IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following before continuing. The following applies to the following Prospectus (the "**Prospectus**"). You must read this disclaimer carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THE FOREGOING MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY NOTES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUCH NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes described therein (the "**Notes**"), you must not (i) be in the United States or (ii) be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing the Prospectus, you shall represent to Novo Banco, S.A. (the "**Issuer**") and to J.P. Morgan Securities plc and Morgan Stanley & Co. International plc (together, the "**Joint Lead Managers**") that:

(i) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Notes, you will be doing so pursuant to Regulation S under the Securities Act;

(ii) the electronic mail address to which the Prospectus has been delivered is not located in the United States of America, its territories and its possessions;

(iii) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the "**Order**") or a certified high net worth individual within Article 48 of the Order; and

(iv) you consent to delivery of the Prospectus and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Lead Managers or their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus, electronically or otherwise, to any other person. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Recipients of the Prospectus who intend to subscribe for or purchase any Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus in final form.

NOVO BANCO, S.A.

(incorporated with limited liability in Portugal)

€400,000,000 8.500 per cent. Fixed Rate Reset Callable Subordinated Notes due 2028

Issue price: 100 per cent.

The €400,000,000 8.500 per cent. Fixed Rate Reset Callable Subordinated Notes due 2028 (the "**Notes**") will be issued by Novo Banco, S.A. (the "**Issuer**" or the "**Bank**") on or about 6 July (the "**Issue Date**"). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 6 July 2023 (the "**Reset Date**"), at a rate of 8.500 per cent. per annum and thereafter at the Reset Rate of Interest as provided in Condition 4(d) (*Reset Rate of Interest*). Interest will be payable on the Notes annually in arrear on each Interest Payment Date, commencing on 6 July 2019.

Unless previously redeemed or purchased and cancelled, the Notes will mature on 6 July 2028. Noteholders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion, elect to (a) redeem all (but not some only) of the Notes at their principal amount, together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to (but excluding) the redemption date, on the Reset Date or at any time if a Tax Event has occurred and is continuing or a Capital Disqualification Event (each as defined in Condition 16 (*Definitions*)) has occurred and is continuing or (b) repurchase the Notes at any time, subject in each case to compliance with the conditions described in Condition 5(b) (*Conditions to Redemption, Substitution or Variation, and Purchase*).

The Notes will be direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the Winding-Up of the Issuer, be subordinated to the claims of all Senior Creditors (as defined in Condition 16 (*Definitions*)) of the Issuer but shall rank at least *pari passu* with all other subordinated obligations of the Issuer that constitute, or would constitute, Tier 2 Capital of the Issuer.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (including the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to its official list (the "**Official List**") and trading on the Main Securities Market of Euronext Dublin (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that the Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**").

The Notes will be issued in dematerialised book-entry form (*forma escritural*) and will be in registered (*nominativas*) form, in denominations of €100,000, and will be integrated in and held through Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"), as the entity responsible for the management and operation of the Central de Valores Mobiliários, a Portuguese Securities Centralised System managed and operated by Interbolsa (the "**CVM**"). The CVM currently has links in place with Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") through securities accounts held by Euroclear and Clearstream, Luxembourg with Affiliate Members (as described herein) of Interbolsa.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*". The Notes are expected to be rated Caa3 by Moody's Investors Service Limited ("Moody's") and CCC (high) by DBRS Ratings Limited ("DBRS") upon issue. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Moody's and DBRS are established in the EU and registered in accordance with Regulation (EC) No.1060/2009, as amended, and each appears on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority ("ESMA") website at http://esma.europa.eu/page/List-registered-and-certified-CRAs.

Joint Lead Managers

J.P. Morgan **Morgan Stanley**

Prospectus dated 4 July 2018

This Prospectus may be used only for the purposes for which it has been published.

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information in this Prospectus has been extracted or derived from independent sources. Where this is the case, the source has been identified. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

This Prospectus is to be read in conjunction with all documents which are incorporated by reference herein (see "*Documents Incorporated by Reference*")

The Joint Lead Managers (as defined in "*Subscription and Sale*") have not verified the information contained in this Prospectus. The Joint Lead Managers do not make any representation, express or implied, or accept any responsibility, with respect to the accuracy or completeness of any of the information contained (or incorporated by reference) in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. The Joint Lead Managers do not accept any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer or the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase the Notes. Each potential purchaser should make its own independent investigation of the financial condition and affairs of and its own approval of the creditworthiness of the Issuer. Each potential purchaser of Notes should determine for itself the relevance of information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. The Joint Lead Managers do not undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus or to advise any investor or potential investor in the Notes of any information coming to their attention.

In the ordinary course of business, the Joint Lead Managers have engaged and may in the future engage in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither the delivery of this Prospectus nor the offering, placing, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are not being offered or sold except to non-U.S Persons in offshore transactions in reliance on Regulation S thereunder. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer does not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and it does not assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom.

IN CONNECTION WITH THE ISSUE OF THE NOTES, MORGAN STANLEY & CO. INTERNATIONAL PLC AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Issuer's strategy, market position, plans or future financial or operating performance, constitutes "forward-looking statements". All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, those described in "*Risk Factors*".

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Prospectus speak only as at the date of this Prospectus, reflect the current view of the executive board of directors of the Issuer (the "**Board**") with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Issuer's operations, results of operations, strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to the information set out in "*Risk Factors*" and "*Description of the Issuer's Business*".

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical Financial Information

The historical financial information incorporated by reference in this Prospectus has been prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). The historical financial information presented in this Prospectus consists of audited consolidated financial information of the Issuer for the financial periods ended 31 December 2016 and 31 December 2017.

Alternative Performance Measures

To supplement the Group's consolidated financial statements presented in accordance with IFRS, the Group uses certain ratios and measures which are included in this Prospectus that might be considered to be "alternative performance measures" (each an "**APM**") as described in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework".

The Group believes that the inclusion of APMs, when considered in conjunction with measures reported under IFRS, is useful to investors because it provides a basis for measuring the Group's performance in the periods presented and enhances investors' overall understanding of the Group's financial performance. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS.

For further information on the APMs used by the Group, including their definition and purpose, basis of calculation and reconciliation to the Group's financial statements, see pages 135 and 136 of the Group's 2017 Annual Report.

Currency Presentation

Unless otherwise indicated, all references in this Prospectus to "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. The Issuer prepares its financial statements in euro.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in euro.

Roundings

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

Definitions

The Issuer and its subsidiaries are together referred to in this Prospectus as the "**Group**".

DOCUMENTS INCORPORATED BY REFERENCE

The following information which has previously been published and has been submitted to and filed with the Central Bank shall be incorporated in, and form part of, this Prospectus:

(1) the audited annual consolidated financial statements of the Group and related audit report for the financial year ended 31 December 2017, which can be found on pages 147 – 350 and 507 – 536 of the Group's 2017 Annual Report (which can be viewed online at https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=871818&fext.=.pdf);

(2) the audited annual consolidated financial statements of the Group and related audit report for the financial year ended 31 December 2016, which can be found on pages 133 – 334 and 503 – 517 of the Group's 2016 Annual Report (which can be viewed online at https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=837465&fext=.pdf);

(3) the unaudited consolidated financial information of the Group for the three months ended 31 March 2018 (the "**Q1 Results**") (which can be viewed online at https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=878543&fext=.pdf)

(4) European Commission State aid no. SA.49275 (2017/N) – Portugal Sale of Novo Banco with additional aid in the in the context of the 2014 Resolution of Banco Espírito Santo, S.A. (which can be viewed online at http://ec.europa.eu/competition/state_aid/cases/271354/271354_1965800_138_2.pdf); and

(5) information on Alternative Performance Measures contained on pages 135 and 136 of the Group's 2017 Annual Report (which can be viewed online at https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=871818&fext.=.pdf).

