

PRESS RELEASE OF BANCO DE PORTUGAL ON THE INDEPENDENT EVALUATION OF ASSETS, LIABILITIES, OFF-BALANCE-SHEET ITEMS AND ASSETS UNDER MANAGEMENT TRANSFERRED TO NOVO BANCO, S.A. FOLLOWING THE RESOLUTION MEASURE APPLIED TO BANCO ESPÍRITO SANTO, S.A.

Banco de Portugal releases today the results of the evaluation carried out by an independent entity on the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, S.A. ('Novo Banco') following the resolution measure applied to Banco Espírito Santo, S.A. ('BES').

This evaluation was carried out by PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda ('PwC') between August and November, taking as a reference the date of application of the resolution measure to BES, and resulted in adjustment needs on a consolidated basis to an aggregate amount of €4,937 million, by comparison with the value at which the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco were measured by BES on the moment the resolution measure was applied. On an individual basis, adjustments calculated by PwC amounted to €4,920 million. The overall impact resulting from such adjustments, after the tax effect, is €3,725 million and €3,850 million on a consolidated and individual basis respectively.

Said adjustments, on a consolidated basis, notably include the recognition of impairment amounting to €2,750 million relating to prior exposure by BES with Banco Espírito Santo Angola, S.A. (currently Banco Económico S.A.), €1,204 million for the reinforcement of impairment for the consolidated credit portfolio (€1,224 million on an individual basis), and €759 million for the reduction of the value of real estate assets (€224 million on an individual basis), in addition to other adjustments best described in the annex to this press release.

The overall adjustments calculated by PwC were fully reflected in Novo Banco's opening balance sheets, on a consolidated and on an individual basis, approved today by its Board of Directors, as confirmed by PwC.

Taking as reference the value of assets, liabilities, off-balance-sheet items and assets under management as calculated by PwC, and based on the information reported by Novo Banco, the Pillar 1 common equity tier 1 - CET1 - ratio stands at 9.2% on a consolidated basis.

Banco de Portugal clarifies that the review performed by PwC aimed at confirming the value of the assets, liabilities, off-balance-sheet items and assets under management in the moment when they were transferred to Novo Banco. Therefore, the adjustments determined by PwC are registered before the transfer and the amounts in the opening balance sheet of Novo Banco are net of the adjustments. As such, as of the moment when it started operating, the balance sheet of Novo Banco is “clean” of the findings made by PwC.

It is also important to clarify that, when the resolution measure was applied to Banco Espírito Santo, S.A., and as expressly mentioned in Annex 2 to the Deliberation of 3 August 2014, the calculation of Novo Banco’s capital requirements, in the amount of €4,900 million, was already based on a conservative valuation of the property being transferred, which explains that Novo Banco is able to fully accommodate the adjustments meanwhile calculated by PwC.

In annex, Banco de Portugal releases a technical note, based on the report issued by PwC, describing the independent entity’s work and further detailing its conclusions.

Banco de Portugal also informs that it has been decided by the European Central Bank and Banco de Portugal to provide to PwC the results of the asset quality review carried out within the comprehensive assessment of the banking sector of the Banking Union in the context of the set up of the Single Supervisory Mechanism (SSM), as well as all the detailed information that supported those results. Such information has been considered by PwC within the independent review of which the results are now disclosed.

It is recalled that, before the decision by Banco de Portugal to apply a resolution measure to BES, Espírito Santo Financial Group had been subject to the comprehensive assessment carried out by the ECB and it had concluded the AQR, which had focused in the review of the loan portfolio, in line with the procedure applicable to all the Portuguese banks. However, Novo Banco was excluded from the disclosure of the AQR results, published on the 26th October due to the fact that its opening balance sheet was not available and thus it was not possible to conclude on the impacts on the bank’s solvency ratios.

Lisbon, 3 December 2014

INDEPENDENT EVALUATION OF ASSETS, LIABILITIES, OFF-BALANCE-SHEET ITEMS AND ASSETS UNDER MANAGEMENT TRANSFERRED TO NOVO BANCO, S.A. FOLLOWING THE APPLICATION OF A RESOLUTION MEASURE TO BANCO ESPÍRITO SANTO, S.A.

