUR	242 000	44.00%	5.00	9 634	242 000	44.00%	5.00	9 634
Esgest	20 000	100.00%	5.00	100	20 000	100.00%	5.00	100
E.S. REPRESENTAÇÕES	49 995	99.99%	0.31	39	49 995	99.99%	0.32	39
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
QUINTA DOS CONEGOS	599 400	81.00%	5.00	4 893	599 400	81.00%	5.00	4 893
SCI GEORGES MANDEL	15 750	22.57%	152.45	2 401	15 750	22.57%	152.45	2 401
BES GMBH	1	100.00%	25 000.00	365 025	1	100.00%	25 000.00	365 025
NOVO BANCO SERVICIOS	2 634 739	100.00%	0.40	1 057	2 634 739	100.00%	0.39	1 057
NOVO ACTIVOS FINANCIEROS	975 000	50.00%	10.00	42 765	975 000	50.00%	10.00	42 765
NOVO VANGUARDA	500 000	100.00%	1.00	500	500 000	100.00%	1.00	500
PRAÇA DO MARQUES	3 185 000	100.00%	4.99	27 724	3 185 000	100.00%	4.99	27 724
OBLOG	199 900	66.63%	5.00	-	199 900	66.63%	5.00	-
BES ÁFRICA	13 000 000	100.00%	5.00	65 000	13 000 000	100.00%	5.00	65 000
BANCO DELLE TRE VENEZIE SPA	8 926	20.00%	1 000.00	8 926	8 926	20.00%	1 000.00	8 926
UNICRE	350 029	17.50%	5.00	11 497	350 029	17.50%	5.00	11 497
IJAR LEASING ALGERIE	122 499	35.00%	93.68	12 362	122 499	35.00%	93.58	12 361
EDENRED PORTUGAL	101 477 601	50.00%	0.01	4 984	101 477 601	50.00%	0.01	4 984
BANCO INTERNACIONAL DE CABO VERDE	150	0.01%	9.06	1	150	0.01%	9.06	1
MULTIPESSOAL	20 000	22.52%	5.00	100	20 000	22.52%	5.00	100
				2 025 538				**2 441 640**
Impairment losses				(642 863)				(642 823)
				1 382 675				**1 798 817**

At the beginning of December 2014, NOVO BANCO agreed with Haitong International Holdings Limited, a contract for the sale of 100% of its shareholding in Banco Espírito Santo de Investimento, SA (BESI), for Euros 379 million. the execution of the transaction is dependent on the necessary approvals, namely by the European Commission, the Competition Authorities and a number of other authorities exercising the supervision over international units of BESI, as well as the seller's and buyer's supervisory entities. On the 5 February 2015 Banco de Portugal, whilst national resolution authority, approved the sale of BESI.

Consequently, the shareholding of NOVO BANCO in BESI was transferred to the caption non-current assets held for sale together with the provision created of Euros 37.1 million, as a result of the sale price agreed to.

The movement occurring in this caption is as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	642 824
Allocation / (Write-back) for the period	37 147
Transfers **(1)**	(37 108)
Balance at the end of the period	**642 863**

(1) refers to the provision created for BESI, considering the sales price agreed to, which was transferred together with the respective shareholding to the caption Non-current assets held for sale

NOTE 28 – OTHER ASSETS

As at 31 December 2014 and as at 4 August 2014, the balance Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Collateral deposits placed	1 236 757	1 179 444
Derivative products	*863 452*	*797 788*
Collateral CLEARNET, VISA and EBA	*77 948*	*77 969*
Collateral deposits relating to reinsurance operations	*295 357*	*303 687*
Recoverable government subsidies on mortgage loans	20 677	25 715
Public sector	153 121	143 908
Other debtors	1 107 631	1 140 821
Income receivable	41 121	28 250
Deferred costs	107 022	114 192
Precious metals, numismatics, medal collection and other liquid assets	9 522	9 708
Stock exchange transactions pending settlement	14 858	342 891
Other transactions pending settlement	18 725	125 944
Other assets	210 157	186 177
	2 919 591	**3 297 050**
Impairment losses	(300 305)	(195 912)
	2 619 286	**3 101 138**

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to be able to perform certain derivative contracts in organised markets (margin accounts) and in over-the-counter markets (Contract Support Annex – CSA).

The Other debtors amount includes:

- Euros 325.0 million relating to supplementary capital granted to Avistar, SGPS, SA (4 August 2014: Euros 325.0 million);
- Euros 112.9 million of shareholder loans and supplementary capital resulting from the assignment of loans, of which Euros 110.8 million are provided for (4 August 2014: Euros 112.9 million, of which Euros 97.5 million were provided for), and

- Euros 100.0 million relating to shareholder loans granted to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (4 August 2014: Euros 100 million);

As at 31 December 2014, the caption Deferred costs includes an amount of Euros 75,483 thousand (4 August 2014: Euros 76,922 thousand) relating to the difference between the nominal amount of the loans and advances granted to the Bank's employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at their grant date, calculated in accordance with IAS 39. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining service life of the employee.

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement in accordance with the accounting policy described in Note 2.5.

The movements in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2014
Balance at beginning of period	195 912
Allocation in the period	104 077
Write-back for the period	(452)
Other	768
Balance at end of period	**300 305**

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

The balance Deposits from Central Banks is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
From the European System of Central Banks		
Deposits	331 659	266 798
Other funds	8 140 000	13 206 029
	8 471 659	**13 472 827**

As at 31 December 2014, the caption Other funds from the European System of Central Banks includes Euros 8,146 million, covered by Bank financial assets pledged as collateral (4 August 2014: Euros 13,226 million) (see Note 38).

As at 31 December 2014 and as at 4 August 2014, the analysis of deposits from Central Banks, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	6 830 982	5 347 313
More than 5 years	1 640 677	8 125 514
	8 471 659	**13 472 827**

NOTE 30 – DEPOSITS FROM BANKS

The balance Deposits from credit institutions is presented as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Domestic		
Deposits	511 199	474 243
Interbank money market	-	30 000
Very short-term funds	33 357	-
Operations with repurchase agreements	140 882	234 471
Other funds	3 107	7 208
	688 545	**745 922**
International		
Deposits	1 591 869	1 906 696
Loans	1 133 101	1 302 722
Very short-term funds	9 849	317 062
Operations with repurchase agreements	892 765	702 734
Other funds	31 810	390 681
	3 659 394	**4 619 895**
	4 347 939	**5 365 817**

As at 31 December 2014, this caption includes funds in the amount of Euros 561,055 thousand recorded in the balance sheet at fair value through profit or loss (4 August 2014: Euros 603,059 thousand) (see Note 41).

The balance of the caption operations with repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.6.

Domestic sales operations with repurchase agreements, totalling Euros 140.9 million have a maturity period of less or equal than three months. For international sales operations with repurchase agreements, the amount of Euros 193.8 million has a maturity period of under three months, with the remainder (Euros 699.0 million) having a maturity period of between one and five years.

As at 31 December 2014 and as at 4 August 2014, the analysis of Deposits from credit institutions by residual maturity period is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	1 389 993	1 891 911
3 months to 1 year	778 245	664 044
1 to 5 years	1 270 354	1 868 566
More than 5 years	909 347	941 296
	4 347 939	**5 365 817**

NOTE 31 – DUE TO CUSTOMERS

The balance Due to customers has the following breakdown:

(in thousands of Euros)

	31.12.2014	04.08.2014
Repayable on demand		
Demand deposits	8 429 829	8 136 113
Time deposits		
Term deposits	16 179 095	14 644 959
Other	5 560	4 096
	16 184 655	**14 649 055**
Savings accounts		
Pensioners	458 947	420 470
Other	1 908 204	2 231 095
	2 367 151	**2 651 565**
Other funds		
Operations with repurchase agreements	111 450	113 110
Other	745 739	674 127
	857 189	**787 237**
	27 838 824	**26 223 970**

As at 31 December 2014, this caption includes funds in the amount of Euros 3,811,411 thousand recorded in the balance sheet at fair value through profit or loss (4 August 2014: Euros 7,680,675 thousand) (see Note 41).

The balance Sales operations with repurchase agreements corresponds to sales of securities with repurchase agreements (repos), recorded in accordance with the accounting policy described in Note 2.6.

The sales operations with repurchase agreements, in the amount of Euros 111.5 million, have a maturity period of less than three months.

As at 31 December 2014 and as at 4 August 2014, the analysis of amounts due to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Repayable on demand	**8 429 829**	**8 136 113**
With agreed maturity		
Up to 3 months	10 825 004	8 932 927
3 months to 1 year	6 336 416	7 153 968
1 to 5 years	1 927 224	1 784 716
More than 5 years	320 351	216 246
	19 408 995	**18 087 857**
	27 838 824	**26 223 970**

NOTE 32 – DEBT SECURITIES ISSUED

The balance Debt securities issued has the following breakdown:

(in thousands of Euros)

	31.12.2014	04.08.2014
Euro Medium Term Notes (EMTN)	6 751 845	6 461 582
Certificates of deposit	9 903	326 616
Bonds	57 545	56 665
Covered bonds	884 722	881 608
Other	81 126	200 912
	7 785 141	**7 927 383**

As at 31 December 2014, debt securities issued include an amount of Euros 3,500 million of debt securities issued with a guarantee from the Portuguese Republic (4 August 2014: Euros 3,500 million), all of which had been acquired by the Bank at the balance sheet date.

Under the Covered Debt Securities Programme ("Programa de Emissão de Obrigações Hipotecárias"), which has a maximum amount of Euros 10 000 million, the Bank issued covered debt securities in a total amount of Euros 4,040 million. The main characteristics of the outstanding issues as at 31 December 2014 are as follows:

Description	Nominal value (in thousands of Euros)	Carrying value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered bonds 3.375%	1 000 000	843 250	17-11-2009	17-02-2015	Annually	3.375%	Baa3	AL
BES Covered bonds DUE JUL 17	1 000 000	-	07-07-2010	09-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds 21/07/2017	1 000 000	-	21-07-2010	21-07-2017	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
BES Covered bonds DUE 4.6%	40 000	41 472	15-12-2010	26-01-2018	Annually	Fixed rate 4.6%	Baa3	AL
BES Covered bonds HIPOT. 2018	1 000 000	-	25-01-2011	25-01-2018	Half-yearly	Euribor 6 Months + 0.60%	Baa3	AL
	4 040 000	**884 722**						

These covered bonds are guaranteed by a cover assets pool, comprising mortgage loans and other assets, segregated in NOVO BANCO's accounts as an 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 issued are set up in Decree-Law no. 59/2006, and in Notices 5, 6, 7 and 8 and Instruction 13 of the Banco de Portugal.

As at 31 December 2014, the assets that collateralise these covered bonds amount to Euros 5,359.3 million (4 August 2014: Euros 5,351.9 million) (see Note 22).

The movement occurring in debt securities issued, during the period from 4 August to 31 December 2014, is as follows:

(in thousands of Euros)

	Balance at 04.08.2014	Issues	Repayments	Net purchases	Other movements (a)	Balance at 31.12.2014
Euro Medium Term Notes (EMTN)	6 461 582	-	(50 000)	185 094	155 169	6 751 845
Certificates of deposit	326 616	-	(314 949)	-	(1 764)	9 903
Bonds	56 665	-	-	-	880	57 545
Covered bonds	881 608	-	-	(44)	3 158	884 722
Other	200 912	-	(116 938)	-	(2 848)	81 126
	7 927 383	**-**	**(481 887)**	**185 050**	**154 595**	**7 785 141**

[a] Other movements include accrued interest and adjustments for fair value and foreign exchange differences

In accordance with the accounting policy described in Note 2.7, debt securities issued repurchased by the Bank are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement. As a result of repurchases made during the period from 4 August to 31 December 2014, the Bank recognised a gain of Euros 9 thousand (see Note 11).

As at 31 December 2014 and as at 4 August 2014, the analysis of Debt securities issued, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Up to 3 months	1 298 085	261 125
3 months to 1 year	1 105 086	1 805 535
1 to 5 years	4 074 058	4 798 578
More than 5 years	1 307 912	1 062 145
	7 785 141	**7 927 383**

The main characteristics of this funding for the Bank are as follows:

Entity	Description		Currency	Issue Date	Carrying Value	Maturity
			31.12.2014			
Novo Banco	BES 3.375%		EUR	2009	843 250	2015
Novo Banco	BES DUE 3.875%		EUR	2010	403 673	2015
Novo Banco	BES DUE 4.6%		EUR	2010	41 472	2017
Novo Banco	BES DUE JULY 16		EUR	2011	59 948	2016
Novo Banco	BES 4 YEARS 7%		EUR	2012	133 882	2016
Novo Banco	BES 6.9% 2024		EUR	2012	70 611	2024
Novo Banco	BES 5.875% 2015		EUR	2012	755 133	2015
Novo Banco	BES 4.75% 2018		EUR	2013	522 275	2018
Novo Banco	BES 4%		EUR	2014	775 757	2019
Novo Banco	BES 2.625%		EUR	2014	719 770	2017
Novo Banco	BEF 2005/2015		EUR	2005	10 008	2015
NB (Cayman Branch)	BIC CAYMAN 27 2001		EUR	2001	47 537	2015
NB (Spain Bank Branch)	Mortgage bonds	a)	EUR	2008	81 128	2016
NB (London Bank Branch)	Certificates of deposit		USD	2014	4 140	2015
NB (London Bank Branch)	Certificates of deposit		USD	2014	5 763	2015
NB (London Bank Branch)	EMTN Series 2		EUR	2012	127 467	2016
NB (London Bank Branch)	EMTN Series 3		EUR	2012	112 574	2022
NB (London Bank Branch)	EMTN Series 5		EUR	2012	43 605	2016
NB (London Bank Branch)	EMTN Series 6		EUR	2012	168 831	2022
NB (London Bank Branch)	EMTN Series 7		EUR	2012	171 234	2019
NB (London Bank Branch)	EMTN Series 8		EUR	2012	45 401	2015
NB (London Bank Branch)	EMTN Series 9		EUR	2012	221 273	2015
NB (London Bank Branch)	EMTN Series 10		EUR	2012	553 955	2019
NB (London Bank Branch)	EMTN Series 11		EUR	2012	66 995	2015
NB (London Bank Branch)	EMTN Series 12		EUR	2012	346 913	2019
NB (London Bank Branch)	EMTN Series 13		EUR	2012	246 527	2019
NB (London Bank Branch)	EMTN Series 14		EUR	2012	231 395	2019
NB (Luxembourg Bank Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	18 730	2017
NB (Luxembourg Bank Branch)	BES Luxembourg 3% 21/06/22		USD	2012	115 498	2022
NB (Luxembourg Bank Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	54 082	2043
NB (Luxembourg Bank Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	105 922	2043
NB (Luxembourg Bank Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	81 386	2043
NB (Luxembourg Bank Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	57 667	2043
NB (Luxembourg Bank Branch)	BES Luxembourg ZC		EUR	2013	37 475	2048
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 22/01/2049		EUR	2014	29 939	2049
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 29/01/2049		EUR	2014	39 845	2049
NB (Luxembourg Bank Branch)	Banco Esp San Lux ZC 05/02/49		EUR	2014	39 829	2049
NB (Luxembourg Bank Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	43 780	2049
NB (Luxembourg Bank Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	43 095	2049
NB (Luxembourg Bank Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	36 902	2051
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	36 810	2051
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 13/03/48		EUR	2014	31 472	2048
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 25/03/50		EUR	2014	36 882	2050
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 27/03/47		EUR	2014	45 160	2047
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	39 402	2048
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	36 873	2052
NB (Luxembourg Bank Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	43 875	2046
					7 785 141	

a) liabilities at fair value through profit or loss or with embedded derivatives

NOTE 33 – PROVISIONS

During the period from 4 August to 31 December 2014 the caption Provisions presents the following movements:

(in thousands of Euros)

	Provision for general credit risks	Other provisions	Total
Balance at the beginning of period	**359 428**	**905 625**	**1 265 053**
Increase / (write-backs) for the period	(36 485)	(333 044)	(369 529)
Utilisation during period	-	(69 426)	(69 426)
Foreign exchange differences and other	958	(1 109)	(151)
Balance at the end of the period	**323 901**	**502 046**	**825 947**

Other provisions, amounting to Euros 502.0 million (4 August 2014: Euros 905.6 million), are intended to cover certain duly identified contingencies related to the Bank's activities and the following are the most relevant:

- Provision amounting to Euros 454.8 million (4 August 2014: Euros 822.5 million) to cover for costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers who hold NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of the provision as adequate based on the experience gained in the negotiations already completed and sales price expectations regarding the debt securities and financial instruments subscribed by the customers;
- Contingencies for ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of approximately Euros 4.4 million (4 August 2014: Euros 3.9 million);
- The remaining balance, of Euros 42.7 million, is maintained to cover for potential losses in connection with the normal activities of the Bank, such as, amongst others, fraud, theft and robbery and ongoing judicial cases.

Contingent liabilities are disclosed in Note 38.

NOTE 34 – TAXES

NOVO BANCO is subject, individually, to taxation in accordance with the Corporate Income Tax Code (IRC Code).

For the 2014 period, NOVO BANCO is subject to corporate income tax (IRC) at the IRC rate (23%) approved by Law no. 2/2014, of 16 January and to a Municipal Surcharge ("Derrama Municipal") according to Law no.

73/2013, of 3 September, with a maximum rate of 1.5%, and a State Surcharge ("Derrama Estadual") according to article 87-A of the IRC Code, with a maximum rate of 7%.
Corporate income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected under equity captions. In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

For purposes of the deferred tax asset calculation as at 31 December 2014, the following aspects were taken into consideration:

- The transfer of assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, following the resolution of the Banco de Portugal of 3 August 2014, constitutes a transfer of assets under article 73 of the IRC Code and as a result of which the tax neutrality regime defined in article 73 et sec of that IRC Code is applicable. This legal-tax framework has received the written approval by the Portuguese Tax Authority;
- Considering the above-mentioned the deferred tax assets and liabilities relating to timing differences arising on the assets and liabilities included in the transfer made under the said resolution were also transferred to NOVO BANCO;
    - In accordance with no. 2 of article 145-AU of the RGICSF and the resolutions of the Banco de Portugal of 3 August 2014 and 27 April 2015, the right to deduct the tax losses reported by BES for IRC purposes was also transferred to NOVO BANCO. Accordingly, the corresponding deferred tax assets were also transferred to NOVO BANCO. An application was submitted to the Ministry of Finance, under no. 4 of article 145-AU of the RGICSF requesting the confirmation that the tax losses generated by BES and subject to carry-forward can be transmitted to NOVO BANCO;
- Decree-Law no. 127/2011, of 31 December, which regulates the transfer of the retirement pension and survival benefit liabilities of the retirees and pensioners to the General Social Security Regime and that, in conjunction with Article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility regime for expenses and other equity changes arising on such transfer:
    - The negative equity change arising from the accounting policy change on recognising actuarial gains and losses, which were previously deferred, will be fully deductible in equal parts over 8 years (10 years from the financial period started on 1 January 2012);
    - The settlement effect (determined as the difference between the liability measured in accordance with IAS 19 criteria and the criteria established in the agreement) will be fully deductible for purposes of determining taxable income, in equal parts, over 14 years, according to the average life expectancy of the pensioners whose liabilities were transferred (16 years, counting from the financial period started on 1 January 2012);
- Considering the previous paragraph, the deferred tax assets arising on the transfer of liabilities and on the accounting policy change regarding the recognition of actuarial gains and losses, in the amount of Euros 25,022 thousand and Euros 166,654 thousand, are thus recoverable over 14 and 8 years, respectively.

Deferred taxes are calculated based on the tax rates anticipated to be in force at the timing differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Consequently, as at 4 August 2014:

- the deferred tax was, in general terms, calculated applying an aggregate rate of 29.5%, resulting from the sum of the IRC rate (23%) approved by Law no. 2/2014, of 16 January, the Municipal Surcharge (1.5%) and an estimated average rate of State Surcharge (5%);
- the deferred tax relating to tax losses carried forward was specifically determined based on the IRC rate (23%).

As at 31 December 2014:

- the deferred tax relating to tax losses carried forward was specifically determined using on the IRC rate (21%) approved by Law no. 82-B/2014, of 31 December, which changed the IRC Code;
- the deferred tax relating to timing differences was determined based on an aggregate rate of 29%, resulting from the sum of the IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 6.5%.

Pursuant to Law no. 55-A/2010, of 31 December, a Banking Levy ("Contribuição sobre o Sector Bancário") was created, which is not eligible as a tax cost, and which regime was extended by Law no. 64-B/2011, of 30 December, by Law no. 66-B/2012, of 31 December and by Law no. 83-C/2013, of 31 December. At 3 August 2014, and as a result of the transfer of the assets, liabilities, off-balance sheet elements and assets under management of Banco Espírito Santo, S.A., to NOVO BANCO, S.A., made in accordance with the terms of the resolution of the Banco de Portugal of 3 August 2014, NOVO BANCO had recognised as a deferred cost asset, the amount of Euros 12,951 thousand. This amount was recognised as a cost of NOVO BANCO during the period from 4 August to 31 December 2014.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2014 and as at 4 August 2014 may be analysed as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	04.08.2014	31.12.2014	04.08.2014	31.12.2014	04.08.2014	31.12.2014
Financial instruments	141 775	140 676	(29 944)	(48 473)	111 831	92 203
Loans and advances to customers	1 539 092	974 541	-	-	1 539 092	974 541
Other tangible assets	-	-	(16 276)	(20 897)	(16 276)	(20 897)
Intangible assets	-	-	-	-	-	-
Investments in subs. and associated companies		-	(195 151)	(4 103)	(195 151)	(4 103)
Provisions	251 544	127 148	-	-	251 544	127 148
Pensions	231 550	211 951	-	-	231 550	211 951
Seniority bonuses	8 594	8 427	-	-	8 594	8 427
Other	10 638	4 794	(3 709)	(3 623)	6 929	1 171
Tax losses carried forward	673 553	1 064 894	-	-	673 553	1 064 894
Net deferred tax asset / (liability)	**2 856 746**	**2 532 431**	**(245 080)**	**(77 096)**	**2 611 666**	**2 455 335**

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilisation of the deductible timing differences. The Bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits up till 2026.

As at 31 December 2014, the deferred tax assets associated with tax losses, by statutory limitation period, are analysed as follows (in Euros thousand):

(in thousands of Euros)

Year of statutory limitation	Amount
2018	159 756
2026	905 138

As referred to in the accounting policy and in accordance with the requirements defined in IAS 12, the deferred tax assets were recognized based on the Bank's expectations regarding their recoverability. The assessment of the recoverability of the deferred tax assets was made based on the business plan approved by the Board of Directors for the period 2015-2019, and considering a constant activity growth after that date and up to the expiry of the deferred tax assets generated in 2014 (12 years).

The expectations as to the generation of future taxable income in Portugal are supported, fundamentally, on the favourable evolution of:

- net interest income, reflecting the positive impact of the expected lower cost of term deposits and the normalisation of the Bank's funding cost;
- the reduction of operating costs, reflecting the favorable impact of the reduction in the number of employees and branches;
- loan impairment, in line with the evolution of the Bank's activity based on macroeconomic projections;
- the gains on financial transactions, although below the historical average annual return of 2% of the underlying assets;
- fees and commissions, reflecting a growth of 5%, in line with the evolution of the bank's business and the country macroeconomic environment.

The projections made by the Senior Management for the period 2015-2026 and that support the future taxable profits estimated by NOVO BANCO, do not incorporate any impact resulting from the entry of a new shareholder, which could have direct impacts, namely, in terms of additional funding cost reductions, over and above those already contained in the business plan, in NOVO BANCO's ability to attract business but, essentially, in terms of the strategy set by the current Board of Directors for NOVO BANCO. Nevertheless, it should be noted that these projections were made on a going concern basis, based on historical and forecast information currently considered appropriate for the purpose, but that should be reviewed after the completion of the sale process of NOVO BANCO as a transition bank.

The movements in the deferred tax captions were recognised as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	2 611 666
Recognised in Results for the period	(129 808)
Recognised in Fair value reserves	(21 903)
Recognised in Reserves - Other comprehensive income	(5 231)
Foreign exchange differences and other	610
Balance at the end of the period (Assets / (Liabilities))	2 455 334

Current tax assets and liabilities recognised in the balance sheet as at 31 December 2014 and as at 4 August 2014 may be analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Assets		
Corporate tax recoverable	13 083	13 083
Other	1 845	1 735
	14 928	14 818
Liabilities		
Corporate tax payable	21 874	4 915
Other	3 663	13 411
	25 537	18 326

The current and deferred taxes recognised in the income statement and in reserves, during the period from 4 August to 31 December 2014 is analysed in the following table:

(in thousands of Euros)

	31.12.2014	
	Recognised in the income statement	Recognised in reserves
Deferred taxes		
Financial Instruments	(2 275)	21 903
Loans and advances to customers	564 553	-
Other tangible assets	(610)	5 231
Investments in subsidiaries and associated companies	(191 048)	-
Provisions	124 395	-
Pensions	19 598	-
Long-term service bonuses	167	-
Tax losses carried forward	(391 341)	-
Other	6 369	-
Deferred taxes	**129 808**	**27 134**
Current taxes	**16 395**	**-**
Total tax recognised (profit) / loss	**146 203**	**27 134**

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

(in thousands of Euros)

	31.12.2014	
	%	Valor
Net Profit/ (Loss) before tax		**(502 417)**
Banking levy		12 952
Net profit/ (loss) before tax for the tax rate reconciliation		**(489 465)**
Tax rate	23,0	
Income tax calculated based on the tax rate		(112 577)
Tax-exempt dividends	0,1	(716)
Gains in units with more favorable tax system	-	7 080
Impairment in equity holdings subject to "Participation exemption"	32,6	(159 761)
Taxes of branches and tax withheld abroad	(3,0)	14 890
impact from change of corporation tax rate in the deferred tax rate	(26,4)	129 442
Tax losses without expectation of use	(47,8)	233 758
Differences in tax rates on the generation / reversal of temporary differences	(6,0)	29 169
Other	(1,0)	4 917
Tax for the period	**(29,9)**	**146 203**

NOTE 35 – OTHER LIABILITIES

As at 31 December 2014 and as at 4 August 2014, the balance Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Public sector	51 416	59 300
Security deposit accounts	75 252	69 055
Suppliers	277 710	220 981
Long term service bonuses (see Note 13)	29 057	29 131
Retirement pensions and health-care benefits (see Note 13)	60 146	168 534
Other accrued expenses	88 951	103 335
Deferred income	19 529	23 228
Stock exchange transactions pending settlement	22	193 522
Other transactions pending settlement	85 457	126 330
	687 540	**993 416**

Stock exchange transactions pending settlement refer to transactions with securities pending settlement, recorded on the trade date, in accordance with the accounting policy described in Note 2.5.

NOTE 36 – SHARE CAPITAL

As at 31 December 2014, the Bank's share capital, in the amount of Euros 4,900,000,000, is represented by 4,900 million registered shares, with a nominal value of Euro 1 per share, fully subscribed and realised by the Resolution Fund.

NOTE 37 – RESERVES, RETAINED EARNINGS, OTHER COMPREHENSIVE INCOME

Originating reserve

The originating reserve, in the amount of Euros 780,544 thousand (4 August 2014: Euros 798,996 thousand) results from the difference between the assets and liabilities transferred from Banco Espírito Santo to NOVO BANCO, on the terms defined in the resolution measure applied by the Banco de Portugal to Banco Espírito Santo. The amount of the reserve includes the effects of the Banco de Portugal Resolution Measure ("Medida de Resolução") and of the conclusions of the audit conducted by the independent auditor appointed by the Banco de Portugal. The adjustment in the originating reserve results from clarifications regarding the resolution measure, made by the Banco de Portugal after the date of the publication of the opening balance sheet, and that resulted in accounting adjustments relating to the transfer of assets and liabilities from BES to NOVO BANCO (see Note 2.1).