Copies of documents incorporated by reference in this Prospectus can be obtained, upon request and free of charge, from the registered office of the Issuer. Other than the documents referred to above, none of the contents of the Issuer's website, any websites referred to in this Prospectus nor any website directly or indirectly linked to these websites form part of this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

*The following overview provides an overview of certain of the principal features of the Notes and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in "Terms and Conditions of the Notes" have the same respective meanings when used in this overview. References to numbered Conditions are to the terms and conditions of the Notes (the "**Conditions**") as set out under "Terms and Conditions of the Notes".*

Issuer	Novo Banco, S.A.
Paying Agent	Novo Banco, S.A.
Agent Bank	Novo Banco, S.A.
Notes	€400,000,000 8.500 per cent. Fixed Rate Reset Callable Subordinated Notes due 2028.
Risk factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Instrument. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. See "*Risk Factors*".
Status of the Notes	The Notes constitute direct and unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of Noteholders in respect of, or arising under, their Notes (including any damages awarded for breach of obligations in respect thereof) are subordinated as described in Condition 3.
Rights on a Winding-Up	The rights and claims of Noteholders in the event of a Winding-Up of the Issuer are described in Conditions 2 (*Status*) and 3 (*Subordination*).
Interest	The Notes will bear interest on their principal amount: (a) from (and including) the Issue Date to (but excluding) the Reset Date, at the rate of 8.500 per cent. per annum; and (b) thereafter, at the Reset Rate of Interest (as described in Condition 4(d) (*Reset Rate of Interest*)), in each case payable annually in arrear on 6 July (each, an "**Interest Payment Date**"), commencing on 6 July 2019.
Maturity	Unless previously redeemed or purchased and cancelled, the Notes will mature on 6 July 2028.
Optional redemption	The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below, redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date.
Redemption following a Capital	The Issuer may, in its sole discretion but subject to the

Disqualification Event or a Tax Event	conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below, redeem all (but not some only) of the Notes at any time following the occurrence of a Capital Disqualification Event or a Tax Event, in each case which has occurred and is continuing, and in each case, at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date, subject to, in the case of a redemption occurring prior to the fifth anniversary of the Issue Date, the Issuer demonstrating to the satisfaction of the Competent Authority that (i) in the case of a Tax Event, the relevant Tax Law Change is material and was not reasonably foreseeable as at the Issue Date or (ii) in the case of a Capital Disqualification Event, the relevant change in regulatory classification was not reasonably foreseeable as at the Issue Date.
Substitution or Variation following a Capital Disqualification Event or a Tax Event	The Issuer may, subject to certain conditions and upon notice to Noteholders (but without any consent of Noteholder), at any time elect to substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities if, immediately prior to the giving of the relevant notice to Noteholders, a Tax Event or Capital Disqualification Event has occurred and is continuing.
Purchase of the Notes	The Issuer may, at its option but subject to the conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below, purchase (or otherwise acquire) any of the outstanding Notes at any price in the open market or otherwise in accordance with the then prevailing Regulatory Capital Requirements. All Notes purchased by or on behalf of the Issuer may be held, reissued, resold or, at the option of the Issuer, cancelled in accordance with the applicable regulations of Interbolsa.
Conditions to redemption, substitution or variation, and purchase	Any redemption or purchase of the Notes prior to their maturity or any substitution or variation of the Notes will be subject to obtaining Supervisory Permission and (to the extent required by the then prevailing Regulatory Capital Requirements) any such redemption or purchase will be subject to either: (a) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (b) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time.

	If, at the time of such redemption, purchase, substitution or variation, the prevailing Regulatory Capital Requirements permit the redemption, purchase, substitution or variation after compliance with one or more alternative or additional pre-conditions to those set out above, the Issuer shall instead comply with such other pre-condition(s).
Withholding tax and Additional Amounts	All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount) the Issuer will (subject to certain customary exceptions) pay such Additional Amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. In no event will the Issuer be required to pay any Additional Amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986 and any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.
Default	If the Issuer has not made payment of any amount in respect of the Notes for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and, unless proceedings for a Winding-Up have already commenced, a Holder may institute proceedings for a winding-up. Holders may prove and/or claim in any Winding-Up of the Issuer and shall have such claim as is set out in Condition 3(a) (*Winding-Up*). If a Winding-Up occurs, then any Holder may give notice to the Issuer and to the Paying Agent at their respective registered offices, effective upon the date of receipt thereof by the Issuer, that the Notes held by such Holder(s) are, and they shall accordingly thereby forthwith become, immediately due and repayable together with accrued interest and any Additional Amounts thereon. See Condition 7(a) (*Default*) for further information.
Enforcement	Without prejudice and subject to Condition 7(a) (*Default*), a Holder may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Instrument, the Agency Terms or the Notes (other than any

	payment obligation of the Issuer under or arising from the Instrument, the Agency Terms or the Notes, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Conditions, the Instrument and the Agency Terms. See Condition 7(b) (*Enforcement*) for further information.
Modification	The Instrument will contain provisions for convening meetings of Noteholders to consider any matter affecting their interests, pursuant to which defined majorities of the Noteholders may consent to the modification or abrogation of any of the Conditions, and any such modification or abrogation shall be binding on all Noteholders. See Condition 10 (*Meetings of Holders, Modification, Waiver and Substitution*) for further information.
Substitution of the Issuer	The Issuer or any previous substitute company may, without the consent of the Holders but subject to Supervisory Permission, substitute for itself on a subordinated basis equivalent to that referred to in Conditions 2 and 3 as the principal debtor under the Notes any Subsidiary of the Issuer, provided that (i) no payment in respect of the Notes is at the relevant time overdue and (ii) certain other conditions set out in Condition 10(c) (*Substitution*) are satisfied. A substitution or variation may lead to a change in the governing law of the Notes without Noteholders' consent. See "*Risk Factors—Risks Related to the Notes—Brexit may lead to a Capital Disqualification Event and, among other things, to changes to the terms and conditions of the Notes, including a change in the governing law of the Notes*" and *"Risk Factors—Risks Related to the Notes—The terms of the Notes may be modified (including a change in the governing law of the Notes), or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances*".
Form	The Notes will be issued in denominations of €100,000 and will be issued in dematerialised book-entry (*forma escritural*) and will be in registered (*nominativas*) form. The Notes will be registered with the CVM, a Portuguese Securities Centralised System managed and operated by Interbolsa.
Denomination	€100,000.
Clearing	The Notes will be cleared and settled through Interbolsa (and indirectly through Euroclear/Clearstream, Luxembourg). For a summary description of rules applicable to Notes, see section

	"*Form of the Notes*".
Rating	The Notes are expected to be rated Caa3 on issue by Moody's Investors Service Ltd and CCC (high) by DBRS Ratings Limited. A security rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agencies. Any adverse change in an applicable credit rating could adversely affect the trading price of the Notes. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Prospectus, and other factors that may affect the value of the Notes.
Listing	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Main Securities Market of Euronext Dublin with effect from the Issue Date.
Governing law	The Notes and the Instrument and any non-contractual obligations arising out of or in connection with the Notes or the Instrument will be governed by, and construed in accordance with, English law, save that (i) the provisions of Condition 3 (*Subordination*) relating to the subordination of the Notes and set-off and (ii) the provisions of Condition 1 (*Form, Denomination, Title and Transfer*) relating to the form and transfer of the Notes, the creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by, and shall be construed in accordance with, the laws of Portugal. The Agency Terms and any non-contractual obligations arising out of or in connection therewith, will be governed by, and construed in accordance with, the laws of Portugal. **The Conditions allow the Issuer, in certain circumstances, to make changes to the governing law, jurisdiction and service of process provisions of the Notes. See "*Risk Factors—Risks Related to the Notes—Brexit may lead to a Capital Disqualification Event and, among other things, to changes to the terms and conditions of the Notes, including a change in the governing law of the Notes*" and "*Risk Factors—Risks Related to the Notes—The terms of the Notes may be modified (including a change in the governing law of the Notes), or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances*".**
ISIN	PTNOBFOM0017
Common Code	184675374

RISK FACTORS

Any investment in the Notes is subject to a number of risks, most of which are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Prior to investing in the Notes, prospective investors should carefully consider the risk factors associated with any investment in the Notes, the Issuer and the financial services industry in Portugal in general, together with all the other information contained, and incorporated, in this document. This section describes the risk factors which are considered by the Issuer to be material to the Issuer and an investment in the Notes. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks and uncertainties which are currently not known to the Issuer or which it currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties, occur this could have a material adverse effect on the Issuer's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the Notes to decline and, as a result, an investor in the Notes could lose some or all of its investment. In addition, many of these factors are correlated and may require changes to the Issuer's capital requirements, and events described therein could therefore have a compounding adverse effect on the Issuer.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

Prospective investors should also read the detailed information set out, and incorporated, elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks Relating to the Portuguese Economy, Foreign Economies and Market Volatility

The Group's performance is dependent on macroeconomic conditions in Portugal.