-TECHNICAL NOTE -

1. Background

On 3 August 2014 the Board of Directors of Banco de Portugal decided to apply a resolution measure to BES, by means of a partial transfer of BES's activity and net assets to Novo Banco, an entity incorporated on the same day with its share capital fully subscribed by the Resolution Fund.

In accordance with the first part of Article 145-H (4) of the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras - RGICSF*), Banco de Portugal appointed PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda ("PwC") to carry out, within 120 days, an independent evaluation of the assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco.

PwC's work was aimed at determining the correct measurement of assets, liabilities, off-balance-sheet items and assets under management transferred to Novo Banco, on a going concern basis, in line with the principles set out in the International Financial Reporting Standards, as adopted in the European Union.

The work performed by PwC was made on an individual and consolidated basis, in this case focusing on Grupo Novo Banco, as it resulted from the resolution measure determined by Banco de Portugal.

PwC's work involved over 200 professionals, including resources from its international network, notably from Spain, France, Germany, United Kingdom, Brazil, Venezuela, Cayman Islands, accounting for a total effort of around 30,000 working hours. Seven real estate appraisal companies (Cushman & Wakefield, Jones Lang LaSalle, J. Curvelo, Prime Yield, CBRE, Worx and Value Thinking) were also involved.

2. Scope

PwC's work focused on key risk areas within Grupo Novo Banco's balance sheet, with particular emphasis to the recognition of asset-related impairments, the measurement of assets, liabilities and respective collateral and the recognition of deferred taxes and potential tax contingencies.

The work covered the implementation, on a sample basis where applicable, of the following procedures:

(a) Loans to customers and other similar balances classified as other assets:

- Revision of the documentation underlying the conceptual model used in the individual analysis of the credit portfolio of relevant entities within Grupo Novo Banco;
- Analysis of the on-balance-sheet individual impairment amount for a significant sample of credit portfolio debtors, including debtors with the highest credit risk, and revision of almost all debtors analysed in the scope of the Asset Quality Review (AQR), in the preparation for the Single Supervisory Mechanism, still before the resolution measure was applied to BES; and
- Understanding and critical analysis of the conceptual model of collective impairment of relevant entities within Grupo Novo Banco, aimed at the revision of the implementation of risk criteria established by Grupo Novo Banco in credit portfolio segmentation, analysis of the main management assumptions and estimates used, as well as sources of information used, and cross-check of the calculation of the recognised impairment amount stemming from the implementation of risk factors.

(b) Securities and derivatives:

- Analysis of valuation policies established by Grupo Novo Banco for securities and derivatives portfolios and revision of the implementation of these policies;
- Assessment of the balance-sheet value of securities and derivatives portfolios as at the reference date, taking into account the requirements set out in IAS 39 on financial assets and liabilities categories, namely the analysis of the reasonableness of estimates made by the Grupo Novo Banco for the portfolio's fair value and recoverable amount, where applicable;

- Revision of the documentation underlying the conceptual model of the securities portfolio impairment and calculation of the corresponding on-balance-sheet individual impairment amounts, including the analysis of the respective datasheets and leaflets, the assessment of the main assumptions and estimates used by the management bodies, revision of key risk factors (e.g. “Probability of Default”, “Loss Given Default”, developments in securities ratings, as well as their issuers and their respective financial situation) and review of the results of calibration exercises performed by Grupo Novo Banco;
- Analysis of derivative contracts formalised for the outstanding portfolio as at the opening balance-sheet date and understanding of the economic rationale associated with their signing;
- Analysis of internal valuation models for unlisted and/or illiquid securities developed by Grupo Novo Banco, aimed at assessing the main assumptions and estimates used by the management bodies and external sources of information; and
- Revision of the Grupo Novo Banco’s securities portfolio reconciliations with information provided by custodians as regards the opening balance-sheet date, so as to assess the ownership of the sample of securities selected in the course of the revision.

(c) Financial holdings:

- Revision of the opening balance-sheet value, on the basis of financial statements of participated companies consolidated by the equity method, as well as independent evaluations of companies with a potential evidence of impairment.

(d) Real estate classified as tangible assets, investment property and non-current assets held for sale:

Revision and critical analysis of the adequate measurement of real estate on the basis of independent evaluations. Challenges posed to the methodologies and assumptions adopted in these evaluations.