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as available-for-sale, net of impairment losses. The reserve amount is shown net of deferred taxes, its balance being nil in the opening balance sheet.

The movements in these captions may be presented as follows:

(in thousands of Euros)

	Fair value reserves			Othe comprehensive income, Other reserves and Retained earnings			
	Available-for-sale financial assets	Deferred tax reserves	Total Fair value reserves	Actuarial deviations (net of taxes)	Other reserves and Retained earnings	Total Other reserves and Retained earnings	Total
Balance at the beginning of the period	**-**	**-**	**-**	**-**	**773 192**	**773 192**	**773 192**
Actuarial Deviations	-	-	-	(258 524)	-	(258 524)	(258 524)
Changes in fair value	78 109	(21 903)	56 206	-	-	-	56 206
Pensions - Transitory regime	-	-	-	-	(2 282)	(2 282)	(2 282)
Adjustments to originating reserve **(a)**	-	-	-	-	(16 711)	(16 711)	(16 711)
Foreign exchange differences	-	-	-	-	12 807	12 807	12 807
Other	-	-	-	-	1 613	1 613	1 613
Balance at the end of the period	**78 109**	**(21 903)**	**56 206**	**(258 524)**	**768 619**	**510 095**	**566 301**

(a) Resulting from clarifications of the Resolution Measure by the Bank of Portugal after the date of releasing the opening balance sheet

The movement in fair value reserves, net of deferred taxes, impairment losses and non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2014
Balance at the beginning of the period	**-**
Changes in fair value	(93 629)
Disposals during period	(22 375)
Impairment recognised during period	194 113
Deferred taxes recognised in reserves during period (see Note 34)	(21 903)
Balance at the end of the period	**56 206**

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, as at 31 December 2014 and as at 4 August 2014, the off-balance sheet elements are as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Contingent liabilities		
Guarantees	6 970 536	8 269 106
Financial assets pledged as collateral	20 655 967	25 324 308
Open documentary credits	2 383 602	3 212 253
Other	83 304	80 132
	30 093 409	**36 885 799**
Commitments		
Revocable commitments	6 374 295	5 758 995
Irrevocable commitments	1 905 638	2 280 994
	8 279 933	**8 039 989**

Guarantees provided are banking operations that do not imply any cash outflow for the Bank.

As at 31 December 2014, the caption Assets pledged as collateral includes:

- The market value of assets pledged as collateral to the European Central Bank and /or Banco de Portugal, relating to a liquidity facility amounting to Euros 19.1 thousand million (4 August 2014: Euros 22.7 thousand million);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (“Comissão do Mercado de Valores Mobiliários” (CMVM)) relating to the Investors Indemnity System (“Sistema de Indemnização aos Investidores”) in an amount of Euros 18.6 million (4 August 2014: Euros 17.4 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (“Fundo de Garantia de Depósitos”) amounting to Euros 91.9 million (4 August 2014: Euros 84.5 million); and
- Securities pledged as collateral to the European Investment Bank amounting to Euros 1,388.0 million (4 August 2014: Euros 1,440.0 million).

The above mentioned financial assets pledged as collateral are registered in the various asset categories of the Bank’s balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or instruct to pay a certain amount to a supplier of goods or services, within a determined period, against presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that the terms initially agreed to can only be changed or cancelled with the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Bank customers (e.g. undrawn lines of credit), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a commission. Practically all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, just like any other commercial operation. When necessary, the Bank requires that these operations be collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not necessarily represent future cash outflows.

Additionally, the off-balance sheet elements related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2014	**04.08.2014**
Deposit and custodianship of securities and other items for customers	51 795 771	59 842 922
Assets received for subsequent collection on behalf of clients	209 452	211 108
Securitised loans under management (servicing)	4 753 977	4 890 498
Other responsibilities related with banking services	3 198 244	3 774 836
	59 957 444	**68 719 364**

Under the resolution measure applied to BES, contained in Appendix 2 of the Banco de Portugal resolution dated 3 August 2014 (point 1., paragraph b), subparagraph (vii)), the "Liabilities Excluded" from the transfer to NOVO BANCO include "any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Grupo Espírito Santo (…)". Considering the above any liabilities relating to GES related products will remain in the Banco Espírito Santo scope.

Under the terms of the point and paragraph referred to above and sub-point (v) the excluded liabilities also include "any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".

NOVO BANCO, whilst transition bank resulting from the application of a resolution measure to BES under article 145 of the RGICSF, incorporated in the preparation of its separate financial statements a number of measures envisaged in said resolution measure with respect to the transfer of assets, liabilities, off-balance sheet elements and assets under management of BES. Given that the incorporation of the Bank resulted from the application of a resolution measure to BES, which originated material impacts on third parties, the risk of litigation (including that related to Oak Finance) involving NOVO BANCO, related to the Resolution Measure and the definition of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to NOVO BANCO, is significant. In preparing the consolidated financial statements of the Bank as at 31 December 2014 the Board of Directors reflected therein the Resolution Measure and related decisions taken by the Banco de Portugal, as well as the indications that no responsibilities for NOVO BANCO are expected to arise from said litigation, given the legal grounds and the information available at this date.

NOTE 39 – RELATED PARTY TRANSACTIONS

The amounts of the transactions between the Bank and its related parties as at 31 December 2014 and as at 4 August 2014, as well as the expenses and income recognised in the period under analysis, is summarised as follows:

(in thousand of Euros)

	31.12.2014					04.08.2014		
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees
Shareholder								
RESOLUTION FUND	-	-	-	-	3 448	3 448	-	-
Subsidiaries								
GNB RECUPERAÇÃO DE CRÉDITO	-	443	-	-	1 924	-	433	-
ES CONCESSÕES	104 550	8	23 053	585	-	88 182	333	30 645
NB ACE	-	404	-	358	1 732	-	344	-
ESAF SGPS	2 001	32 984	4 024	2 731	72	4 104	32 038	4 024
NOVO ACTIVOS FINANCIEROS	721	54 176	-	2 951	166	604	53 002	-
NOVO BANCO SERVICIOS	69 028	4 643	-	828	783	72 504	4 270	-
NBGest	-	229	-	-	-	-	325	-
BESI	741 291	19 892	-	-	-	787 239	32 377	35 376
BES GMBH	-	5 882	-	-	2	-	6 172	-
BESIL	-	28	-	70	-			
NB Ásia	85	6 008	-	-	835	148	247 326	-
BES FINANCE	172 298	1 212 908	1 129 980	4 120	26 613	139 791	1 238 284	1 420 284
NBI Plc	938 687	104 562	-	3 733	1 137	928 550	731 649	650 000
ES TECH VENTURES	46 732	39 544	-	-	78	46 732	46 505	-
BEST	31 226	230 628	-	148	490	23 466	209 711	-
NB AÇORES	95 838	19 537	1 205	161	13	70 900	20 739	1 205
QUINTA DOS CONEGOS	1 091	-	-	16	-	1 097	-	-
BIBL	290 106	248 752	-	741	1 073	267 344	220 656	-
FCR PME	-	527	-	-	2	-	1 949	-
FCR VENTURES II	16 558	283	-	228	1	16 458	326	-
GNB SISTEMAS DE INFORMAÇÃO	-	1 551	-	-	2 748	-	722	-
FT LPF1	16 927	7 651	-	810	-	17 957	7 936	-
SPE-LM6	180 252	1 220	-	998	-	181 852	1 539	-
SPE-LM7	1 156 569	37	-	1 463	-	1 176 606	58	-
PRAÇA DO MARQUES	-	3 110	-	-	738	-	2 588	-
SPE-SME1	1 663	-	-	-	-	5 366	-	-
AVISTAR	438 611	189 721	-	1 187	654	489 846	54 535	-
FCR BES GROWTH	15 414	871	-	-	-	15 414	2 062	-
FCR VENTURES III	10 811	1	-	139	-	9 192	69	-
OBLOG	-	1 362	-	-	1	-	1 249	-
BES ÁFRICA	-	1 349	-	-	-	-	1 689	-
BANCO DE CABO VERDE	15	72 195	-	-	126	7	67 556	-
GNB Vida	939 091	825 849	-	7 872	546	1 202 177	1 013 458	-
NOVO VANGUARDA	-	155	-	-	987	-	215	-
FLITPTREL VIII	14 900	66	-	-	-	14 900	169	-
FUNGEPI	-	42 237	1 011	42	-	-	38 668	1 011
FUNGEPI_II	-	8 966	41	27	-	-	7 975	-
FUNGERE	-	29 312	467	30	-	-	27 745	466
IMOINVESTIMENTO	-	3 646	-	38	13	-	3 596	-
PREDILOC	-	215	-	-	-	-	79	-
IMOGESTÃO	-	1 300	3 278	7	-	-	1 959	3 278
ARRABIDA	-	2 120	-	-	17	-	2 631	-
INVESFUNDO VII	-	167	-	-	-	-	155	-
NB VÉNÉTIE	730 676	783	-	1 373	-	581 675	761	-
ES LOGÍSTICA	-	9 250	-	-	9	-	-	-
	6 015 141	**3 184 572**	**1 163 059**	**30 656**	**44 208**	**6 145 559**	**4 083 853**	**2 146 289**
Associated companies								
ASCENDI GROUP SGPS	523 123	1 393	14 405	64 415	-	494 162	7 069	17 502
LOCARENT	100 495	816	-	3 859	3 905	200 174	717	-
NANIUM	26 057	3 516	188	387	4	26 967	248	188
EMPARK	-	-	-	-	-	102	-	-
ASCENDI PINHAL INTERIOR	152 525	15 815	7 935	21 168	-	152 165	9 617	7 935
PALEXPO	2 897	-	-	-	-	2 897	-	-
GNB SEGUROS	-	10 354	-	-	84	9	8 893	-
ESEGUR	5 869	10	1 008	565	-	6 413	1	1 028
ES CONTACT CENTER	60	238	-	1	2	1 713	-	40
UNICRE	11	-	-	-	-	15 004	2	-
MULTIPESSOAL	15 122	20	980	619	-	17 356	72	1 074
OUTRAS	59 271	49 052	5 242	2 832	674	37 729	88 357	5 022
	885 430	**81 214**	**29 758**	**93 846**	**4 669**	**954 691**	**114 976**	**32 789**

All the transactions made with related parties are carried out at normal market prices, complying with the fair value principle.

Credit granted to members of the Board of Directors of credit institutions is regulated by article 85 of the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF) and by the Banco de Portugal Instruction no. 17/2011. The Directors of NOVO BANCO are related parties and as at 31 December 2014 there were no transaction between them and the Bank.

From the above mentioned regulations, the following rules are highlighted:

(i) credit concession is prohibited in any form, including in the form of guarantees, whether directly or indirectly:
   - to executive members of the Board of Directors, to the Supervisory Body members and to companies or other legal entities directly or indirectly controlled by those members, with the exception of operations of a social nature or purpose, those arising out of company personnel policies or those resulting from the use of credit cards tied to deposit accounts on conditions similar to those applied to other customers with similar risk profiles, under the terms of that laid down in no. 4 of article 85 of RGICSF;
   - to spouses and relatives in the first degree of executive members of the Board of Directors or of the Supervisory Body and to companies or other legal entities directly or indirectly controlled by any of those people, except when there has been a defeat of the presumption (foreseen in no. 2 of article 85 of RGICSF) that the credit granted to those people and entities is indirect credit to the executive members of the Board of Directors or of the Supervisory Body, whichever is the case, or in the situations foreseen in the scope of no. 4 of article 85 of RGICSF, mentioned above;

(ii) certain procedures have to be mandatorily complied with, namely up-front communication to the Banco de Portugal of cases in which the indirect credit presumption is defeated, foreseen under no. 2 of article 85 of RGICSF;

(iii) mandatory compliance with approval requirements establishing the need for a qualified majority of at least two-thirds of the remaining members of the Board of Directors (in which the beneficiary directors cannot intervene) and a favourable opinion issued by the Supervisory Body when the credit is granted to non-executive members of the Board of Directors (that are not members of the Supervisory Body) and / or companies or other legal entities directly or indirectly controlled by them; and

(iv) mandatory compliance with approval requirements establishing the need for a majority of at least two-thirds of the remaining members of the Board of Directors (in which the beneficiary directors cannot intervene) and a favourable opinion issued by the Supervisory Body when credit is granted to entities (not controlled, directly or indirectly, by the Executive Directors or by members of the Supervisory Body) in which the members of the Board of Directors or of the Supervisory Body hold qualified shareholdings or hold managerial positions. These rules are reflected in the internal regulations of NOVO BANCO.

To improve the credit granting process to members of the corporate bodies and other employees of NOVO BANCO the Board of Directors of NOVO BANCO, in December 2014, deliberated a set of principles and rules to apply to credit operations. These regulations apply to all the entities / organic units of GNB, that is, to all the companies whose voting rights exercised or directors nominated by NOVO BANCO, are equal to or exceed 50%, directly or indirectly, those units including the company branches or representation offices of any of the companies referred to. Any loans of any nature, with or without collateral, that are granted, namely, to the members of the corporate bodies (including directors, members of the Supervisory Board and statutory auditor), advisors, and general managers, must be submitted for prior approval by the Board of Directors of NOVO BANCO.

All credit granted to related parties is included in the impairment model, being subject to impairment assessments in like manner to the commercial credit granted by the Bank.