The Group conducts the majority of its business in Portugal. Moreover, the Group expects the proportion of the business it conducts in Portugal to increase going forward, as it focuses on its core retail and corporate banking business in Portugal and divests its non-core operations, including as required by the commitments undertaken by the Portuguese State towards the European Commission, which commitments were initially undertaken in 2014 in the context of the application of a resolution measure applied by the Bank of Portugal to Banco Espírito Santo, S.A. ("**BES**"), on 3 August 2014 (as amended and supplemented by related decisions (including by the Decisions of 29 December 2015 and the Decision of 29 December 2015 on Retransfer, as each term is defined below) the "**Resolution Measure**"), subsequently revised in December 2015 and then superseded by a new set of commitments agreed in October 2017 (the "**Commitments**"). As at 31 December 2017 and 31 December 2016, approximately 86.7% and 78.1%, respectively, of the Group's consolidated net assets related to its domestic business activities, and 87.6% and 91.8%, respectively, of the Group's net income related to its domestic business activities. Therefore, the Group's performance is largely dependent on the level and cyclical nature of business activity and macroeconomic conditions in Portugal, which in turn is affected by both domestic and international economic and political events. Furthermore, because the Group has significant exposure to large corporate and small and medium-sized enterprise ("**SME**") lending, the performance of which is closely linked to both trends in the economy and export activity, the Group could be more heavily affected by macroeconomic conditions in Portugal than other Portuguese banks with less exposure to the large corporate and SME sectors.

After having contracted in each of 2011, 2012 and 2013, with real gross domestic product ("**GDP**") decreasing by 1.8%, 4.0% and 1.1%, respectively, according to Portugal's Instituto Nacional de Estatística ("**Statistics Portugal**"), the Portuguese economy returned to growth in 2014, with GDP expanding by 0.9%

in that year, 1.8% in 2015 and 1.6% in 2016. In 2017, the Portuguese economy, measured by GDP, grew by 2.7%, according to Statistics Portugal. Domestic demand contribution increased to 2.9 percentage points (1.6 percentage points in 2016), mainly reflecting the acceleration of investment to 8.4% (0.8% in 2016), while private consumption remained relatively flat according to Statistics Portugal. Exports of goods and services accelerated to 7.9%, with a particularly strong growth of the services' component (10.9%) and, in particular, tourism. Improved economic outlook, progress in reducing the budget deficit and the receded risk of a deterioration in external financing conditions led to upgrades in the sovereign rating by S&P (from BB+ to BBB-, stable outlook) in September 2017, by Fitch (from BB+ to BBB, stable outlook) in December 2017 and by DBRS in April 2018 (from BBB low to BBB, stable outlook). See "*—Portugal may be subject to rating downgrades*". As at 3 May 2018, the European Commission forecast that GDP would decelerate but would continue to grow around 2.3% in 2018, supported by strong exports and employment growth.

Despite recent recovery, the Portuguese economy continues to be characterised by high levels of public and private debt, unemployment and budget deficits, among other factors, and thus remains vulnerable to negative external shocks. A deterioration of investor sentiment associated with political, geopolitical and financial market uncertainty (such as the recent deterioration in economic conditions in Italy as a result of political instability or due to, for example, upward adjustment in inflation and rates expectations or geopolitical tensions, including those in the Middle East, or a rise in oil prices) could increase volatility in global financial markets and have a negative impact on financing conditions. External risks also include changes in the framework of the European Union (the "**EU**"), or uncertainties or consequences arising from the United Kingdom's exit from the EU (commonly referred to as "**Brexit**"), including the possibility that other Member States may seek to leave the EU in the future, or any other significant changes to the structure of the EU and/or European Monetary Union, as well as the increased shift in the focus of some national governments toward more protectionist or restrictive economic and trade policies, which in some cases have led to the imposition of trade tariffs.

Domestic risks include potential economic and fiscal impacts of the ongoing adjustments in the banking sector in Portugal, given the still high stock of non-performing exposures and the constraints to the banks' profitability. Furthermore, a reduction in the government's budget deficit could consequently lead to reduced government spending, thereby potentially affecting the economy or a rise in the level of interest rates, implying an increase of interest expenditure, and could lead to a deterioration of the budget balance.

Concerns relating to macroeconomic conditions in Portugal, including regarding Portuguese public finances and political and social stability, have affected and may continue to affect the business and results of operations of financial institutions in Portugal, including the Bank and other members of the Group. For example, difficulties in achieving further structural fiscal consolidation could prevent further improvements in economic conditions. The parliamentary elections in Portugal held at the beginning of October 2015 did not return a parliamentary majority of any of the parties and led to a government with parliamentary support from several political parties. Any of these factors could impair the implementation of certain economic policies, and in turn, could affect the long-term growth potential of the Portuguese economy, thereby reducing the prospective profitability of the Bank's business. All of these factors could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Failure of the Portuguese Parliament to approve the 2019 General Government Budget could lead to early general elections and to an environment of political, economic and social instability.

Portugal's fragile demographics (projected declining and ageing population) and low productivity growth exacerbate the growth challenges of the Portuguese economy. Low productivity growth would likely stifle the economy's growth potential, without further improvements in the efficiency of the public administration, judiciary, and the business environment, including with respect to barriers in services markets.

These concerns may result in, among other things, static or worsening economic conditions in Portugal, lower market values for Portuguese sovereign debt, limited liquidity in the Portuguese banking system, decreased demand for banking products, increased competition for, and thus cost of, customer deposits, limited credit extension to customers and a deterioration of credit quality. Macroeconomic conditions also adversely affect the behaviour and financial condition of the Group's customers given, for example, lower demand for credit or increased credit risk and defaults in case of an economic downturn, and consequently impact the supply and demand for the products and services that the Group offers and therefore overall business volumes and profitability In particular, and despite the economic progress since 2014, the high unemployment rates (7.9% as at 9 May 2018), the low profitability and the high level of indebtedness of many companies will likely continue to have a negative influence on the ability of the Group's customers to pay back loans, which, consequently, could cause an increase in overdue loans and in impairments related to loans and other financial assets.

These macroeconomic factors, and their impact on the banking sector in Portugal, could have a material adverse effect on the business, financial condition and results of operations of the Group.

The structural reform programmes implemented or introduced in Portugal over the past several years may not achieve their goals or produce the desired effect.

In 2011, the Portuguese Government adopted an economic and financial adjustment programme (the "**Financial Assistance Programme**"), in cooperation with the International Monetary Fund ("**IMF**"), the European Commission and the European Central Bank ("**ECB**"), in order to address deteriorating economic conditions in Portugal stemming from the global financial crisis that had started in 2007 and 2008. Portugal concluded this Financial Assistance Programme in June 2014 without the need for any precautionary package involving external economic aid.

From 2009 to 2017, given its excessive budget deficit, Portugal was subject to review by the corrective arm of the stability and growth pact, which is the legal framework (based on primary and secondary EU law) designed to ensure that countries in the EU pursue sound public finances and coordinate their fiscal policies. The European Commission and the European Council considered that an excessive deficit existed in Portugal since 2009, having at that time addressed a Recommendation to Portugal with a view to bringing the excessive deficit situation to an end by 2013. The Council also set a deadline of 2 June 2010 for effective action to be taken. Following the request by the Portuguese authorities for financial assistance in 2011, the European Council extended the deadline for correcting the excessive deficit to 2015, having considered that Portugal had taken effective action, but unexpected adverse economic events with major unfavourable consequences for government finances had occurred.

After reaching 4.4% of GDP in 2015 (3.1% of GDP net of one-offs), the general government deficit was reduced to 2.0% of GDP in 2016 (2.3% of GDP net of one-offs). Finally, in June 2017, the European Commission and the European Council concluded that Portugal's excessive deficit had been corrected. The general government headline deficit turned out at 3.0% of GDP in 2017 including the fiscal impact of the recapitalisation of public bank Caixa Geral de Depósitos, which was equal to 2.0% of GDP. Excluding this and other one-off operations, the 2017 headline deficit ratio would have been reduced to 0.9% thanks to lower interest expenditure, contained primary expenditure growth and higher cyclical-related revenue. As a result, the structural balance is estimated to have improved by about 1% of GDP in 2017 and the structural primary balance by 0.6% of GDP, according to the Portuguese Public Finance Council. As from 2017, Portugal is subject to the preventive arm of the stability and growth pact (aiming to ensure sound budgetary policies over the medium term). The headline deficit is forecast by the Portuguese Government to be 0.7% of GDP in 2018, while the deficit net of one-offs is forecast to improve to 0.4% of GDP. The difference between these two figures includes further banking support operations, in particular the activation of the Bank's contingent capital mechanism. For 2019, the Portuguese Government aims to reduce the headline deficit to 0.2% of GDP and achieve a balanced budget by 2020. Risks to the fiscal outlook are tilted to the downside, linked to uncertainties surrounding the macroeconomic outlook and the potential further deficit-increasing impact of banking support measures.