(e) Deferred taxes and potential tax contingencies:

- Validation of correct recognition as at the date of reference of deferred tax assets and liabilities of the Grupo Novo Banco’s relevant entities resident in Portugal and abroad; and

- Analysis of potential tax contingencies not shown in the financial statements of the Grupo Novo Banco's relevant entities for the years 2013 and 2014 regarding the Corporate Income Tax, the Value Added Tax (VAT) and the Municipal Property Transfer Tax.

(f) Liabilities, provisions and potential contingencies:

- Analysis of the policies for the recognition and measurement of liabilities in the balance sheet and revision of their application;
- Assessment of the correct recognition and measurement of the liabilities represented by subordinated securities and liabilities of the Grupo Novo Banco's relevant entities, in compliance with the contractual terms and conditions, as well as the conceptual revision of the internal models to value liabilities measured at fair value;
- Assessment of the measurement of liabilities related to insurance contracts; and
- Analysis of potential contingencies.

(g) Off-balance-sheet items:

- Revision of the policies for the recognition and measurement of off-balance-sheet items, including guarantees, sureties, credits and revocable and irrevocable commitments.

Individual analyses were made of the relevant entities of Grupo Novo Banco, with special focus on Novo Banco and its main branches and subsidiaries in Portugal and abroad, in particular the following:

- Novo Banco, S.A., including its branches in Madeira, Cayman Islands, Spain and the United Kingdom, and securitisation vehicles;
- Banco Espírito Santo de Investimento, S.A., including its branch in Spain and the following subsidiaries: Espírito Santo Investments PLC, BES Activos Financeiros, Ltda, BES Investimento do Brasil, S.A., BES Securities do Brasil, S.A., Espírito Santo Investimento, S.A., BES Securities do Brasil, S.A., ES Serviços Financeiros DTVM, FI Multimercado Treasury, BES Absolute Return FIM LP, BES FIM Moderado;
- BES-Vida, Companhia de Seguros, S.A., including its following branches: ES Arrendamento and Fimes Oriente;
- ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A., including its following branches: Espírito Santo Fundos de Investimento Mobiliário, SA, Espírito Santo International

Management, SA, Espírito Santo Fundos de Investimento Imobiliário, SA and Espírito Santo Fundo de Pensões, SA;

- Banque Espírito Santo et de la Vénétie, S.A.;
- Espírito Santo Activos Financieros, SA, including its following branches: Espírito Santo Gestión, SA, SGIIC and Espírito Santo Pensiones, S.G.F.P., SA;
- ES Tech Ventures, S.G.P.S., SA, including its branch ES Ventures - Sociedade de Capital de Risco, S.A.;
- Fundo de Capital de Risco - ES Ventures II and Fundo de Capital de Risco - ES Ventures III;
- FUNGERE - Fundo de Gestão de Património Imobiliário;
- Fundo Gestão Património Imobiliário - FUNGEPI - BES and Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II.

3. Coverage

This work was based on comprehensive samples selected according to significance and risk criteria, as described below:

(a) Individual analysis of the loans to costumers portfolio:

- The largest 250 debtors were reviewed and all the entities integrating their economic group were included in the sample;
- Almost all debtors previously analysed in the AQR were also reviewed and reassessed;
- Overall, 2,933 debtors were reviewed, which as a whole represent approximately 51% of the total value of the loan portfolio (around 64% if excluding the mortgage credit, consumer credit and credit card segments).

(b) Securities portfolios:

- The 794 securities of the consolidated portfolio with the most significant value were reviewed, representing approximately 85% of the consolidated book value;

- In this context, a thorough review was made of the price sources, where available, used by the Grupo Novo Banco for the purpose of estimating the fair value of a security sample representing approximately 54% of the security consolidated portfolio;
- The remaining securities in the sample, in respect of which no market prices were available, refer mostly to (i) restructuring and venture capital fund units, in which the market values have been adjusted, based on latest data made available by fund managers; and (ii) commercial paper issued by Portuguese banks and entities.

(c) Derivative portfolio:

- Approximately 582 derivative contracts entered into by the Grupo Novo Banco's relevant entities were analysed, representing more than 50% of the nominal value of the consolidated portfolio, including a review of their economic rationale and risk-management purpose, a critical analysis of fair value based on the contractual terms and conditions and prices provided by the counterparties, where available, and/or a revision of the main inputs used in the valuation models with external sources, as well as the confirmation of the market values of collateral received to cover counterparty risk.