NOTE 40 – SECURITISATION OF ASSETS

As at 31 December 2014 and as at 4 August 2014, the outstanding securitisation transactions realised by NOVO BANCO were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount	Asset securitised
Lusitano Mortgages No.1 plc	December 2002	1 000 000	298 553	Mortgage loan (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	299 387	Mortgage loan (general and subsidised regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	444 692	Mortgage loan (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	516 264	Mortgage loan (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	725 295	Mortgage loan (general regime)
Lusitano SME No.1 plc	October 2006	862 607	137 923	Loans to small and medium-sized companies
Lusitano Mortgages No.6 plc	July 2007	1 100 000	687 131	Mortgage loan (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	105 414	Project Finance
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 646 516	Mortgage loan (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516 534	1 610	Leverage Finance
Lusitano Finance N.3	November 2011	657 981	186 105	Consumer loans

Additionally, as at 31 December 2014 and as at 4 August 2014, the following synthetic securitisation operations were in progress:

(in thousands of Euros)

Issue	Start date	Original amount of CDS	Current amount of CDS	Asset securitised
Lusitano Synthetic Limited	December 2012	1 000 000	1 000 000	Medium-/long-term financing of SMEs
Lusitano Synthetic II Ltd.	December 2013	2 000 000	1 832 081	Current accounts

The loans and advances to customers covered by the securitisation operations Lusitano Mortgages No.3 and Lusitano Leverage Finance No.1 were not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised as the Bank substantially transferred all the risks and rewards of ownership.

Lusitano Synthetic Limited and Lusitano Synthetic II Limited are synthetic loan securitisation operations, involving the Bank contracting a credit default swap (CDS), for each operation, with the objective of eliminating the credit risk associated with a portfolio of loans granted to companies. The loans relating to this portfolio continue to be recognised in the Bank's balance sheet under the Loans and advances to customers' caption.

The main characteristics of these operations, as at 31 December 2014, may be analysed as follows:

(milhares de euros)

Issue	Bonds Issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal 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	-	-	December 2035	AAA	Aaa	AAA	-	A+	A	A	-
	Class B	32 500	-	-	December 2035	AA	Aa3	AA	-	A+	Baa2	A-	-
	Class C	25 000	217 648	-	December 2035	A	A2	A	-	A+	Ba2	BB	-
	Class D	22 500	32 500	-	December 2035	BBB	Baa2	BBB	-	A	B2	BB-	-
	Class E	5 000	25 000	-	December 2035	BB	Ba1	BB	-	BBB	Caa1	B-	-
	Class F	10 000	22 500	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	10 000	-	December 2036	AAA	Aaa	AAA	-	A+	A3	A	-
	Class B	30 000	-	-	December 2046	AA	Aa3	AA	-	A+	Baa3	BBB+	-
	Class C	28 000	215 483	-	December 2046	A	A3	A	-	A+	Ba2	BB	-
	Class D	16 000	30 000	-	December 2046	BBB	Baa3	BBB	-	BBB+	B3	B	-
	Class E	6 000	28 000	-	December 2046	BBB-	Ba1	BB	-	BB	Caa2	B-	-
	Class F	9 000	16 000	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	9 000	-	December 2047	AAA	Aaa	AAA	-	A	Baa3	A-	-
	Class B	27 000	-	-	December 2047	AA	Aa2	AA	-	BBB	B2	BBB	-
	Class C	18 600	399 561	-	December 2047	A	A2	A	-	BB	Caa1	BB-	-
	Class D	14 400	15 679	-	December 2047	BBB	Baa2	BBB	-	B	Caa2	B-	-
	Class E	10 800	10 801	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	7 819	-	December 2048	AAA	Aaa	AAA	-	BBB-	Baa3	A-	-
	Class B	22 800	-	-	December 2048	AA	Aa2	AA	-	BB+	B3	BBB	-
	Class C	19 200	427 263	-	December 2048	A+	A1	A+	-	B+	Caa1	B+	-
	Class D	24 000	21 553	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	18 150	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	10 200	-	December 2059	AAA	Aaa	AAA	-	BB+	Ba1	BBB+	-
	Class B	26 600	-	-	December 2059	AA	Aa2	AA	-	B+	Caa1	B+	-
	Class C	22 400	630 708	-	December 2059	A	A1	A	-	CCC	Caa3	B-	-
	Class D	28 000	25 494	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC	-
	Class E	11 900	21 469	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	11 900	-	December 2028	A+	-	A-	-	A+	-	A-	-
	Class B	40 974	-	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	6 686	1 663	December 2028	CCC	-	B	-	CCC	-	B	-
	Class D	28 035	29 080	-	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	24 182	-	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	4 313	-	March 2060	AAA	Aaa	AAA	-	BBB	Baa3	BBB	-
	Class B	65 450	-	-	March 2060	AA	Aa3	AA	-	BB-	Ba3	B+	-
	Class C	41 800	499 840	39 929	March 2060	A	A3	A	-	B-	Caa1	B	-
	Class D	17 600	65 450	58 950	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	41 800	31 800	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	17 600	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	22 000	-	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	-	-	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	1 156 035	1 156 031	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	294 500	-	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage finance No. 1 BV	Class A	352 000	57 000	-	January 2020	-	-	AAA	-	-	-	-	-
	Class X	21 850	-	-	January 2020	-	-	-	-	-	-	-	-
	Class Sub	206 800	-	-	January 2020	-	-	-	-	-	-	-	-
Lusitano Finance N.º 3	Class A	450 700	3 255	-	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	-	-	November 2029	-	-	-	-	-	-	-	-
	Class C	24 800	-	-	November 2029	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	895 007	895 007	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	80 000	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	16 671	13 337	April 2034	-	-	-	-	-	-	-	-
Lusitano Synthetic II Ldt.	Senior	1 800 000	1 797 941	1 797 941	November 2023	-	-	-	-	-	-	-	-
	Mezzanine	180 000	180 000	-	November 2023	-	-	-	-	-	-	-	-
	Junior	20 000	17 484	13 987	November 2023	-	-	-	-	-	-	-	-

NOTE 41 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities measured at fair value and measured at amortised cost, of the Bank, is as follows:

(in thousands of Euros)

	Amortised Cost	At fair value: Quoted Market Prices (Level 1)	At fair value: Valuation models based on observable market information (Level 2)	At fair value: Valuation models based on non-observable market information (Level 3)	Book Value	Fair Value
31 December 2014						
Cash and deposits with Central Banks	2 724 884	-	-	-	2 724 884	2 724 884
Deposits with banks	214 258	-	-	-	214 258	214 258
Financial assets held for trading	102 668	55 362	1 104 577	32 884	1 295 491	1 295 491
Securities						
Bonds issued by government and public entities	-	51 557	-	-	51 557	51 557
Bonds issued by other entities	102 668	39	-	30	102 737	102 737
Shares	-	3 647	14	32 854	36 515	36 515
Other variable income securities	-	119	-	-	119	119
Derivatives						
Exchange rate contracts	-	-	84 773	-	84 773	84 773
Interest rate contracts	-	-	918 593	-	918 593	918 593
Credit derivatives	-	-	24 805	-	24 805	24 805
Other	-	-	76 392	-	76 392	76 392
Other Financial assets at fair value through profit or loss	2 112	8 298	55 211	1 180 261	1 245 882	1 245 882
Bonds issued by government and public entities	-	3 401	-	-	3 401	3 401
Bonds issued by other entities	2 112 a)	-	17 802	158	20 072	20 072
Shares and other variable income securities	-	4 897	37 409	1 180 103	1 222 409	1 222 409
Available-for-sale financial assets	2 593	2 230 342	2 082 342	3 249 393	7 564 670	7 564 670
Bonds issued by government and public entities	-	2 051 822	-	28 222	2 080 044	2 080 044
Bonds issued by other entities	-	111 224	1 922 459	1 135 202	3 168 885	3 168 885
Shares	2 593	6 157	103 086	746 921	858 757	858 757
Other variable income securities	-	61 139	56 797	1 339 048	1 456 984	1 456 984
Loans and advances to banks	2 600 828	-	229 957	-	2 830 785	2 830 785
Loans and advances to customers	31 018 820	-	322 967	-	31 341 787	29 759 776
Derivatives held for risk management purposes	-	-	405 235	-	405 235	405 235
Exchange rate contracts	-	-	335	-	335	335
Interest rate contracts	-	-	334 961	-	334 961	334 961
Credit derivatives	-	-	69 939	-	69 939	69 939
Financial assets	**36 666 163**	**2 294 002**	**4 200 289**	**4 462 538**	**47 622 992**	**46 040 981**
Deposits from Central Banks	8 471 659	-	-	-	8 471 659	8 471 659
Financial liabilities held for trading	-	-	1 078 260	-	1 078 260	1 078 260
Derivatives						
Exchange rate contracts	-	-	44 986	-	44 986	44 986
Interest rate contracts	-	-	921 655	-	921 655	921 655
Credit derivatives	-	-	13 770	-	13 770	13 770
Other	-	-	97 849	-	97 849	97 849
Deposits from banks	3 786 885	-	561 055	-	4 347 940	4 300 409
Due to customers and other loans	24 027 413	-	3 811 411	-	27 838 824	27 838 824
Debt securities issued	6 297 016	-	1 488 125	-	7 785 141	8 758 365
Financial liabilities associated with assets transferred	-	-	230 555	-	230 555	230 555
Derivatives held for risk management purposes	-	-	104 669	-	104 669	104 669
Exchange rate contracts	-	-	176	-	176	176
Interest rate contracts	-	-	104 484	-	104 484	104 484
Credit derivatives	-	-	9	-	9	9
Financial Liabilities	**42 582 973**	**-**	**7 274 075**	**-**	**49 857 048**	**50 782 741**

a) Assets at acquisition cost net of impairment. These assets refer to equity instruments issued by unlisted entities in respect of which no recent transactions were identified nor is possible to estimate reliable its fair value

(in thousands of Euros)

	Amortized Cost	At fair value: Quoted Market Prices (Level 1)	At fair value: Valuation models based on observable market information (Level 2)	At fair value: Valuation models based on non-observable market information (Level 3)	Book Value	Fair Value
4 August 2014						
Cash and deposits at Central Banks	5 361 395	-	-	-	5 361 395	5 361 395
Deposits with banks	369 414	-	-	-	369 414	369 414
Financial assets held for trading	76 229	154 319	1 011 401	32 854	1 274 803	1 274 803
Securities						
Bonds issued by government and public entities	-	72 986	-	-	72 986	72 986
Bonds issued by other entities	76 229	81	-	-	76 310	76 310
Shares	-	80 964	37	32 854	113 855	113 855
Other variable income securities	-	288	-	-	288	288
Derivatives						
Exchange rate contracts	-	-	52 887	-	52 887	52 887
Interest rate contracts	-	-	898 180	-	898 180	898 180
Credit derivatives	-	-	29 793	-	29 793	29 793
Other	-	-	30 504	-	30 504	30 504
Other Financial assets at fair value through profit or loss	5 063	20 329	11 411	1 505 000	1 541 803	1 541 803
Bonds issued by government and public entities	-	3 187	-	-	3 187	3 187
Bonds issued by other entities	5 063	10 396	11 411	97	26 967	26 967
Shares and other variable income securities	-	6 746	-	1 504 903	1 511 649	1 511 649
Available-for-sale financial assets	33 498 a)	2 960 913	2 189 805	3 103 330	8 287 546	8 287 546
Bonds issued by government and public entities	-	2 189 664	51 983	-	2 241 647	2 241 647
Bonds issued by other entities	30 702	680 943	2 039 814	1 057 539	3 808 998	3 808 998
Shares	2 796 a)	4 770	40 066	703 412	751 044	751 044
Other variable income securities	-	85 536	57 942	1 342 379	1 485 857	1 485 857
Loans and advances to banks	2 598 473	-	-	-	2 598 473	2 598 473
Loans and advances to customers	33 177 961	-	306 878	-	33 484 839	31 853 095
Derivatives for risk management purposes	-	-	353 090	-	353 090	353 090
Exchange rate contracts	-	-	610	-	610	610
Interest rate contracts	-	-	299 710	-	299 710	299 710
Credit derivatives	-	-	52 770	-	52 770	52 770
Financial assets	**41 622 033**	**3 135 561**	**3 872 585**	**4 641 184**	**53 271 363**	**51 639 619**
Deposits from Central Banks	13 472 827	-	-	-	13 472 827	13 472 827
Financial liabilities held for trading	-	-	1 087 235	-	1 087 235	1 087 235
Derivatives						
Exchange rate contracts	-	-	33 307	-	33 307	33 307
Interest rate contracts	-	-	880 656	-	880 656	880 656
Credit derivatives	-	-	89 312	-	89 312	89 312
Other	-	-	83 960	-	83 960	83 960
Deposits from banks	4 762 758	-	603 059	-	5 365 817	5 309 343
Due to customers and other loans	18 543 295	-	7 680 675	-	26 223 970	26 223 970
Debt securities issued	6 423 844	-	1 503 539	-	7 927 383	8 788 933
Financial liabilities associated with assets transferred	-	-	271 802	-	271 802	271 802
Derivatives held for risk management purposes	-	-	83 307	-	83 307	83 307
Exchange rate contracts	-	-	471	-	471	471
Interest rate contracts	-	-	82 552	-	82 552	82 552
Credit derivatives	-	-	284	-	284	284
Financial Liabilities	**43 202 724**	**-**	**11 229 617**	**-**	**54 432 341**	**55 237 417**

a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by unlisted entities in respect of which no recent transactions were identified nor is possible to estimate reliable its fair value

The Bank determines the fair value of its financial assets and liabilities at fair value in accordance with IFRS 3 –Business Combinations:

Quoted market prices (level 1)

This category includes financial instruments with available quoted market prices in official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these financial instruments traded on active markets.

The priority in terms of which price is used is given to prices observed in official markets; if there is more than one official market the choice falls on the main market where those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming these act in their own economic benefit and that such prices are representative of the active market, using whenever possible prices supplied by more than one entity (for a specific asset and / or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select that which it considers most representative for the instrument under analysis. Additionally, when 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 favour of a specific price.

This category includes, amongst others, the following financial instruments:

i) Derivatives traded on an organised market;
ii) Shares quoted on a stock exchange;
iii) Open investment (securities) funds quoted on a stock exchange;
iv) Closed investment funds whose subjacent assets are solely financial instruments quoted on a stock exchange;
v) Debt securities 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 and/or 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 certain regularity in the market.