The Portuguese Government proposed a National Reform Programme (*programa nacional de reformas or* "**PNR**") in April 2016, which aims to address certain macroeconomic imbalances that have a negative impact on the competitiveness, prosperity and cohesion of the country. The PNR also aims to implement the country-specific recommendations for Portugal endorsed by the European Council, by identifying structural obstacles of the Portuguese economy and by meeting targets and promoting measures for the structural reform to support investment and contribute to the sustainability of public finances. The PNR is combined with the Stability Plan (*Plano de Estabilidade*) for 2018-2022, which applies from April 2018 (the "**PE**"), which aims to promote stable economic growth.

The structural changes implemented in Portugal may not be sufficient and the reforms contemplated by the PNR or PE may not be sustained or, if sustained, may not result in the desired impact on the Portuguese economy. Furthermore, the implementation of such structural reforms is likely to be a long and difficult process. Any failure to implement or complete the recovery reform programmes may have a material adverse effect on the Portuguese economy and the Portuguese banking system, including the Group's business, financial condition and results of operations. The implementation of structural reforms could lead to a negative economic impact and, in particular, an increase of unemployment.

The Group's business is dependent on the conditions of foreign economies, particularly those that are significant markets for Portuguese businesses.

The Group's performance has been, and will continue to be in the foreseeable future, dependent on the condition of Portugal's trading relationships. In light of relatively slow growth in the Portuguese economy and the subsequent constraints on domestic demand, economic activity in the countries receiving Portuguese exports or international markets where Portuguese companies invest are very important to the Portuguese economy. A number of the Group's commercial banking customers are Portuguese-based businesses that are engaged in export businesses or invest in projects internationally. Moreover, the Group also focuses on attracting Portuguese SME customers with international business operations or plans, which could increase the Group's exposure to the performance of foreign economies.

A decrease in external demand or the deterioration of economic activity in countries where Portuguese companies have substantial investments may particularly impact the businesses of the Group's customers. Such decrease in external demand or weakening of foreign economies may be derived from a multitude of macroeconomic factors impacting Portugal's trading partners, including excessive levels of sovereign debt, ineffective government regulation, increased competition, protectionist policies, a rise in prices of essential commodities, such as oil and other raw materials for trading partners which import these or other such commodities, or a fall in prices of essential commodities for trading partners which export these or other such commodities, as well as from a recession in the EU or other significant deterioration in global economic conditions. If sufficiently severe, a decrease in external demand or weakened foreign economies may significantly and adversely impact the Portuguese economy, the business of Portuguese companies generally, including the Group's customers, which could ultimately result in a material adverse effect on the Group's business, financial condition or results of operations.

Any deterioration of economic activity in the main trading partners of Portugal (as at December 2017, in decreasing order: Spain, France, Germany, United Kingdom, United States, Netherlands, Italy, Angola, Belgium and China) could impact negatively on the recovery of Portuguese economy and lead to economic and financial difficulties and affect the achievement of budgetary and structural targets required by the European authorities under the reinforced rules on macroeconomic stability. The ability of the Group's customers that operate or are otherwise exposed to economic conditions in Portugal's main trading partners may be adversely affected by the economic conditions therein.

Political and economic conditions in the EU member states could adversely affect the Group and/or the political and economic conditions in Portugal.

Sustainable economic growth in the Eurozone continues to be a challenge in certain countries of the Eurozone, including Portugal. Slow economic growth or recession in major EU economies, the restructuring or default by an EU Member State on its sovereign debt obligations or withdrawal from the Eurozone, could significantly increase volatility and uncertainty in financial and currency markets. Prolonged political instability in Italy, rising populism and anti-integration movements in Europe and uncertainty related to Greece's return to capital markets could be reflected in a deterioration of market sentiment towards Portugal. Further uncertainty could arise from the United Kingdom exit from the EU and the associated implications for the EU and the Eurozone area. The negotiation of the United Kingdom's exit terms is likely to take a number of years. Until the terms and timing of the United Kingdom's exit from the EU are clearer, it is not possible to determine the impact that the United Kingdom's departure from the EU and/or any related matters may have on the Group. Furthermore, the process of the United Kingdom departing from the EU may introduce significant new uncertainties and instability in financial markets, as well as political instability in Europe, and it may materially affect the economies of countries, including Portugal, which have political and economic ties with the United Kingdom.

Should any or all these risks materialise, the consequences for the underlying economic and financial environment could be adverse, entailing severe pressure on the conditions and financing costs of banks, particularly regarding deposits, credit impairments and mark-to-market valuation of financial assets. Any of the foregoing could have a material adverse effect on the Group's business, financial condition or results of operations.

Portugal may be subject to rating downgrades.

Rating agencies S&P, Moody's, Fitch and DBRS have downgraded the long- and short-term ratings and outlook of Portugal on several occasions since 2010 due to the uncertainties and risks of a prolonged recession, the outlook for modest GDP growth, high levels of unemployment, limited fiscal flexibility, the high leverage of the private sector and the level of sustainability of Portugal's public debt. Since July 2014, however, each of these rating agencies have raised their long-term ratings or outlook for Portugal. Current Portuguese sovereign ratings are as follows: DBRS, the only major rating agency recognised by the ECB that has always assigned an "investment grade" rating to Portugal, upgraded it from BBB (low) to BBB in April 2018, with stable outlook. In September 2017, S&P upgraded Portuguese sovereign debt from BB+ to BBB- with stable outlook, while Fitch announced a similar move (from BB+ to BBB with stable outlook) in December 2017. These two decisions were particularly significant, as both agencies currently consider Portuguese sovereign debt as "investment grade". Although Moody's has not announced a similar upgrade decision (its next decision, which may not necessarily be an upgrade decision, is expected on 12 October 2018), it has revised the outlook from stable to positive in September 2017.

The ability to use Portuguese public debt as an asset eligible for collateral for financing with the ECB will depend on the maintenance of an "investment grade" rating by at least one rating agency recognised by the ECB. The non-eligibility for the ECB could have a material and negative impact on the market value, cost of funding and overall demand for Portuguese public debt. See "*—Risks Related to the Issuer's Business—The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*." A credit rating downgrade of Portugal by the three rating agencies recognised by the ECB currently assigning the Portuguese public debt an "investment grade" rating would result, among other things, in the exclusion of

Portugal from the ECB's bond-buying programme, which plays an important role in reducing the country's borrowing costs.

A credit rating downgrade may occur in the future due to a number of factors, such as lower than expected tax revenue, weaker than expected economic growth, increased public debt as a percentage of GDP, slowdown in corporate sector deleveraging, failure to reduce general public debt, failure to increase GDP ratios, limited access to international financial markets or the failure of structural reforms. Any downgrade in the ratings of Portugal's sovereign debt or other negative statements regarding its credit ratings could negatively impact funding conditions for the Bank, and, as a result, materially and adversely affect the Group's business, financial condition and results of operations. See "*—Risks Related to the Issuer's Business—The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*".

Risks Related to the Issuer's Business

The Group is subject to liquidity risk, including that arising from its dependence on customer deposits as a principal source of funding.

Liquidity risk arises from the present or future inability to pay liabilities as they become due. Banks, principally by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk.

The ongoing availability of customer deposits to fund the Group's business is subject to a variety of factors, such as depositors' concerns relating to the Portuguese economy in general, the financial services industry or the Group specifically, economic conditions in Portugal impacting the availability of funds for deposits, the availability and extent of deposit guarantees and the existence of alternative and competitive savings products. Customer deposits, consisting of repayable on demand deposits, time deposits and savings accounts are the principal source of funding for the Group, and accounted for 62.9% and 54.2% of total liabilities as at 31 December 2017 and 31 December 2016, respectively. The Group also relies on ECB funding; see "*—The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*".

If the Group's depositors withdraw their funds at a rate faster than borrowers repay their loans, or the Group is unable to obtain the necessary liquidity by other means, the Group may be unable to maintain its current levels of liquidity. If additional liquidity were needed, the Group might be required to obtain additional funding at significantly higher funding costs, liquidate certain of its assets or increase its central bank funding through monetary policy operations of the ECB. Ultimately, as a last resort, the Issuer may seek Emergency Liquidity Assistance ("**ELA**") provided by the Bank of Portugal, as Portugal's Eurosystem National Central Bank (the "**National Central Bank**") (which allows for the support of solvent financial institutions facing temporary liquidity problems under exceptional terms). In the past the Issuer has experienced pressure on its customer deposits following public announcements or other relevant developments about its financial position or prospects. The Group suffered significant deposit outflows from its creation until approximately the end of September 2014. Following its incorporation on 3 August 2014, the Issuer resorted to ELA funding from the Bank of Portugal as National Central Bank, but repaid all amounts borrowed under this liquidity line by December 2014 and has not subsequently applied for ELA funding. Customer deposits have increased since then, reaching €29.7 billion and representing approximately 62.9% of the Group's total liabilities as at 31 December 2017. Following the Bank of Portugal's decisions on 29 December 2015 (the "**Decisions of 29 December 2015**"), in particular, the retransfer of senior bonds back to BES (the "**Decision of 29 December 2015 on Retransfer**"), customer deposits were again under pressure.