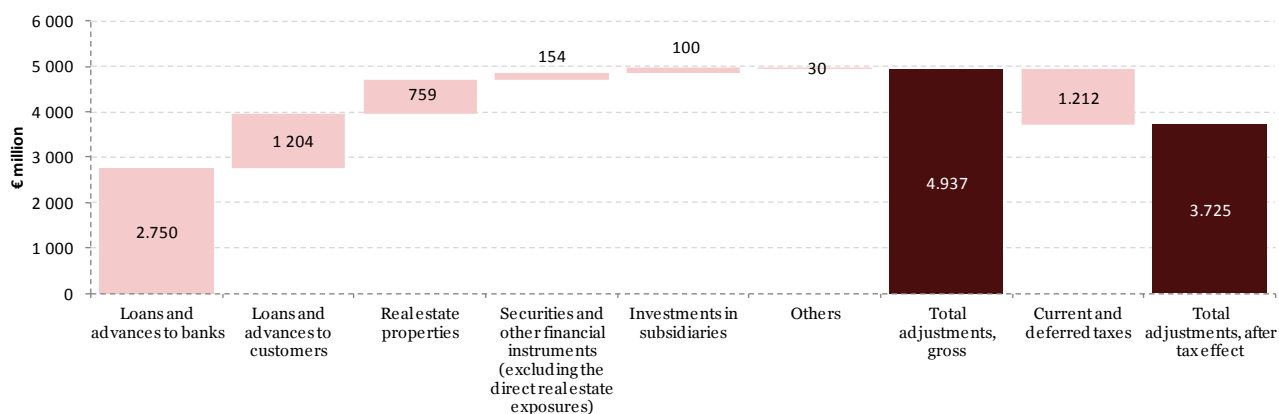
(d) Real estate assets:

- 1,537 independent expert appraisal reports were reviewed, corresponding to 910 properties, and representing approximately 79% of consolidated real estate properties;
- Out of those, around 350 reappraisal reports were requested in respect of properties for which the latest appraisal was more than one year old or whenever doubts were raised as to the appropriateness of the methodologies and/or assumptions used.

4. Results on a consolidated and individual basis

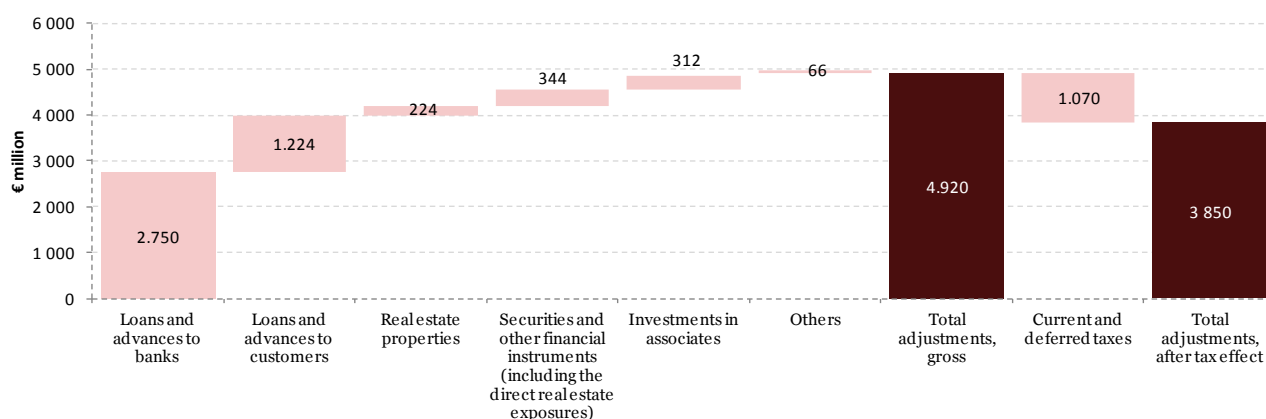
The assessment carried out by PwC identified adjustment on a consolidated basis to an aggregate amount of €4,937 million, by comparison with the value of the net assets of Grupo Novo Banco, as measured by BES, on the date of application of the resolution measure. These adjustments are broken down as follows:¹

¹ Additional information on each of the components is provided below.



Adjustments to the value of consolidated assets (i.e. excluding adjustments to liabilities) amount to €4,852 million, before the tax effect, corresponding to about 6% of the book value recorded by BES at the date of the resolution measure. Net of tax effects, the adjustments correspond to €3,725 million.