This category includes, amongst others, the following financial instruments:

i) Unquoted debt securities;
ii) OTC (over-the-counter) derivatives; and
iii) Commercial paper for which there are observable market inputs, namely interest rate curves and credit spreads, applicable to the issuer.

Valuation models based on non-observable market parameters (level 3)

This level consists in using models relying on internal valuation techniques or quotations provided by third parties but which parameters imply the use of non-observable market information.

This category includes, amongst others, the following financial instruments:

i) Debt securities valued using non-observable market inputs;
ii) Unquoted shares;
iii) Closed real estate funds;
iv) Hedge Funds;
v) Private equities; and
vi) Restructuring Funds.

The movement in financial assets valued based on non-observable market information, during the period from 4 August to 31 December 2014, may be analysed as follows:

(milhares de euros)

	31.12.2014
Balance at beginning of period	4 641 184
Acquisitions	923 206
Attainment of maturity	(702 057)
Disposals	(84 716)
Transfers in	28 050
Transfers out	(89 160)
Changes in value	(253 969)
Balance at end of period	4 462 538

The main parameters used in the valuation models during the period from 4 August to 31 December 2014 are as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the swap interest rate quotations for the respective periods:

	31.12.2014			04.08.2014		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0,0100	0,1750	0,4500	-0,0150	0,1700	0,4500
1 month	0,0180	0,3100	0,5250	0,0731	0,1700	0,5500
3 months	0,0780	0,1900	0,6000	0,2080	0,2800	0,6100
6 months	0,1710	0,5000	0,7400	0,3070	0,3900	0,7600
9 months	0,1662	0,6000	0,7393	0,3049	0,4800	0,9400
1 year	0,1635	0,4325	0,6476	0,3070	0,3180	0,8136
3 years	0,2240	1,2610	1,1400	0,4080	1,0995	1,6588
5 years	0,3600	1,7900	1,4490	0,6447	1,7650	2,1117
7 years	0,5320	2,0390	1,6450	0,9410	2,1900	2,3869
10 years	0,8195	2,2790	1,8430	1,3546	2,5940	2,6540
15 years	1,1528	2,5020	2,0673	1,7850	2,9610	2,9010
20 years	1,3268	2,6160	2,1838	1,9701	3,1270	3,0150
25 years	1,4169	2,6660	2,2211	2,0380	3,2000	3,0450
30 years	1,4718	2,6910	2,2320	2,0550	3,2360	3,0510

(%)

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 pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2014						
CDX USD Main	**23**	-	38,57	66,09	88,32	107,10
iTraxx Eur Main	**22**	**-**	35,46	62,95	84,44	101,20
iTraxx Eur Senior Financial	**22**	**-**	-	67,38	-	99,77
4 August 2014						
CDX USD Main	**22**	12,13	37,61	65,52	86,93	106,90
iTraxx Eur Main	**21**	**-**	38,57	65,58	88,03	106,02
iTraxx Eur Senior Financial	**21**	**-**	-	70,18	-	106,18

Exchange and Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

Foreign exchange rate	31.12.2014	04.08.2014	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1,2141	1,3422	9,57	9,34	9,03	8,93	8,93
EUR/GBP	0,7789	0,7972	7,67	7,69	8,30	8,18	8,10
EUR/CHF	1,2024	1,2167	2,95	3,42	3,70	4,08	4,28
EUR/NOK	9,0420	8,4285	15,57	13,61	11,50	10,65	10,40
EUR/PLN	4,2732	4,1716	7,29	7,42	7,50	7,58	7,75
EUR/RUB	72,3370	48,0252	68,60	56,00	48,96	22,50	41,69
USD/BRL a)	2,6527	2,2548	15,00	14,50	14,45	14,55	14,65
USD/TRY b)	2,3326	2,1352	12,55	12,92	13,58	13,96	14,30

a) Calculated based on the EUR/USD and EUR/BRL rates

b) Calculated based on the EUR/USD and EUR/TRY rates

Equity indexes

Presented in the table below, is the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implicit volatility
	31.12.2014	04.08.2014	% change	1 month	3 months	
DJ Euro Stoxx 50	3 146	3 070	2,5	24,58	21,31	27,02
PSI 20	4 799	5 854	- 18,0	24,45	23,11	-
IBEX 35	10 280	10 496	- 2,1	25,94	22,61	-
FTSE 100	6 566	6 678	- 1,7	18,03	14,69	15,03
DAX	9 806	9 154	7,1	22,50	19,73	19,50
S&P 500	2 059	1 939	6,2	13,76	13,10	15,04
BOVESPA	50 007	56 616	- 11,7	33,78	34,02	26,38

The main methods and assumptions used in estimating the fair value of financial assets and liabilities measured at amortised cost in the balance sheet, are analysed as follows:

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to banks

Considering the short-term nature of these financial instruments, their carrying value is a reasonable estimate of their fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of capital and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as home mortgages, are estimated collectively. The discount rates used are the current interest rates used for loans with similar characteristics.

Deposits from Central Banks and Deposits from banks

The fair value of deposits from Central Banks and Deposits from banks is estimated based on the discounted expected future cash flows of capital and interest.

Due to customers and other loans

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of capital and interest. The discount rate used 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 substantially inferior to one year, the differences between their fair value and their carrying value are not significant.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, their fair value is estimated by discounting their expected future cash flows of capital and interest.

NOTE 42 – RISK MANAGEMENT

The Bank is exposed to the following risks arising from the use of financial instruments::

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operating risk.

Credit risk

Credit Risk represents the potential financial loss arising from the failure of borrowers or counterparts to honour their contractual obligations established with the Bank in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and contingent liabilities. In the credit default swaps (CDS), the net exposure between selling and buying positions relating to each reference entity, is also considered a credit risk by the Bank. CDSs are recorded at fair value in accordance with the accounting policy described in Note 2.3.

Credit portfolio management is an ongoing process that requires 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 monitoring of the Bank's credit risk profile, namely as regards the evolution of the credit exposure and the monitoring of credit losses, is carried out by the Risk Committee. Compliance with credit limits set and the proper functioning of the mechanisms associated with the approval of credit lines, within the scope of the current activity of the commercial areas, are also subject to regular analyses.

NOVO BANCO's credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2014	04.08.2014
Deposits with and loans and advances to banks	4 883 428	3 351 903
Financial assets held for trading	1 258 857	1 160 660
Other financial assets at fair value through profit or loss	23 473	30 154
Available-for-sale financial assets	5 248 929	6 050 645
Loans and advances to customers	31 341 787	33 484 839
Derivatives held for risk management purposes	405 235	353 090
Other assets	869 124	998 874
Guarantees provided	6 970 536	8 269 106
Documentary credits	2 383 602	3 212 253
Irrevocable commitments	1 905 638	2 280 994
Credit risk associated with the credit derivatives' reference entities	30 591	262 333
	55 321 200	**59 454 851**

The Bank calculates impairment on an individual basis for all financial assets that are overdue. If the value of the collateral, net of haircuts, equals or exceeds the exposure, the impairment may be nil. Hence, the Bank does not have any overdue financial assets for which it has not performed a review as to its recovery and subsequent recognition of impairment, when necessary.

As at 31 December 2014 and as at 4 August 2014 the risk exposure by industry sector is analysed as follows:

(in thousands of Euros)

	31.12.2014							
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees provided
	Gross amount	Impairment [(a)]	Gross amount	Gross amount	Gross amount	Gross amount	Impairment	
Agriculture, Forestry and Fishery	440 915	(51 862)	2 346	-	-	4 986	-	21 807
Mining	192 438	(17 777)	432	-	-	2 760	(969)	7 024
Food, Beverages and Tobacco	757 388	(80 792)	5 817	-	-	29 653	(382)	72 759
Textiles and Clothing	355 979	(65 566)	573	-	-	33 806	(2 105)	11 237
Leather and Shoes	72 887	(10 148)	139	-	-	44	(44)	1 527
Wood and Cork	138 791	(43 217)	786	-	-	1 329	(1 329)	6 017
Paper and Printing Industry	305 537	(50 385)	764	-	-	13 716	(5 195)	38 688
Refining of Petroleum	4 349	(347)	521	-	-	-	-	5 413
Chemicals and Rubber	446 618	(34 251)	5 321	-	-	14 230	(11 344)	52 318
Non-metallic Minerals	218 775	(43 014)	107	-	-	42 645	(5 546)	15 724
Metallurgical Industries and Metallic Products	730 199	(119 283)	492	-	-	4 105	(68)	88 419
Production of Machinery, Equipment and Electrical De	194 398	(18 390)	103	-	-	2 710	(2 077)	123 759
Production of Transport Material	76 417	(5 671)	-	-	-	1 260	(31)	18 351
Other Transforming Industries	226 940	(45 700)	28	-	-	7 891	(6 371)	24 406
Electricity, Gas and Water	845 547	(12 737)	70 052	-	-	163 543	-	251 643
Construction and Public Works	2 384 313	(742 204)	203 225	-	-	243 275	(555)	1 461 536
Wholesale and Retail Trade	2 235 884	(628 092)	1 440	-	-	71 038	(19 872)	353 282
Tourism	1 223 083	(164 796)	3 166	-	-	8 167	(8 023)	75 511
Transport and Communication	1 386 707	(97 641)	44 222	-	-	22 071	(3 330)	639 925
Financial Activities	3 279 782	(312 824)	773 522	1 085 547	405 235	4 677 148	(651 119)	1 220 173
Real Estate Activities	3 562 588	(855 090)	9 720	68 658	-	160 592	(15 382)	214 453
Services Provided to Companies	4 216 559	(966 945)	77 950	88 275	-	742 966	(29 908)	1 255 353
Public Administration and Services	1 434 003	(47 878)	51 755	3 401	-	1 992 745	-	188 190
Other activities of collective services	2 513 552	(430 870)	42 900	-	-	140 207	(52 568)	109 020
Mortgage Loans	7 569 540	(159 216)	-	-	-	-	-	679 116
Consumers Loans	1 405 441	(240 462)	-	-	-	-	-	33 537
Other	49 892	(5 478)	110	1	-	8 531	(8 530)	1 348
TOTAL	**36 268 522**	**(5 250 636)**	**1 295 491**	**1 245 882**	**405 235**	**8 389 418**	**(824 748)**	**6 970 536**

[(a)] includes provision for impairment totalling Euros 4 926 735 thousand (see Note 22) and provision for general credit risks totalling Euros 323 901 thousand (see Note 33)

(in thousands of Euros)

	04.08.2014							
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit or loss	Derivatives held for risk management purposes	Available-for-sale financial assets		Guarantees provided
	Gross amount	Impairment (a)	Gross amount	Gross amount	Gross amount	Gross amount	Impairment	
Agriculture, Forestry and Fishery	467 712	(33 422)	2 346	-	-	7 225	-	29 614
Mining	212 601	(18 381)	10 672	-	-	2 900	(879)	10 524
Food, Beverages and Tobacco	828 840	(71 290)	5 999	841	-	21 510	(346)	65 974
Textiles and Clothing	371 830	(55 479)	397	-	-	31 807	(2 105)	13 186
Leather and Shoes	80 841	(9 517)	273	-	-	44	(44)	1 612
Wood and Cork	144 422	(40 007)	323	-	-	1 329	(1 329)	7 874
Paper and Printing Industry	330 113	(48 438)	1 814	-	-	45 592	(2 211)	44 860
Refining of Petroleum	3 042	(305)	735	-	-	-	-	5 071
Chemicals and Rubber	463 021	(23 112)	5 375	-	-	14 560	(11 204)	63 860
Non-metallic Minerals	228 632	(40 306)	116	-	-	17 048	(5 544)	16 128
Metallurgical Industries and Metallic Products	760 801	(166 153)	239	-	-	10 613	(68)	79 492
Production of Machinery, Equipment and Electrical De	199 173	(15 669)	1 501	-	-	3 594	(2 077)	112 706
Production of Transport Material	119 127	(8 836)	148	-	-	1 051	(31)	16 393
Other Transforming Industries	209 422	(41 796)	14	-	-	7 837	(6 317)	27 024
Electricity, Gas and Water	846 761	(11 951)	65 006	-	-	176 961	-	252 267
Construction and Public Works	2 804 338	(670 939)	169 612	-	-	1 620	(555)	1 641 761
Wholesale and Retail Trade	2 399 189	(469 034)	1 641	-	-	20 985	(19 688)	381 113
Tourism	1 266 202	(160 566)	2 936	-	-	20 188	(7 994)	86 284
Transport and Communication	1 449 705	(103 863)	66 199	-	-	58 602	-	894 128
Financial Activities	3 391 853	(318 658)	813 122	1 469 110	353 090	5 935 877	(506 051)	1 902 535
Real Estate Activities	3 713 970	(749 326)	12 898	68 658	-	220 443	(15 382)	238 750
Services Provided to Companies	4 516 661	(979 811)	25 447	-	-	94 600	(2 584)	1 345 309
Public Administration and Services	1 486 724	(39 273)	73 196	3 187	-	2 092 735	-	194 103
Other activities of collective services	2 402 158	(496 642)	8 548	-	-	67 617	(23 664)	84 279
Mortgage Loans	7 709 887	(146 702)	-	-	-	-	-	612 496
Consumers Loans	1 570 334	(235 869)	-	-	-	-	-	139 054
Other	114 242	(10 843)	6 246	7	-	75 219	(34 338)	2 709
TOTAL	**38 091 601**	**(4 966 188)**	**1 274 803**	**1 541 803**	**353 090**	**8 929 957**	**(642 411)**	**8 269 106**

[(a)] includes provision for impairment totalling Euros 4 606 762 thousand (see Note 22) and provision for general credit risks totalling Euros 359 426 thousand (see Note 33)

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 spread.

Market risk management is integrated in the balance sheet management through the CALCO (Capital, Asset and Liability Committee) structure, set at the entity's top level. CALCO is responsible for defining the policies governing the composition and structure of the balance sheet as well as for controlling exposure to the interest rate, currency and liquidity risks.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. For the calculation of the VaR, NOVO BANCO uses 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. As a complement to VaR, stress testing has been developed, allowing to evaluate the impact of potential higher losses than those considered by the VaR measurement.