The Issuer may experience again in the future pressure on its customer deposits. Unusually high levels of withdrawals could result in the Issuer or another member of the Group not being in a position to continue operations without additional funding support, which may be more costly or unavailable to the Issuer.

The Group's inability to attract customer deposits may impact the Group's ability to fund its operations and meet its minimum liquidity requirements (notwithstanding the availability of ELA funds under certain circumstances) and have a material adverse effect on its business, financial condition or results of operations. See "*Description of the Issuer's Business—Liquidity and Funding*" for more detail on the Group's deposit base.

The Group's liquidity could also be impaired by other limitations on its ability to raise liquidity when required, such as an inability to access wholesale funding, an inability to sell assets or redeem its investments, or to do so at an acceptable value, and other unexpected outflows of cash or collateral deterioration. These situations may arise due to factors such as a deterioration of risk perception of the Group or to circumstances that the Group is unable to control, such as continued general market disruption, loss of confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties.

The Issuer has had very limited access to the interbank markets, international capital markets and wholesale funding markets more generally since its establishment. A perception among market participants that a financial institution is experiencing constrained liquidity risk can adversely impact the institution. Circumstances in which the Group could find its liquidity further impaired include the following:

- Increased difficulty selling the Group assets, particularly if other participants in distressed situations are seeking to sell similar assets or because the market value of assets, including financial instruments underlying derivative transactions, has become difficult to ascertain, which has occurred in the recent past and may occur again.
- Financial institutions with which the Group interacts may exercise set-off rights or the right to require additional collateral.
- Customers with whom the Group has outstanding but undrawn lending commitments draw down an amount on these credit lines that is higher than the Group is anticipating.
- The Group's contingency plan for liquidity stress scenarios relies largely on its ability to raise funds on open market operations with the ECB. If the ECB were to suspend its programme, and if no similar source of financing were to exist in the market, this could severely impede the Group's ability to manage a period of liquidity stress. See "*—The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*".
- An increase in interest rates and/or credit spreads, including as a result of concerns relating to the Group, such as the need to raise additional capital (See "*—The Group is required to comply with new and increased regulatory capital and liquidity requirements*"), as well as any restriction on the availability of funding, including, but not limited to, inter-bank funding, could impact the Group's ability to borrow on a secured or unsecured basis, which may have a material adverse effect on the Group's liquidity and results of operations.

Any or all of these events could cause the Group to curtail its business activities and could increase its cost of funding, both of which could have a material adverse effect on the Group's business and results of operations.

For further information on the Group's minimum liquidity requirements, see "*Description of the Issuer's Business—Liquidity and Funding*".

The Issuer and the Group are subject to litigation risks.

As a financial institution, the Group faces legal risks in the ordinary course of its business and operations. In addition, there are currently more than 800 pending proceedings related to the validity and the impact of the

Resolution Measure and the subsequent decisions undertaken by the Bank of Portugal (including the decision pursuant to which the Issuer was established) and the effects that such measure and decisions have had in respect of third parties, such as shareholders, members of the corporate bodies, senior and subordinated creditors and clients. For further details of certain ongoing legal, administrative and arbitration proceedings relating to the Issuer and the Group, see "*Description of the Issuer's Business—Legal, Administrative and Arbitration Proceedings*".

Successful claims of this or a similar nature could have a material adverse financial effect on the Issuer and the Group or cause significant reputational harm, which in turn could have a material adverse effect on the financial condition of the Group. In addition, while the Indemnification Mechanism (as defined and described in more detail in "*Description of the Issuer's Business—Legal Administrative and Arbitration Proceedings*") may help mitigate economic risks arising from litigation related to the Resolution Measure and related decisions of the Bank of Portugal, there can be no assurance that it will be applied or, if applied, upheld. Even if the Indemnification Mechanism is successfully applied, such claims may result in adverse reputational impact on the Issuer and/or the Group. See also "*—The Group is exposed to reputational risks*".

Judicial and regulatory decisions that are unfavourable to other Portuguese banks may also have implications for the Group, even in cases in which the Issuer or any other member of the Group is not party to the proceedings. This could occur in cases where the contractual practices or clauses in question are in common use throughout the sector and are declared illegal. For example, decisions that have an impact on clauses in general terms and conditions or schedules for repayment of loans could affect the entire banking sector. This could also be the case in a decision that depends on the special circumstances of an individual case, where its result is used by third parties against the Issuer or other members of the Group. The Group may, as a consequence, be forced to change its practices or to pay compensation to avoid damage to its reputation. These decisions could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is required to make contributions to the Resolution Fund.

The Group is required to make contributions to finance the Resolution Fund, which was created in 2012 for the purpose of providing financial support in case of the application of any resolution tools by the Bank of Portugal.

From 2016 onwards the Resolution Fund has been funded through: (i) contributions paid by the entities that fall outside the scope of the Single Resolution Mechanism (the "**Single Resolution Mechanism**"); (ii) additional contributions required to fulfil its obligations regarding the financing of the resolution measures applied by the Bank of Portugal before December 2014 and paid by all participating institutions, including credit institutions established in Portugal, which can either take the form of periodic contributions or special contributions (Article 14(5) of Law No 23-A/2015, of 26 March 2015); and (iii) other sources, including proceeds of the bank levy, also due by credit institutions established in Portugal, pursuant to Law No 55-A/2010, of 31 December 2010 (*contribuição sobre o sector bancário*) (the "**Bank Levy**").

The Group's contribution will vary from time to time depending on the liabilities and own funds of the Issuer and applicable members of the Group, as compared to other participating institutions. Contribution to the Resolution Fund is adjusted to the risk profile and systemic relevance of each participating institution, in consideration of its solvency profile. For the year ended 31 December 2017, the Group paid €7.8 million in contributions to the Resolution Fund and €30.8 million in Bank Levies to the Resolution Fund (compared to €6.7 million and €37.0 million, respectively, for the year ended 31 December 2016).

With regard to additional periodic contributions, credit institutions established in Portugal, such as the Issuer and certain other members of the Group, are required to pay such contributions to the Resolution Fund in accordance with the provisions of Decree-Law No 24/2013, of 19 February 2013. Following the agreement from the Portuguese Government and the European Commission to change the terms of the financing granted to the Resolution Fund, the Resolution Fund considered that the full payment of its liabilities, as well as its respective remuneration, was assured without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector. Despite the public announcement, there cannot be any assurance that the Group will not be required to make special contributions or any other type of extraordinary contributions to finance the Resolution Fund. Any requirement for the Issuer or the Group to make special contributions or an increase in required levels of periodic contributions to the Resolution Fund would have a material adverse effect on the Group's business, financial condition and results of operations.

The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement ("CCA").

As part of the conditions of the sale of 75% of the share capital of the Issuer to the US private equity firm Lone Star Funds ("**Lone Star**") agreed in 31 March 2017 and completed on 18 October 2017 (the "**Lone Star Sale**"), the Resolution Fund and the Issuer have entered into the CCA. Currently there are legal proceedings filed in the Portuguese courts challenging the validity of the CCA and of the obligations of the Resolution Fund in connection with it. On 1 September 2017, Banco Comercial Português, S.A. announced that it had filed an application to obtain a judicial review of the contingent capitalisation obligation of the Resolution Fund agreed in connection with the Lone Star Sale. The Issuer is not party to such legal proceedings. In addition, in May 2018, the Issuer was notified that a preliminary injunction was sought in the Portuguese administrative court by a subordinated creditor of BES in relation to payments to be made pursuant to the CCA. The claimant argued that any such payment by the Resolution Fund would have a material adverse effect on the Resolution Fund's financial position and thus reduce the likelihood of the Resolution Fund's indemnification of the claimant should the Resolution Measure prove to be invalid or illegal. As at the date of this Prospectus, the request for the urgent award of the injunction has been rejected by the administrative court, however the injunction process continues. Other proceedings of a similar nature or based on similar or other grounds may be filed in the future against the Bank of Portugal, the Resolution Fund and/or the Issuer. Any Court decision that considers the CCA illegal, void or otherwise invalid, in whole or in part, or that prevents the Resolution Fund from making any payments under the CCA may have a significant effect on the Group and its financial position, including as a result of any required repayment of funds already disbursed under the CCA. See "*—The Issuer and the Group are subject to litigation risks*" and "*Description of the Issuer's Business—Contingent Capital Agreement*".