Novo Banco, on an individual basis, need to consider total adjustments to an aggregate amount of €4,920 million, by comparison with the value of the net assets transferred to Novo Banco, as measured by BES, at the date of the resolution measure. These adjustments are broken down as follows:²



Adjustments to the value of assets on an individual basis (i.e. excluding adjustments to liabilities) amount to €4,771 million, before the tax effect, corresponding to 7% of the book value recorded by BES at the date of the resolution measure. Net of tax effects, the adjustments correspond to €3,850 million.

The main adjustments are shown below:

² Additional information on each of the components is provided below.

(a) Money market investments: On the date of the resolution measure, BdP determined, as a matter of prudence, that the money market application with Banco Espírito Santo Angola (“BESA”), transferred from BES to Novo Banco, should be considered as fully impaired. As it was made public on 20 October 2014 Banco Nacional de Angola (“BNA”) approved a plan to restructure and recapitalize BESA and, as a result of which, Novo Banco exposure was reduced by around 80% and the remainder partially converted into capital and medium and long term loans. Following this event, the preliminary decision taken by BdP for the estimated impairment amount on the date of the resolution measure was reassessed and for accounting purposes such decision entailed an adjustable event. Accordingly, the impairment on the BESA Money Market application transferred from BES to Novo Banco is of €2,750 million (on a consolidated and separate basis), which implies, for accounting purposes, a partial reversion of the provision created on the date of the resolution measure, on a preliminary basis.

(b) Loans to customers: The total number of debtors of Grupo Novo Banco subject to an individual evaluation amounted to 2,933 entities (2,627 debtors of Novo Banco, including domestic and foreign branches), with an aggregate balance-sheet exposure of €22,584 million (on an individual basis: €19,773 million), accounting for around 51% of the loan portfolio of Grupo Novo Banco (52% on an individual basis) as at the date when the resolution measure was taken.

As a result, impairments for the consolidated loan portfolio needed to be reinforced to the overall amount of €1,204 million (on an individual basis: €1,224 million), reaching a provisioning level of 12% in the opening balance sheets of Novo Banco on a consolidated basis (13% on an individual basis). The calculated decrease in value corresponds to 3% of the consolidated book value (4% on an individual basis) as at the date of application of the resolution measure.

(c) Real estate assets: The analysis of the real estate portfolio of Grupo Novo Banco relied on updated evaluations, requested where the last available evaluation had been carried out before 31 July 2013 or where the analysis of this evaluation led to PwC having doubts about the methodologies and/or assumptions used. PwC reviewed 1,537 evaluations, corresponding to 910 properties and around 350 new evaluations were made by seven independent evaluators, in accordance with the standards of the Royal Institution of Chartered Surveyors (‘RICS’).

On a consolidated basis, the balance-sheet value of the real estate subject to revaluation (net of impairments) amounted to €2,554 million (€2,483 million on an individual basis), before any adjustments arising from PwC's analysis, corresponding to around 57% of the total value (net of impairments) of real estate recorded in the balance sheet before any adjustments (56% on an individual basis).

This analysis resulted in a decrease by €759 million in the balance-sheet value (€224 million on an individual basis). The calculated decrease in value corresponds to 15% of the book value as at the date of application of the resolution measure on a consolidated basis (14% on an individual basis).

(d) Securities and derivatives: The adjustment is mostly the result of a revision of estimated fair-value figures for (i) real estate investment funds arising from an update of independent real estate appraisals that are part of the portfolio of these funds; (ii) venture capital and restructuring funds on the basis of the latest available reporting by the respective managers. In addition, adjustments were also identified in respect to securities with no active market and/or market price available. The calculated decrease in value corresponds to 4% of the consolidated book value (13% on an individual basis) as at the date of application of the resolution measure.

(e) Investments in subsidiaries: The adjustment identified refers to impairments calculated on the goodwill of subsidiaries. The calculated decrease in value corresponds to 23% of the book value as at the date of application of the resolution measure.

(f) Current and deferred taxes: The identified tax adjustments mostly arise from the tax effect on the above mentioned adjustments.

The adjustments calculated by PwC are fully reflected in the opening balance sheets approved by the Board of Directors of Novo Banco on 3 December, as verified by PwC.