(in thousands of euros)

	31.12.2014			
	December	Annual average	Maximum	Minimum
Foreign Exchange risk	14 320	8 821	8 678	14 419
Interest rate risk	7 514	23 661	29 981	5 301
Shares and commodities	33 230	22 728	25 329	40 319
Volatility	5 865	3 641	5 102	1 304
Credit spread	48 200	50 924	63 675	35 679
Diversification effect	(38 386)	(24 036)	(22 911)	(34 463)
Total	**70 743**	**85 740**	**109 854**	**62 558**

NOVO BANCO has a VaR of Euros 70,743 thousand (4 August 2014: Euros 93,827 thousand), for its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 by the Banco de Portugal, the Bank calculates its exposure to its balance sheet interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance sheet and off-balance sheet captions which are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2014						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	5 822 972	271 974	4 737 209	27 139	34 776	368 582	383 292
Loans and advances to customers	36 228 032	-	21 062 862	7 613 017	2 269 924	4 427 693	854 536
Securities	10 341 949	5 087 528	3 218 846	1 045 836	409 245	189 378	391 116
Total			**29 018 917**	**8 685 992**	**2 713 945**	**4 985 653**	**1 628 944**
Deposits from banks	12 695 867	-	8 706 506	185 528	719 840	2 442 028	641 965
Due to customers	26 645 273	-	12 503 222	2 849 992	5 048 401	6 083 076	160 582
Debt Securities	7 537 612	-	1 269 751	284 899	799 710	3 941 800	1 241 452
Total			**22 479 479**	**3 320 419**	**6 567 951**	**12 466 904**	**2 043 999**
Balance sheet GAP (Assets - Liabilities)	154 699	-	6 539 438	5 365 573	(3 854 006)	(7 481 251)	(415 055)
Off-Balance sheet	(27 731)	-	(1 095 697)	(1 151 151)	1 191 400	1 115 240	(87 523)
Structural GAP	**126 968**	**-**	**5 443 741**	**4 214 422**	**(2 662 606)**	**(6 366 011)**	**(502 578)**
Accumulated GAP	**-**	**-**	**5 443 741**	**9 658 163**	**6 995 557**	**629 546**	**126 968**

(in thousands of Euros)

	04.08.2014						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	10 913 541	411 913	7 728 751	1 533 441	1 175 229	30 917	33 290
Loans and advances to customers	38 052 999	-	22 366 961	8 265 365	2 670 916	4 150 215	599 542
Securities	11 875 978	5 810 807	3 434 752	456 710	1 419 993	256 225	497 491
Total			**33 530 464**	**10 255 516**	**5 266 138**	**4 437 357**	**1 130 323**
Deposits from banks	19 312 346	-	16 409 859	228 069	340 792	1 653 729	679 897
Due to customers	25 449 699	-	10 881 993	3 495 761	4 946 647	6 116 272	9 026
Debt Securities	7 767 235	-	219 828	669 349	1 197 919	4 651 975	1 028 164
Total			**27 511 680**	**4 393 179**	**6 485 358**	**12 421 976**	**1 717 087**
Balance sheet GAP (Assets - Liabilities)	2 090 518	-	6 018 784	5 862 337	(1 219 220)	(7 984 619)	(586 764)
Off-Balance sheet	(23 159)	-	(3 510 161)	(670 222)	1 942 497	2 323 400	(108 673)
Structural GAP	**2 067 359**	**-**	**2 508 623**	**5 192 115**	**723 277**	**(5 661 219)**	**(695 437)**
Accumulated GAP	**-**	**-**	**2 508 623**	**7 700 738**	**8 424 015**	**2 762 796**	**2 067 359**

Sensitivity analyses of the interest rate risk of the prudential portfolios are performed, based on an the duration model approach and considering several scenarios of movements of the yield curve at all interest rate levels.

(in thousands of Euros)

	31.12.2014			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	223 652	(223 652)	114 148	(114 148)
Average for the period	194 879	(194 879)	108 290	(108 290)
Maximum for the period	223 652	(223 652)	114 148	(114 148)
Minimum for the period	176 646	(176 646)	100 498	(100 498)

The following table presents the average balances, interest for the period and average interest rates relating to the Bank's major financial asset and liability categories, for the period from 4 August to 31 December 2014:

(in thousands of Euros)

	31.12.2014		
	Average balance for period	Interest for period	Average interest rate
Monetary assets	4 528 070	59 630	3,16%
Loans and advances to customers	37 130 245	482 506	3,12%
Securities	6 457 119	55 927	2,08%
Financial assets	**48 115 434**	**598 063**	**2,98%**
Monetary Liabilities	14 751 598	55 645	0,91%
Due to customers	31 771 848	367 995	2,78%
Differential liabilities	1 591 988	-	-
Financial liabilities	**48 115 434**	**423 640**	**2,11%**
Net interest income		**174 423**	**0,87%**

Regarding the foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2014 and as at 4 August 2014, is analysed as follows:

(in thousands of Euros)

		31.12.2014				04.08.2014			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(489 530)	(13 108)	365 996	(136 642)	(1 120 073)	(1 557 700)	215 336	(2 462 437)
GBP	GREAT BRITISH POUND	216 850	(210 201)	86	6 735	275 877	(271 125)	3 969	8 721
BRL	BRAZILIAN REAL	1 482	(59 865)	(48)	(58 431)	233	(9 645)	(86)	(9 498)
DKK	DANISH KRONE	(248)	-	-	(248)	21 955	885	-	22 840
JPY	JAPANESE YEN	(5 788)	2 702	(8 867)	(11 953)	(6 725)	2 787	(9 006)	(12 944)
CHF	SWISS FRANC	(546)	3 593	-	3 047	(12 825)	9 214	-	(3 611)
SEK	SWEDISH KRONE	1 541	(1 208)	-	333	(8 516)	7 967	(92)	(641)
NOK	NORWEGIAN KRONE	(29 403)	29 379	-	(24)	(40 390)	46 889	(92)	6 407
AUD	AUSTRALIAN DOLLAR	(15 786)	16 759	-	973	(9 854)	11 111	(191)	1 066
VEB	VENEZUELAN BOLIVAR	64 469	-	-	64 469	54 171	-	-	54 171
CNY	CHINESE YUAN REN-MIN-BI	83	-	-	83	(325)	600	(19 531)	(19 256)
MAD	MOROCCAN DIRHAM	23	83 778	-	83 801	25	81 966	-	81 991
AOA	ANGOLAN KWANZA	55 950	-	-	55 950	-	-	-	-
	OTHER	41 404	(2 706)	315	39 013	33 607	8 066	(20 108)	21 565
		(159 499)	**(150 877)**	**357 482**	**47 106**	**(812 840)**	**(1 668 985)**	**170 199**	**(2 311 626)**

Exposure to "peripheral" Eurozone countries' sovereign debt

As at 31 December 2014 and as at 4 August 2014, the Bank's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

31.12.2014	Loans and advances to customers	Financial assets held for trading and at Fair value	Derivative instruments (1)	Available-for-sale financial assets	Total
Portugal	1 349 213	54 958	9 981	796 161	2 210 313
Spain	63 877	-	(18)	100 029	163 888
Greece	-	-	-	7 504	7 504
Italy	-	-	-	1 089 306	1 089 306
	1 413 090	**54 958**	**9 962**	**1 993 000**	**3 471 010**

(1) Net values: receivable / (payable)

(in thousands of Euros)

04.08.2014	Loans and advances to customers	Financial Assets held for trading and at Fair value	Derivative instruments (1)	Available-for-sale financial assets	Total
Portugal	1 382 854	76 173	-	792 070	2 251 097
Spain	82 015	-	(33)	150 695	232 677
Greece	-	-	-	34 230	34 230
Italy	-	-	-	1 147 505	1 147 505
	1 464 869	**76 173**	**(33)**	**2 124 500**	**3 665 509**

(1) Net values: receivable / (payable)

All the exposures presented above, except those relating to loans and advances to customers, are recorded in the Bank's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding securities registered as Available-for-sale financial assets and as Financial assets held for trading, is as follows:

(in thousands of Euros)

31.12.2014	Nominal Amount	Market quotation	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**742 563**	**787 595**	**8 566**	**796 161**	**-**	**14 506**
Maturity up to 1 year	406 542	406 146	8	406 154	-	(21)
Maturity exceeding 1 year	336 021	381 449	8 558	390 007	-	14 527
Spain	**98 577**	**99 563**	**466**	**100 029**	**-**	**(237)**
Maturity up to 1 year	75 000	74 976	-	74 976	-	(16)
Maturity exceeding 1 year	23 577	24 587	466	25 053	-	(221)
Greece	**9 000**	**7 200**	**304**	**7 504**	**-**	**(1 940)**
Maturity exceeding 1 year	9 000	7 200	304	7 504	-	(1 940)
Italy	**1 090 000**	**1 089 306**	**-**	**1 089 306**	**-**	**432**
Maturity up to 1 year	1 090 000	1 089 306	-	1 089 306	-	432
	1 940 140	**1 983 664**	**9 336**	**1 993 000**	**-**	**12 761**
Financial assets held for trading and at Fair value						
Portugal	48 757	53 932	1 026	54 958	-	-
	48 757	**53 932**	**1 026**	**54 958**	**-**	**-**

(in thousands of Euros)

04.08.2014	Nominal Amount	Market quotation	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**764 283**	**785 169**	**6 901**	**792 070**	**-**	**-**
Maturity up to 1 year	440 920	44 517	436	44 953	-	-
Maturity exceeding 1 year	323 363	740 652	6 465	747 117	-	-
Spain	**149 217**	**150 410**	**285**	**150 695**	**-**	**-**
Maturity up to 1 year	125 650	125 577	-	125 577	-	-
Maturity exceeding 1 year	23 567	24 833	285	25 118	-	-
Greece	**34 000**	**34 102**	**128**	**34 230**	**-**	**-**
Maturity up to 1 year	25 000	24 953	-	24 953	-	-
Maturity exceeding 1 year	9 000	9 149	128	9 277	-	-
Italy	**1 150 000**	**1 147 505**	**-**	**1 147 505**	**-**	**-**
Maturity exceeding 1 year	-	-	-	-	-	-
	2 097 500	**2 117 186**	**7 314**	**2 124 500**	**-**	**-**
Financial assets held for trading and at Fair value						
Portugal	69 257	74 902	1 271	76 173	-	-
	69 257	**74 902**	**1 271**	**76 173**	**-**	**-**

Liquidity risk

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

Liquidity risk can be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid / offer spread or the application of a haircut to its market value;

- Funding liquidity risk – the impossibility to obtain market funding to finance assets and / or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

As at 31 December 2014, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB amounted to Euros 12.6 thousand million. The amount includes all the exposure to Portuguese sovereign debt, in the amount of approximately Euros 0.8 thousand million (of which Euros 0.4 thousand million with a maturity under 1 year).

In order to evaluate the global liquidity risk exposure, reports are prepared which permit not only the identification of negative mismatches, but also lead to a dynamic coverage of these situations.

(millions of Euros)

	31.12.2014						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	272	272	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	5 551	3 861	101	736	27	29	796
Loans and advances to customers	27 032	376	1 055	727	964	1 668	22 242
Securities	18 871	117	295	1 128	1 336	808	15 187
Other net assets	1 284	121	-	-	9	108	1 046
Off-balance sheet (Commitments and Derivatives)	281	11	27	73	75	95	-
Total		**4 758**	**1 478**	**2 664**	**2 411**	**2 708**	**39 271**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	12 807	1 007	1 995	5 270	161	770	3 605
Due to customers	26 534	1 511	523	742	280	437	23 041
Debt securities issued	7 538	-	395	864	295	800	5 185
Other short-term liabilities	2 029	1 733	2	9	39	47	198
Off-balance sheet (Commitments and Derivatives)	9 482	52	160	179	151	171	8 769
Total		**4 303**	**3 075**	**7 064**	**926**	**2 225**	**40 798**
GAP (Assets - Liabilities)		**457**	**(1 599)**	**(4 399)**	**1 484**	**483**	
Accumulated GAP		**457**	**(1 141)**	**(5 541)**	**(4 057)**	**(3 573)**	
Net Assets Buffer > 12 months							**8 047**

(millions of Euros)

	04.08.2014						
	Eligible amounts	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
ASSETS							
Cash	419	419	-	-	-	-	-
Deposits with and loans and advances to banks and Central Banks	9 197	5 489	189	100	54	4	3 361
Loans and advances to customers	34 657	336	450	1 064	1 933	2 031	28 842
Securities	20 474	75	427	1 030	1 250	3 253	14 439
Other net assets	2 240	1 102	-	-	20	117	1 002
Off-balance sheet (Commitments and Derivatives)	3 281	975	446	528	392	369	572
Total		**8 396**	**1 512**	**2 722**	**3 649**	**5 774**	**48 216**
LIABILITIES							
Deposits from banks, Central Banks and Other loans	18 620	7 213	123	315	3 151	5 193	2 625
Due to customers	26 081	805	226	285	255	323	24 187
Debt securities issued	10 992	2	305	718	848	1 629	7 490
Investments contracts	-	-	-	-	-	-	-
Technical reserves	-	-	-	-	-	-	-
Other short-term liabilities	2 855	2 526	3	14	22	37	253
Off-balance sheet (Commitments and Derivatives)	10 782	1 015	487	741	477	353	7 709
Total		**11 561**	**1 144**	**2 073**	**4 753**	**7 535**	**42 264**
GAP (Assets - Liabilities)		**(3 166)**	**367**	**648**	**(1 102)**	**(1 761)**	
Accumulated GAP		**(3 166)**	**(2 799)**	**(2 151)**	**(3 253)**	**(5 014)**	
Net Assets Buffer > 12 months							**9 441**

The one-year cumulative gap moved from Euros – 5,014 million on 4 August 2014 to Euros – 3,573 million on 31 December 2014, with the net assets buffer over 12 months attaining Euros 8,047 million (4 August 2014: Euros 9,441 million).