Additionally, uncertainties remain as to the potential liabilities to which the Resolution Fund may be subject, notably, in respect of the Resolution Measure applied to BES and the similar measures applied to Banif – Banco Internacional do Funchal, S.A., and the Indemnification Mechanism (as defined below). In the event any of these contingencies materialise and the Resolution Fund is considered liable, this may have a significant impact on the Resolution Fund's financial resources and increase the risk that it has insufficient funds to comply with its obligations under the CCA, which would have a material adverse effect on the Group and its financial position.

The Issuer may not be able to claim the total amount of losses regarding the assets included in the CCA.

Although the economic risk in respect of the CCA Assets is borne by the Resolution Fund, the assets continue to be owned and managed by the Issuer. For this purpose, the Issuer entered into a servicing agreement with the Resolution Fund pursuant to which there have been established the conditions and criteria under which decisions in respect of these assets may be taken. Failure by the Issuer to comply with the obligations set out in the servicing agreement and in the CCA, in particular to the extent such failure leads to an increase in the CCA Losses (as defined under "*Description of the Issuer's Business—Contingent Capital Agreement*") suffered in respect of a certain asset, may limit the ability of the Issuer to claim payments and be compensated in the maximum amounts foreseen in the CCA (which provides for a maximum aggregate compensation of €3,890 million), and in turn have a material adverse effect on the Group and its financial position.

The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks.

The Group's access to capital markets has been very limited since its establishment. As a result, in addition to deposits, the Group has made significant use of funding from the ECB. The ECB, which currently makes funding available to European banks that satisfy certain conditions, including pledging eligible collateral, was a major funding source for the majority of Portuguese banks during the financial crisis and the European sovereign debt crisis. The Group had approximately €2.8 billion and €5.1 billion net exposure with the ECB as at 31 December 2017 and 31 December 2016, respectively.

The assets of the Group that are eligible as collateral for rediscount (liquidity facilities of the ECB) with the ECB have been materially reduced in the past as a result of loss of eligibility due to changes in the eligibility criteria or changes in credit ratings, and could be materially reduced in the future as a result of price devaluations or changes in ECB rules relating to collateral, including increases in haircuts following credit downgrades or the loss of eligibility of certain assets, including those that benefit from measures implemented by the ECB to support liquidity, including the acceptance of additional credit claims. Additionally, downgrades of the credit rating of Portugal or other European sovereigns or of Portuguese companies could result in an increase in haircuts applied to any eligible collateral or in the non-eligibility of such assets, thereby further decreasing the total amount of the Group's eligible portfolio, for example with respect to securitisations and covered bonds. The continuing eligibility of Portuguese public debt as an eligible asset depends on the maintenance of an "investment grade" rating by at least one rating agency recognised by the ECB. Despite the fact that since 2017 the credit rating of Portugal has been upgraded by both Fitch and S&P to "investment grade", a credit downgrade may occur in the future. See "*—Risks Relating to the Portuguese Economy, Foreign Economies and Market Volatility—Portugal may be subject to rating downgrades*". A reduction of the pool of eligible assets and the increased difficulty in managing eligible assets to compensate for such loss of eligibility would have a negative impact on liquidity and the Issuer's ability to comply with liquidity regulatory ratios, requiring the Group to find alternative funding sources, which may have a negative impact on the Group's business, financial condition or results of operations. In addition, if the value of the Group's assets eligible as collateral for the ECB declines, then the amount of funding the Group can obtain from the ECB will be correspondingly reduced.

Although the monetary policy followed by the ECB in past years has contributed to improve the liquidity conditions of European banks, the ECB is expected to start removing the monetary stimulus progressively, which, despite the lower level of the net funding of the Issuer, could require the Group to find alternative funding sources, some of which may be more costly or may not be available at all, or to dispose of assets at a potentially significant discount in relation to their respective book values, with a corresponding negative impact on the Group's capital position and results of operations.

The Issuer may also be eligible for ELA funding. National Central Banks in the Eurosystem may provide ELA funding to solvent financial institutions with temporary liquidity problems in their respective jurisdictions, unless the ECB restricts such funding if it considers that these operations interfere with the objectives and tasks of the Eurosystem or the funding conditions. See "*—The Group is subject to liquidity risk, including that arising from its dependence on customer deposits as a principal source of funding*". At 31 December 2017, the Group's portfolio of assets eligible as collateral for rediscounting operations with the ECB (net of haircut) totalled €12.7 billion (€11.6 billion on 31 December 2016).

Any such changes in the conditions of funding from the ECB (or from the Bank of Portugal, as National Central Bank) or the value of the collateral pledged for such funding could ultimately have a materially adverse effect on the Group's business, financial condition or results of operations.

The Group is subject to the commitments undertaken by the Portuguese State to the European Commission, and a failure to achieve the commitments may result in further corrective measures being implemented.

In connection with the state aid granted in the context of the incorporation of the Issuer in 2014, the Portuguese State undertook certain commitments towards the European Commission, including a commitment to sell the Issuer within two years of its incorporation. In December 2015, the European Commission agreed to extend the deadline for the sale of the Issuer by one year, based on a revised set of commitments agreed with the Portuguese Government. These commitments were superseded by a new set of commitments agreed in October 2017 (the Commitments, as defined above), in connection with the Lone Star Sale.

The Commitments will generally remain in place until the end of 2021 (the "**Restructuring Period**"). The Commitments include: (i) the requirement to sell businesses and operations which are not considered to form part of the Group's core unit, through divestment, liquidation or winding-down, (ii) the establishment of certain operational and profitability targets and (iii) other behavioural commitments relating to its risk management and governance.

Compliance with certain Commitments, in particular the structural and viability commitments, may be challenging and the Issuer may be limited in its ability or may not be able to comply with the Commitments for reasons beyond its control, for example, due to market conditions, including those regarding divestments.

Non-compliance with the Commitments or failure to meet the targets and deadlines set out in them may lead the Portuguese Government to notify additional corrective measures to the European Commission, complementing or superseding the Commitments. These measures may include additional restrictive targets, including a further reduction in the number of branches and/or employees, or additional loss participation in accordance with state aid burden sharing rules, and may ultimately lead the European Commission to reassess the state aid which was granted to the Issuer and its compatibility with the EU state aid rules.

Such occurrences could materially and adversely impact the business, financial condition and results of operations of the Group, and could result in the Group being liquidated under normal insolvency proceedings. For further information on the Commitments, see section "*Description of the Issuer's Business—European Commission Commitments*".

Risks relating to non-strategic assets.

In the context of the Commitments and the Issuer's strategy to refocus its activities on its core banking operations, the Issuer has identified a set of assets which it aims to divest/discontinue in the coming years, such as the sale of GNB Companhia de Seguros Vida, S.A. ("**GNB Vida**"), which sale process is currently ongoing. These assets are mostly derived from the non-core business perimeter as foreseen in the Commitments.

The non-core business perimeter comprises national and international units and subsidiaries considered non-core, "out of strategy" loans, as well as real estate assets and restructuring fund exposures.

During the Restructuring Period the Issuer will need to comply with the targets for the reduction of these assets as established in the Commitments (specific targets are in place for each year). Compliance with these targets pose relevant challenges and may force the Issuer to divest or discontinue under unfavourable conditions, realise greater than expected losses and record additional impairments, any of which may result in material adverse impacts on the Issuer's business, financial condition and results of operations.

The Group is exposed to significant credit risk.

The Group is exposed to credit risk, meaning, by definition, the risk that the Group's borrowers and other counterparties are unable to fulfil their payment obligations and that the collateral securing payments of these obligations is insufficient. Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in the Group's business. Adverse changes in the credit quality of the Group's borrowers and counterparties, a general deterioration in Portuguese or global economic conditions or increased systemic risks in financial systems could affect the recovery and value of the Group's assets and require an increase in provisions for bad and doubtful debts and other credit losses.

The following indicators characterised the Group's credit risk exposure as at 31 December 2017:

- the ratio of overdue loans > 90 days to gross loans was 16.3%, compared to 17.0% as at 31 December 2016, with a coverage ratio (the ratio of provisions to overdue loans > 90 days) of 109.8% (97.2% as at 31 December 2016);
- the ratio of overdue loans to gross loans was 16.6%, compared to 17.6% as at 31 December 2016, with a coverage ratio of 108.0% (93.8% as at 31 December 2016);
- the ratio of credit at risk (as defined in Instruction no. 23/2011 of the Bank of Portugal) to gross loans was 23.6% (where the ratio of credit at risk for Corporate Loans was 32.3%, the ratio of credit at risk for Mortgage Loans was 6.6% and the ratio of credit at risk for Consumer and other Loans was 18.2%), compared to 25.6% as at 31 December 2017, with a coverage ratio of 75.9% (64.5% as at 31 December 2016); and
- the ratio of restructured loans not included in credit at risk to gross loans was 10.8%, compared to 11.9% as at 31 December 2016.

Corporate loans accounted for 63.9% of the Group's total loans and advances to customers as at 31 December 2017. The default rate of corporate loans is, on average, higher than the default rate of mortgage loans, which accounted for approximately 31.0% of the Group's total loans and advances to customers as at 31 December 2017. Consumer loans, excluding mortgages, accounted for approximately 5.0% of the Group's total loans and advances to customers as at 31 December 2017.

The Bank is exposed to the credit risk of its customers, including risks arising from the high concentration of individual exposures in its loan portfolio. The 20 largest loan exposures of the Bank as of 31 December 2017, represented 14.7% of the total loan portfolio (gross) (17.3% as of 31 December 2016). For further details please see Note 50 of the Issuer's 2017 audited annual consolidated financial statements.

Macroeconomic conditions have a significant influence on credit risk, as in an economic downturn more customers tend to fall into default, which is magnified for the Group as a result of its significant exposure to corporate and SME customers. In the context of continued weak economic conditions and high levels of unemployment, loans to corporates and individuals and the value of assets collateralising the Group's loans remain under pressure. Failure by the Group to adequately manage its credit risk could materially and adversely affect the Group's financial condition and results of operations.

The Group is exposed to significant counterparty risk.

The Group routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers-dealers, commercial banks, investment banks, insurers, mutual and hedge funds, and other institutional customers. As a result, the Group is subject to significant counterparty risk. Financial services institutions and other counterparties are inter-related because of trading, funding, clearing or other relationships. As a result, defaults by, or even rumours or questions about the financial stability of one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity disruptions, losses and defaults. Many of these relationships expose the Group to credit risk in the event of a default by one or more of its counterparties. In addition, the Group's credit risk may be exacerbated when the collateral it holds cannot be realised, or liquidated, at prices sufficient to recover the full amount of the loan or derivative exposure it is due to cover. Many of the hedging and other risk management strategies utilised by the Group also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of the Group's hedging and other risk management strategies, which could in turn have a material adverse effect on the Group's financial condition and results of operations.

The Group has a concentration of credit risk in certain industries, countries, counterparties, borrowers, issuers and customers, which may result in an increase in the provision for credit losses.

In the ordinary course of its business, the Group is subject to a concentration of credit risk in particular industries, countries, counterparties, borrowers, issuers and customers. The Group's loans and advances to customers, which comprised a net amount of approximately 49.5% of the Group's assets as at 31 December 2017 (53.9% as at 31 December 2016), had significant exposure with respect to the services sector, real estate activities and construction and public works, which represented 16.7%, 8.4% and 6.0%, respectively, of its loans and advances to customers as at 31 December 2017 (17.3%, 8.7% and 6.4%, respectively, as at 31 December 2016), with impairments representing 37.5%, 26.3% and 31.8% of the gross amount as at 31 December 2017 (34.2%, 24.3% and 27.3% as at 31 December 2016). Macroeconomic downturn or deterioration in real estate values, adverse business conditions, market disruptions or greater volatility in those industries as the result of lower prices in such industries or other factors could result in significant credit losses for the Group. See also "—*The Group is exposed to fluctuations in the value of Portuguese real estate*".

As mentioned above, the Bank is exposed to the credit risk of its customers, including risks arising from the high concentration of individual exposures in its loan portfolio. The 20 largest loan exposures of the Bank as of 31 December 2017 represented 14.7% of the total loan portfolio (gross) (17.3% as of 31 December 2016). For further details please see Note 50 of the Issuer's 2017 audited annual consolidated financial statements.

The Group's business plan contemplates an adjustment to the credit risk profile of the Group corporate loan book towards a greater exposure to the SME business segment and a deleveraging of loans identified as non-core assets or non-strategic assets, which include equity stakes in selected international operations, real estate assets, out of strategy loans and restructuring funds. Despite the fact that there is a deleverage plan for these loans, there can be no assurance that the Issuer will be able to comply with the plan, and if it does, of the circumstances or conditions in which it will be able to do so. If there is a significant deterioration of these loans or the deleveraging process is longer or carried out in worse circumstances or conditions than anticipated, the Group could suffer significant and unexpected losses.

Although the Group regularly reviews its exposure to its customers and other counterparties, as well as its exposure to certain economic sectors and countries which the Group believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect, such as any prolonged decline in general economic conditions, particularly of those in Portugal, unanticipated political events or a lack of liquidity in the economy, deterioration in the financial condition or prospects of a particular industry or a failure or downgrade of, or default by, any particular entity or group of entities. In addition, the collateral and security provided to the Group may be insufficient to cover the exposure, for example, as a result of sudden market declines that reduce the value of the collateral.

Accordingly, if the Group is unable to implement its business strategy to reduce its credit risks associated with its concentrated exposures, or if a major client or other significant counterparty were to default on its obligations, or in the event of a significant and prolonged disruption in one or more of the economic sectors to which the Group has a significant exposure, it may suffer extraordinary losses if conditions arise which severely and negatively impact the values of the underlying assets of such exposures. If this situation occurs, it could have a material adverse effect on the business, financial condition or results of operations of the Group.

The value of DTAs related to tax losses incurred by the Group is based on certain assumptions, which may be subject to change.

Under Portuguese law, deferred tax assets ("**DTAs**") 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 evaluates on an annual basis, at year end, the recoverability of the DTAs related to tax losses carried forward considering its expectations of future taxable profits.

The Issuer's most recent assessment of the recoverability of the DTAs was made as of the end of 2017, based on the business plan for the period 2018 to 2022, which business plan was approved by the Executive Board of Directors on 29 March 2018.

As at 31 December 2017, the Issuer had DTAs related to tax losses carried forward amounting to €390 million, showing a reduction from €929 million as at 31 December 2016, primarily resulting from the write-off of €520 million in the last quarter of 2017.

The write-off of the DTAs in the last quarter of 2017 related to tax losses carried forward was due to the reduction in the Bank's ability to recover DTAs, when compared to the estimated amount at the end of 2016, as a result of: (i) the Commitments which were reviewed at the time of the sale of the Issuer and finalised by the end of October 2017 and which imposed new and strict restrictions on the growth of the projected activity in the new business plan for the period 2018 to 2022; and (ii) a higher level of conservatism with respect to the Portuguese macroeconomic projections in the medium and long term, considering the challenges and difficulties faced by the Issuer in its fourth consecutive year of activity. Additionally, the more aggressive non-performing asset reduction plan, reflecting the Commitments, contributed to this less favourable evolution when compared with the former business plan. See "*—Regulatory Risks—Risks associated with the disposal of non-performing assets*".

The estimation of DTAs requires the application of a complex set of judgements, considering the uncertainties regarding the future. Changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have a material impact on the recoverability of DTAs originated by tax losses and as a result the Group's financial condition and results of operations may be materially and adversely affected.

A reduction in the Issuer's credit ratings would increase its cost of funding and adversely affect the Group's financial condition and results of operations.

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding, including the availability of certain funding instruments. Rating agencies regularly evaluate the Issuer, and its long-term credit ratings are based on a number of factors, including its financial strength, the credit rating of Portugal and the conditions affecting the financial services industry generally and the Portuguese banking system in particular. In January 2016, each of the Issuer's senior debt and long-term deposit ratings was downgraded by Moody's from B2 to Caa1, which followed shortly after a prior upgrade of the Issuer's senior debt by Moody's in the third quarter of 2015 from B3 to B2. The downgrade followed the Decisions of 29 December 2015. Moody's opinion indicated its credit downgrade reflected its assessment that the Issuer had a weak credit profile and reduced probability of government support. In January 2016, DBRS downgraded the Issuer's senior long-term debt and deposits rating to CCC (high) from B and its short-term debt and deposits rating to R-5 from R-4. In announcing its decision, DBRS commented that the Decisions of 29 December 2015 further impacted investor sentiment and confidence in the Issuer and increased its reputational risk. In April 2017, Moody's further downgraded the Issuer's senior debt to Caa2.