Additionally, and in accordance with Instruction no. 13/2009 of the Banco de Portugal, the liquidity gap is defined through the indicator [(Net Assets - Volatile Liabilities) / (Assets - Net assets) * 100] at each cumulative residual maturity level. Net assets include cash and net securities and volatile liabilities include debt securities issued, commitments assumed, derivatives and other liabilities. This indicator allows for a characterisation of the wholesale risk of institutions.

At 31 December 2014, NOVO BANCO's one year liquidity gap was 5.22, which compares to 0.1 at 4 August 2014.

In order to try to anticipate possible constraints, the Bank considers extreme stress scenarios in terms of liquidity (moderate and severe), different time frames and different impact areas (systemic, specific to the Bank and combined). For example, in the systemic scenario is simulated the closure of the wholesale market is simulated while in the scenario specific to the Bank is simulated the run-off of customer deposits from retail and non-retail, with different severity levels.

On 1 January 2014, the CRD IV/CRR, within the prudential framework designated Basel III, came into force. Concerning to liquidity risk, highlights are the mandatory requirements regarding the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). In January 2014, the Bank of International Settlements published a draft document relating to the review of the NSFR calculation. The Bank continues to follow each legislative change so as to comply with its regulatory obligations.

Operational risk

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

To manage operational risk, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organisational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Representatives designated by each of the relevant departments, company branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by the supervisory entities.

The definition of the strategy for capital adequacy management rests with the Board of Directors and is integrated in the global definition of the Bank's objectives.

The Bank is subject to prudential supervision by the European Central Bank, working in close cooperation with the Banco de Portugal. In accordance with the Capital Adequacy Directive of the EU, the supervisory body establishes the prudential rules to be observed by the institutions under its supervision. These rules determine the minimum ratio of Own funds to Capital requirements for the risks assumed that the institutions are required to fulfil.

The Bank is authorised to apply the approach based on the use of internal models for credit risk (Internal Ratings-Based Approach "IRB") and the standardised method (The Standardised Approach "TSA") for operational risk.

The European Parliament and Council approved, on 26 June 2013, EU Directive 2013/36/EU and EU Regulation no. 75/2013 that regulate, in the European Union, the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities as from 1 January 2014. This legislation transposes into the European legal order the recommendations of the Basel Committee, normally designated Basel III.

Notice no. 6/2013, of 23 December, of the Banco de Portugal regulates the transitory regime foreseen in that Regulation regarding to own funds, capital preservation measures and the determination of a Common Equity Tier I (CET1) ratio not below 7%.

The capital adequacy calculations of NOVO BANCO as at 31 December 2014 and as at 4 August 2014, based on information available, the Basel III European Regulatory Framework and considering the transitory period foreseen in the Notice referred to above, may be presented as follows:

(in millions of Euros)

		31.12.2014	04.08.2014
Realised ordinary share capital		4 900	4 900
Reserves and Retained earnings		767	743
Net income / (loss) for the period		(649)	-
Revaluation reserves		(200)	-
A - Equity		**4 818**	**5 643**
Revaluation reserves		(61)	-
B - Prudential adjustments to Equity		**(61)**	**-**
Goodwill and other intangibles		(100)	(102)
Deferred taxes		(280)	(318)
Equity participations in financial entities		(126)	(91)
Other		(36)	(90)
C - Prudential deductions		**(542)**	**(601)**
D - Common Equity Tier I (A+B+C)		**4 215**	**5 042**
Eligible instruments for Tier I		-	-
Deductions from Tier I		-	-
E - Tier I		**4 215**	**5 042**
Eligible instruments for Tier II		123	126
Deductions from Tier II		(123)	(126)
F - Tier II		**-**	**-**
G - Eligible Own Funds		**4 215**	**5 042**
H - Risk Weighted Assets		**44.768**	**48.674**
Prudential ratios			
Common Equity Tier I	**(D / H)**	**9,4%**	**10,3%**
Tier I	**(E / H)**	**9,4%**	**10,3%**
Solvency	**(G / H)**	**9,4%**	**10,3%**

NOTE 43 – PROVISION OF INSURANCE AND RE-INSURANCE BROKERAGE SERVICES

As at 31 December 2014, services provided related with insurance and re-insurance brokerage have the following composition:

(in thousands of Euros)

	31.12.2014
Life	
Unit Link	1 424
Credit protection insurance (part life)	63
Traditional products	6 220
	7 707
Non-life	
Insurance provided to Private individuals	2 435
Insurance provided to Corporate	631
Credit protection insurance (part non-life)	85
	3 151
	10 858

The Bank does not collect insurance premiums on behalf of the Insurance companies, nor does undertake the movement of funds relating to insurance contracts. Considering the above-mentioned there are no other assets, liabilities, income or expenses to report, relating to the insurance brokerage activity carried out by the Bank, other than those already disclosed.

NOTE 44 – CONTRACTUAL COMMITMENTS

Contract Support Annex (CSA)

NOVO BANCO has a number of contracts negotiated with counterparts with whom it trades derivatives on the Over-The-Counter market. The CSAs take the form of collateral agreements established between two parties negotiating OTC 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 margin requirements that may change according to the ratings of the parties.

NOTE 45 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Standards and interpretations that became effective between 1 January and 4 August 2014:

IAS 32 (amendment), 'Offsetting of financial assets and liabilities. This amendment forms part of the project 'Offsetting assets and liabilities' of the IASB, which aims to clarify the concept 'currently has a legal enforceable right of set-off', and clarifies that some gross amount clearing systems (clearing houses) may be equivalent to net amount offsetting. The adoption of this amendment did not produce an impact on the financial statements of the Bank.

IAS 36 (amendment), 'Disclosure of the recoverable amount of non-financial assets'. This amendment deals with the disclosure requirements regarding the recoverable amount of impaired assets, when that amount is based on fair value less costs to sell. The adoption of this amendment did not produce an impact on the financial statements of the Bank.

IAS 39 (amendment), 'Novation of derivatives and continuation of hedge accounting'. This amendment to IAS 39 permits an Entity to continue hedge accounting, when a counterpart of a derivative, which has been designated as a hedging instrument, changes to a clearing house, or equivalent, as a result of changes in laws or regulations. The adoption of this amendment did not produce an impact on the financial statements of the Bank.

Amendments to IFRS 10, 12 and IAS 27 - 'Investment entities'. These amendments define Investment entities and introduce an exception to the application of the obligation to consolidate under IFRS 10, for entities that qualify as Investment entities, whose investments in subsidiaries must be measured at fair value through profit or loss, in accordance with IAS 39. Specific disclosures are required by IFRS 12. The adoption of these amendments did not produce an impact on the financial statements of the Bank.

IFRS 10 (new), 'Consolidated financial statements'. IFRS 10 substitutes all procedures and accounting guidelines relating to control and consolidation, included in IAS 27 and SIC 12, changing the definition of control and the criteria applied to determine control. The fundamental principle that a consolidated entity presents the holding company and the subsidiaries as a single entity, remains unchanged. The adoption of this standard did not produce an impact on the financial statements of the Bank.

IFRS 11 (new), 'Joint arrangements'. IFRS 11 focuses on the rights and obligations of joint arrangements in detriment of their legal form. Joint arrangements may be joint operations (rights over assets and obligations) or joint ventures (rights over net assets, applying the equity method). Proportional consolidation of joint ventures ceases to be allowed. The adoption of this standard did not produce an impact on the financial statements of the Bank.

IFRS 12 (new), 'Disclosure of interests in other entities'. This standard establishes the disclosure requirements for all nature of interests in other entities, such as: subsidiaries, joint arrangements, associated companies and structured entities, so as to permit the evaluation of the nature, risks and financial effects associated with the interests of the Entity. The adoption of this standard did not produce an impact on the financial statements of the Bank.

Amendments to IFRS 10, 11 and 12, 'Transition regime'. These amendments clarify that, when by adopting IFRS 10 results a different accounting treatment from guidelines of the IAS 27 / SIC 12, the comparative information is only to be adjusted for the immediately preceding period, with the differences recognised at the beginning of the comparative period, under Equity. The amendment introduced in IFRS 11, relates to the mandatory testing for impairment of the financial investment that results from the discontinuation of proportionate consolidation. The specific disclosure requirements are included in IFRS 12. The adoption of these amendments did not produce an impact on the financial statements of the Bank.

IAS 27 (revision 2011), 'Individual financial statements'. IAS 27 was revised, following the release of IFRS 10, and defines the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associated companies, when the Entity prepares individual financial statements. The adoption of this revision did not produce an impact on the financial statements of the Bank.

IAS 28 (revision 2011), 'Investments in associated companies and joint ventures'. IAS 28 was revised, following the release of IFRS 11, and prescribes the accounting treatment for investments in associated companies and joint ventures, defining also the requirements for the application of the equity method. The adoption of this revision did not produce an impact on the financial statements of the Bank.

IAS 19 (amendment), 'Defined benefit plans – Employee contributions'. The amendment to IAS 19 applies to contributions made by employees or third parties to defined benefit plans, and aims to simplify their accounting treatment, when the contributions are independent from the number of years of service. The adoption of this amendment did not produce an impact on the financial statements of the Bank.

Improvements to standards 2010 – 2012. This improvement cycle impacts the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The adoption of these improvements did not produce an impact on the financial statements of the Bank.

IFRIC 21 (new), 'Levies'. IFRIC 21 is an interpretation of IAS 37 and of the recognition of liabilities, clarifying that the past event that results in an obligation to pay a rate or levy (other than corporate income tax - IRC) corresponds to the activity described in the relevant legislation that mandates that payment. The adoption of this interpretation did not produce an impact on the financial statements of the Bank.

Standards, amendments to existing standards and interpretations that have already been published and which application is mandatory for annual periods starting on or after 1 July 2014, or at a later date, and which the Bank decided not to early adopt:

IAS 1 (amendment), 'Revision of the disclosures' (to be applied in the periods starting on or after 1 January 2016). This amendment is still awaiting endorsement by the European Union. The amendment provides indications as to materiality and aggregation, presentation of subtotals, structure of the financial statements and disclosure of accounting policies. The adoption of this amendment is not expected to produce a material impact on the financial statements of the Bank.

IAS 16 and IAS 38 (amendments), 'Amortisation and depreciation methods permitted' (to be applied in the periods starting on or after 1 January 2016). These amendments are still awaiting endorsement by the European Union. These amendments clarify that the methods used to calculate the amortisation / depreciation of assets based on revenue earned, are generally not considered adequate measures of the consumption pattern of the economic benefits associated with the asset. It is to be prospectively applied. The adoption of these amendments is not expected to produce a material impact on the financial statements of the Bank.

IAS 27 (amendment), 'Equity method in separate financial statements' (to be applied in the periods starting on or after 1 January 2016). This amendment is still awaiting endorsement by the European Union. This amendment permits an entity to use in the separate financial statements the equity method in measuring investments in subsidiaries, joint ventures and associated companies. This amendment is to be retroactively applied. The adoption of this amendment is not expected to produce a material impact on the financial statements of the Bank.

Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an Investor and its Associated company or Joint venture' (to be applied in the periods starting on or after 1 January 2016). These amendments are still awaiting endorsement by the European Union. These amendments clarify that on the sale or contribution of assets between an investor and one of its associated companies or jointly controlled entities, any gain / loss is recognised in full when the assets transferred constitute a business, and only partially (in the proportion held by third parties) when the assets transferred do not constitute a business. The adoption of these amendments is not expected to produce a material impact on the financial statements of the Bank.

Amendments to IFRS 10, 12 and IAS 28, 'Investment entities: application of the exemption from consolidation' (to be applied in the periods starting on or after 1 January 2016). These amendments are still awaiting endorsement by the European Union. These amendments clarify that the exemption from the obligation to consolidate applies to an intermediate holding company that is a subsidiary of an investment company. Additionally, the option to use the equity method, in accordance with IAS 28, is extended to a company, that is not an investment entity, but that holds an interest in an associated company or joint venture that is an 'Investment entity'. The adoption of these amendments is not expected to produce a material impact on the financial statements of the Bank.

IFRS 11 (amendment), 'Accounting for the acquisition of interests in a joint operation' (to be applied in the periods starting on or after 1 January 2016). This amendment is still awaiting endorsement by the European Union. This amendment provides guidance on the accounting of the acquisition of an interest in a joint operation that qualifies as a business, with the principles of IFRS 3 – Business combinations being applicable thereto. The adoption of this amendment is not expected to produce a material impact on the financial statements of the Bank.

Improvements to standards 2012 - 2014, (to be applied, in general, in the periods starting on or after 1 January 2016). These improvements are still awaiting endorsement by the European Union. This improvement cycle affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The adoption of these improvements is not expected to produce a material impact on the financial statements of the Bank.

Improvements to standards 2011 - 2013, (to be applied in the European Union in the periods starting on or after 1 January 2015). This improvement cycle affects the following standards: IFRS 1, IFRS 3, IFRS 13, and IAS 40. The adoption of these improvements is not expected to produce a material impact on the financial statements of the Bank.

IFRS 9 (new), 'Financial instruments' (to be applied in the periods starting on or after 1 January 2018). This standard is still awaiting endorsement by the European Union. IFRS 9 substitutes the requirements of IAS 39, relating to: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of amounts receivable (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting. The adoption of this standard is not expected to produce a material impact on the financial statements of the Bank.

IFRS 15 (new), 'Revenue from contracts with customers' (to be applied in the periods starting on or after 1 January 2017). This standard is still awaiting endorsement by the European Union. This new standard applies solely to contracts for the delivery of products or rendering of services, and requires that the entity recognise the revenue when the contractual obligation to deliver the assets or render the services is satisfied and for the amount that reflects the remuneration to which the company has a right, as foreseen in the '5 step methodology'. The adoption of this standard is not expected to produce a material impact on the financial statements of the Bank.

NOTE 46 – SUBSEQUENT EVENTS

• According to the Banco de Portugal announcement dated 17 April 2015, following the analysis of the seven non-binding proposals for the acquisition of NOVO BANCO presented on 20 March, five entities were selected by the Banco de Portugal to pass on to the third phase of the sale procedure.

The decision of the Banco de Portugal was preceded by a prior hearing procedure, under which the entities not selected under the preliminary decision were given a period of ten working days to comment on the decision. The Banco de Portugal invited the entities selected to submit, by the end of June 2015, Binding Proposals for the acquisition of NOVO BANCO. The invitation will be accompanied by specific Terms of Reference establishing the procedures to be followed in Phase III, during which period the candidates will have access to more detailed information about NOVO BANCO and will have the opportunity to perform a due diligence;

• At the meeting of the Board of Directors of NOVO BANCO held on 3 December 2014 it was decided as part of the restructuring of the NOVO BANCO Group to merge Avistar into NOVO BANCO.

pwc

Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Separate Financial Information

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the Directors’ Report and in the attached financial statements of Novo Banco, S.A. (“Novo Banco” or “Bank”), comprising the balance sheet as at 31 December 2014 (which shows total assets of Euro 56,290,848 thousand and total shareholder's equity of Euro 4,817,681 thousand including a net loss of Euro 648,620 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period 4 August 2014 through 31 December 2014 (“Period”) then ended, and the corresponding notes to the accounts. These financial statements were prepared in accordance with the Adjusted Accounting Rules (NCA) defined in the Banco de Portugal Regulation nº 1/2005, which are based on the International Financial Reporting Standards (“IFRS”) in force, as adopted by the European Union, with the exceptions defined in the Banco de Portugal Regulations nº 1/2005, nº 4/2005 and nº 7/2008.

Responsibilities

2 It is the responsibility of the Bank’s Board of Directors (i) to prepare the Directors’ Report and the financial statements which present fairly, in all material respects, the financial position of the Bank, the results and the comprehensive income of its operations, the changes in equity and the cash flows; (ii) to prepare historic financial information in accordance with the Adjusted Accounting Rules issued by the Banco de Portugal and which is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain an appropriate system of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the Bank.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of

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accounting; (iv) assessing the overall presentation of the financial statements; and (v) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the financial information.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the financial statements as well as the verification set forth in paragraphs 4 and 5 of Article 451 of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Qualification

7 As referred in Note 40 of the notes to the accounts, the balance sheet of the Bank at 31 December 2014 includes Euro 1,065 million relating to deferred tax assets recognized on tax losses, of which Euro 160 million relate to tax losses estimated by BES in 2013 that were transferred to Novo Banco under the Resolution Deliberation, and Euro 905 million relate to tax losses estimated in 2014, which effective recoverability is dependent on the generation of future taxable results. Given that the maximum period for the use of these tax losses is 5 and 12 years, depending on their having arisen in 2013 or 2014, respectively, we consider that the estimated recoverability of the aforementioned deferred tax assets made by the Board of Directors, based on a business plan covering the years 2015 through 2026 that assumes a stability of the results as from 2019, incorporates assumptions we consider optimistic given the current economic situation and the fact that it is a bridge bank. Under these circumstances, the captions of deferred tax assets, originating reserve and result for the Period, contained in the balance sheet of the Bank at 31 December 2014, are overstated by an amount that we are unable to quantify with reasonable assurance, taking into account the multiple underlying assumptions and respective correlations, as well as the potential impact deriving from the projected entry of a new shareholder in the Bank.

Opinion

8 In our opinion, except for the effects on the financial statements of the matter referred to in paragraph 7 above, the financial statements referred to above, present fairly in all material respects, the financial position of Novo Banco, S.A. as at 31 December 2014, the results and the comprehensive income of its operations, the changes in equity and the cash flows for the Period then ended, in accordance with the Adjusted Accounting Rules (NCA) defined by the Banco de Portugal and the information included is complete, true, up-to-date, clear, objective and lawful.

Report on other legal requirements

9 It is also our opinion that the information included in the Directors' Report is consistent with the financial statements for the Period and that the Corporate Governance Report includes the information required under Article 245-A of the Portuguese Securities Market Code.

Emphasis

10 Without further qualifying our opinion expressed in paragraph 8 above, we draw attention to:

10.1 As disclosed in Note 1 of the notes to the accounts, the commitments of the Portuguese State before the European Commission foresee Novo Banco being sold within a maximum period of two years. Nevertheless, the Bank's Board of Directors considers that, based on the business plan it has drawn up and the prospective information it has on profitability, cash flows and capital levels, the Bank has the means to continue to develop its activity in the foreseeable future, so much so that the financial statements for the Period ended on 31 December 2014 were prepared based on the going concern basis. We point out, however, that while the Bank is in a sale process, the compliance with the business plan presented by the Board of Directors, including, namely, the recoverability of the deferred tax assets recognized on the tax losses referred to in paragraph 7 above, is necessarily conditioned by the future shareholder's strategy and by its ability to generate significant business for Novo Banco.

10.2 As mentioned in Note 1 of the notes to the accounts, in accordance with the legal framework underlying the resolution, the Banco de Portugal may at any time decide to transfer or re-transfer, with retroactive effect, between BES and Novo Banco, assets, liabilities, off-balance sheet elements and assets under management, with the consequent impacts on the financial statements of the Bank.

10.3 Given that the incorporation of the Bank resulted from the application of a resolution measure to BES, which originated material impacts on third parties, the risk of litigation involving Novo Banco, related to the Resolution Deliberation and the definition of the perimeter of assets, liabilities, off-balance sheet elements and assets under management transferred to the latter, is significant. In preparing the financial statements of the Bank at 31 December 2014, and as referred to in Note 38 of the notes to the accounts, the Board of Directors reflected therein the Resolution Deliberation and related decisions taken by the Banco de Portugal, as well as the indication made by the latter that no responsibilities are expected to arise for Novo Banco from said litigation, given the legal grounds and the information available at the present date.

17 June 2015

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represented by:

José Manuel Henriques Bernardo, R.O.C.

III. THE SUSTAINABILITY ACCOUNTS

Environmental Indicators

Environmental	2014
Energy [1] (G4-EN3, G4-EN5)	
Total electricity consumption (GJ) [1]	84,286
Total electricity consumption (kwh)1	23,412,744
Data Center total electricity consumption (kwh)	4,573,909
Total electricity consumption (kwh/employee)1	3,883
Natural gas consumption (GJ)2	247
Natural gas consumption (N.m^3)2	6,430
Butane gas consumption (Kg)3	900
Butane gas consumption (GJ)3	44
Total energy consumption (GJ)	122,471
Number of vehicles2	1,179
Fuel (GJ)	37,716
Number of flights	815
Water 3 (G4-EN8)	
Water consumption from public supply network (m^3)	34,242
Water consumption per employee (m^3/employee)	5.7
Emission of greenhouse gases (tCO_2e) [1] (G4-EN15, G4-EN16, G4-EN17)	Units: t CO2e
Emissions from company fleet travel 2	2,767
Emissions of flourinated gases from air conditioning	—
Emissions from natural and butane gas kitchen equipment 2	17
Emissions from emergency generators 2	13
Direct emissions (Scope 1)	2,797
Emissions from the production of electricity acquired 1	2,961
Indirect emissions (Scope 2)	2,961
Total (Scope 1 and 2)	5,758
Emissions from business car travel/ flights 5	744
Emissions from Employees' home-work-home travel 2	3,169
Emissions from waste water treatment 1	77
Indirect emissions (Scope 3)	3,990
Consumption of materials (G4-EN1, G4-EN2)	
White paper for internal use (tonnes) 4	138
White paper for internal use (ton/employee) 4	0.023
Recycled paper for internal use (tonnes)	1
FSC verified paper (%) 4	94%
Forms – printing and finishing area (tonnes) 4	83
Toner and inkjet cartridges (units) 4	159
Other consumables used (units)	
Waste management (G4-EN23) 2	
Paper sent for recycling (tonnes)	78
Cardboard sent for recycling (tonnes)	47
Consumables collected (kg)	4,212
Other waste (tonnes)	5

Scope

1- NOVO BANCO, NOVO BANCO dos Açores and Banco Best
2- NOVO BANCO
3- NOVO BANCO and BEST
4- NOVO BANCO and ESAF
5- NOVO BANCO, NOVO BANCO dos Açores, Banco Best, ESAF, ES Capital, Espírito Santo Informática, Espírito Santo Ventures

Social Indicators

Total Employees	2014
Total Employees Grupo NB (*)	7,722
Total Employees (Human resources information scope)	6,625
(*) employees with permanent and fixed-term employment contracts	

Employees by Gender	2014
Men	3,498
Women	3,127

Employees by Region	2014
Europe	8,079
America	291
Africa	36
Asia	34

Distribution of employees by gender and age per professional category (%) (G4-LA12)	2014
Management	
Men	69.7
Women	30.3
< 30 years	0.50
30 to 50 years	73
> 50 years	26.5
Heads of Department	
Men	65.4
Women	34.6
< 30 years	0.8
30 to 50 years	80.7
> 50 years	18.5
Specific	
Men	47.6
Women	52.4
< 30 years	7.4
30 to 50 years	78.9
> 50 years	13.7
Administrative	
Men	49.6
Women	50.4
< 30 years	7.4
30 to 50 years	78.9
> 50 years	13.7
Auxiliary	
Men	60
Women	40
< 30 years	35.5
30 to 50 years	6.7
> 50 years	57.8

Employment Contract (G4-10)	NOVO BANCO Group		Europe 2014		Africa 2014	
	Men	Women	Men	Women	Men	Women
Permanent	3.320	2.922	3.309	2.910	11	12
Fixed-term	102	135	98	130	4	5
Temporary	51	53	51	53	0	0
Internships	18	17	18	17	0	0

Staff Turnover (%) - Grupo NOVO BANCO (*) (G4-LA1)	NOVO BANCO Group	Europe 2014
Gender		
Women	0,69	0,69
Men	1,09	1,09
Age bracket		
< 30 years	0,53	0,53
30 to 50 years	1,15	1,15
> 50 years	0,10	0,10

New Admissions rate (*) (%) - NOVO BANCO Group (G4-LA1)	NOVO BANCO Group	Europe 2014
Gender		
Women	0,5	0,5
Men	0,51	0,51
Age bracket		
< 30 years	0,77	0,77
30 to 50 years	0,22	0,23
> 50 years	0,02	0,02

Parental Leave (G4-LA3)	2014	
	Men	Women
Employees entitled to parental leave	6.625	
Employees who took parental leave	92	230
Employees who returned to work after parental leave ended	87	80
Employees who returned to work 12 months after parental leave ended	2	2
Return to work rate	96%	74%

*Scope: NOVO BANCO Group (Europe + Africa = Portugal, Spain and Cape Verde)

Health and Safety (G4-LA6)	NOVO BANCO Group		Europe 2014		Africa 2014	
	Men	Women	Men	Women	Men	Women
Work related accidents	11	16	11	16	0	0
Occupational diseases	0	0	0	0	0	0
Deaths	0	0	0	0	0	0
Accident rate	0,87	1,46	0,87	1,46	0	0
Absenteeism rate	0,03	0,13	0,03	0,13	0	0
Absenteeism rate (% excluding parental leave)	2	3	2	3	0	0

Health	2014
Medical exams	1,556
Medical acts	11,799
Nursing acts	2,414
Total	15,769

Training hours by employee (G4-LA9)	2014
Gender	
Women	12,874
Men	12,875
Professional Category	
Management	1,618
Heads of Department	6,299
Specific	9,936
Administrative	7,801
Auxiliary	5

Performance Appraisal (G4-LA11)	2014 Men	 Women
Number of employees who received information on their performance appraisal	3,114.0	2,877.0
Percentage of employees who received information on their performance appraisal	99.30%	99.41%
Number of employees who received information about career management	3,114.0	2,877.0
Percentage of employees who received information about career management	99.30%	99.41%
Number of employees promoted		
Change of function	1	1
Merit	5	3
Seniority	20	13
Total of Employees Promoted	26	17

Loans Granted to Employees	2014
Mortgages	4,819, 099
Consumer loans - Consumer goods	358,944
Social Welfare	12,542

Economic Indicators

Stakeholders - Value Creation (millions of Euros)	2014
Shareholders (dividends)	----
Employees (remuneration and training)	178,0
Customers (loans granted)	40.060
Suppliers (general and administrative expenses)	139,5
Community	1,03
State (taxes)	215,5

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

Independent verification of the sustainability information included in the Annual Report 2014 of NOVO BANCO, SA
(Free translation from the original in Portuguese)

Introduction

In accordance with the request of the Board of Executive Directors of NOVO BANCO, S.A. ("NOVO BANCO"), we performed an independent limited assurance of the sustainability information included in the Annual Report 2014 (Report) of NOVO BANCO, for the period from August 3rd 2014 to December 31st 2014. The independent assurance was performed according to instructions and criteria established by GBES, as referred in the Report, and according to the principles and extent described in the Scope below.

Responsibility

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

Scope

Our procedures were planned and executed using the International Standard on Assurance Engagements 3000 (ISAE 3000) and having the Global Reporting Initiative, version 4.0 (GRI4.0) as reference, in order to obtain a moderate level of assurance on both the performance information reported and the underlying processes and systems. The extent of our procedures, consisting of inquiries, analytical tests and some substantive work, was less significant than in a full audit. Therefore, the level of assurance provided is also lower.

The following procedures were performed:

(i) Inquiries to management and senior officials responsible for areas under analysis, with the purpose of understanding how the information system is structured and their awareness of issues included in the Report;

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

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

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

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

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(vi) Comparing financial and economic data with those in the "Annual Report 2014" audited by the external auditor, to appraise the external validation of the reported information;

(vii) Validation of the material themes included in the Report based on the methodology described;

(viii) Verify the existence of data and information required to comply with the GRI G4.0 version, option 'In Accordance - Core', taking into account the 'Financial Services Sector Supplement' of GRI.

Confidentiality and Independence

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

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

Conclusions

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

Based on the assumptions described on the scope, we conclude that the Report includes the data and information required for option 'In Accordance – Core', according to G4.

Lisbon, June 17th, 2015

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

Represented by

António Joaquim Brochado Correia, ROC