In October 2017, following the announcement of the results of the Issuer's senior debt liability management exercise ("**LME**"), both agencies changed the long-term senior debt ratings outlook to positive. On 3 May 2018, DBRS upgraded the Issuer's senior and long-term deposit rating to B, and upgraded the Issuer's senior and short-term deposits ratings to R-4. When upgrading long-term ratings, DBRS takes into consideration a bank's strengthened capital and its improved funding and liquidity position. DBRS decision also considers whether a bank's risk profile has improved, particularly in terms of the acceleration of the reduction in non-performing loans ("**NPLs**") and the reinforced coverage levels on these assets. On 7 May 2018, Moody's changed the outlook on the long-term deposit ratings from "rating under review" to "positive", but maintained the Issuer's rating at Caa1. Moody's rating action was triggered by the disclosure of the 2017 audited annual consolidated financial statements and reflected Moody's assessment of the Bank's liability structure at year-end 2017, incorporating the changes to its balance sheet following the completion of the LME on 4 October 2017. At the same date Moody's affirmed the Issuer's long-term senior unsecured debt rating at Caa2 with positive outlook. There can be no assurance that the rating agencies will maintain the current ratings or outlooks.

Downgrades of the Issuer's ratings, or the perceived likelihood of such a downgrade, could increase its cost of funding or, in a scenario that combines a sharp ratings drop with a further deterioration of the credit environment, could result in increasing difficulties or the total inability of the Group to access funding in the financial markets. Additionally, this could have an adverse impact on the Issuer's contractual obligations that depend on rating triggers or the risk perception of the public in general, leading to deposit outflows.

Any such downgrade to the Issuer's credit ratings could have an adverse effect on the Issuer's liquidity position, cost of funding and net interest margin, which could adversely affect the Group's financial condition and results of operations.

The Group faces significant competition in the markets in which it operates.

The Group operates in a highly competitive environment and will continue to experience intense competition from local and global financial institutions as well as new entrants, in both domestic and foreign markets. The Group's competitors in the Portuguese market are mainly commercial banks. In addition, the Group and other traditional financial institutions are facing new sources of competition from new market entrants, including alternative providers of payment services and of financial services in the so-called fin-tech space, as well as from non-financial operators (e.g., large retailers), who are increasingly promoting their own credit cards and credit lines. These alternative providers may have lower cost bases than the Group. The introduction of disruptive technology may impede the Group's ability to grow or retain its market share and impact its revenues and profitability. Furthermore, competitors might be better positioned to compete in the fin-tech space and less constrained than the Issuer.

Structural changes in the Portuguese economy over the past decades have significantly increased competition in the Portuguese financial services industry. These changes are principally related to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the EU and the introduction of the euro. Mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share, a process which has continued and is expected to continue in the future. Moreover, competition has further increased with the emergence of non-traditional distribution channels such as internet and telephone banking.

The Group's competitors may also have access to cheaper sources of funding or with better terms, including deposits. Accordingly, these banks may be able to maintain or increase their market share by offering credit products with lower interest rates, enabling them to expand lending more easily. In addition, the Commitments to which the Issuer is subject could also limit its ability to compete with other Portuguese banks, such as limitations on its business activities, including in respect of the aggregate amount of its loan book, as well as restrictions on its pricing policies. See also "*Description of the Issuer's Business—European Commission Commitments*".

The Group may not be able to compete effectively in these markets in the future. If the Group is unable to offer attractive products and services, it may lose market share or incur losses on some or all of its activities, which could adversely affect its financial condition and its results of operations.

The Group is exposed to fluctuations in the value of Portuguese real estate.

The Group is exposed to fluctuations in the value of Portuguese real estate, both directly through assets related to its operations or obtained in lieu of payment, or indirectly, through real estate that secures loans or by financing real estate projects. The Group's real estate assets registered as investment properties amounted to €1.1 billion as at 31 December 2017 (€1.2 billion as at 31 December 2016), and the real estate assets registered as other assets amounted to €1.3 billion as at 31 December 2017 (net of impairment which amounted to €0.6 million) and €1.5 billion as at 31 December 2016 (net of impairment which amounted to €0.7 million). During 2017 and 2016, the Group recognised a loss of €67.7 million and a gain of €5.1 million, respectively, related to the fair value of investment properties. Concerning the real estate registered in other assets, the impairment charge of 2017 and 2016 amounted to €54.9 million and €109.0 million, respectively. The Group is also exposed to the real estate market through the exposure to real estate subsidiaries that were acquired for resale in the short-term, through real estate funds as well as through holdings of real estate restructuring funds (funds managed by external parties that were established by the Portuguese banking system to deal with the financial recovery of companies which were in financial stress). A decrease in the value of Portuguese real estate market prices will decrease the value of the real estate assets held by the Issuer, directly or indirectly, as well as of the collateral provided with respect to such loans, thus adversely affecting the financial condition and results of the operations of the Group.

Pursuant to the General Framework for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), established by Decree-Law no 298/92 of December 1992, as amended ("**RGICSF**"), banks are prevented, unless authorised by the Bank of Portugal, from acquiring real estate that is not essential to their daily operations or their corporate purpose. However, a bank may acquire real estate in the context of credit recovery and for repayment of its own credit, provided that such real estate is disposed of within two years from its acquisition date. This two-year period may be extended by the Bank of Portugal. Despite the intention to sell real estate acquired in repayment of its own credit, the Group regularly requests the Bank of Portugal's authorisation, under article 114 of RGICSF, to extend the time period the Group has to hold foreclosed assets. However, there is no assurance that the Bank of Portugal will continue to grant such extensions, and any failure to do so could result in the Group being required to dispose of assets at a potentially significant discount in relation to their respective book values. Furthermore, any significant devaluation of Portuguese real estate market prices while these assets are held by the Group may result in impairment losses on such assets. As a result of any or all of these factors, the financial condition and results of operations of the Group could be adversely impacted.

Furthermore, as at 31 December 2017, 31.0% of the Group's loans and advances to customers consisted of mortgage loans (28.8% as at 31 December 2016). While the Group has experienced a relatively low level of defaults in these types of loans, a decrease in house prices, which can happen at any time in the future, could negatively affect the recovery value of the loans and/or increase the Group's impairment charges or capital requirements, as they depend, among others, on the loan to value ratio (which would increase in such circumstances). The majority of these loans are floating rate loans and an increase in the interest rate could also negatively impact the Group's mortgage loan portfolio. See "—*Changes in interest rates may adversely affect the Group's net interest margin and results of operations*".

The Group's loans and advances to customers in the real estate sector represented 8.4% of all its loans and advances to customers as at 31 December 2017 (8.7% as at 31 December 2016). If the real estate sector faces economic or other difficulties, this can also negatively impact the recovery value of the loans or increase the impairment charge or capital requirements. Any such changes could negatively affect the financial condition, results of operations and capital position of the Group.

Changes in interest rates may adversely affect the Group's net interest margin and results of operations.

The Group is subject to interest rate risk. As is the case with other banks in Portugal, the Group is particularly exposed to differentials between the interest rates payable by it on deposits and the interest rates that it is able to charge on loans to customers and other banks. This exposure is increased by the fact that, in the Portuguese market, loans typically have floating interest rates, whereas the interest rates applicable to deposits are usually fixed for periods that may vary between three months and three years. As a result, Portuguese banks, including the Issuer, frequently experience difficulties in adjusting the interest rates that they pay for deposits in line with market interest rate changes. This trend is reinforced by the current historically low interest rates that put pressure on a bank's interest margin.

In addition, various factors could require the Group to lower the rates that it charges on loans or to increase the rates that it pays on deposits, including reputational risks, changing demand for fixed-rate and floating-rate loans, increased inflation, and changes in the EURIBOR interest rate, changes on international interbank markets or increased competition. Any of the factors described may reduce the rate that the Group may charge on loans and other interest earning assets and, to the extent that the Group is unable to achieve corresponding reductions in the rates it pays on deposits and other interest-bearing liabilities, including if the Group's monitoring procedures are unable to manage adequately interest rate risk, could negatively impact the Group's net interest margin as well as the Group's net interest income. Lower rates and reduced margins may also result from changes in the composition of the Group's loan portfolio, such as increases in the proportion of lower-rate loan products, or a preference from depositors for savings and term accounts which usually pay a higher interest rate than on-site deposits which bear low or no interest rate.

A rise in interest rates could reduce customer demand for credit, which in turn could reduce the Group's ability to originate credit for its customers, as well as contribute to an increase in the default rate of its customers. Conversely, a reduction in the level of interest rates may adversely affect the Group through, among other things, a lower interest margin, a decrease in demand for deposits and an increase in competition in deposit taking and lending to customers. As a result of these factors, significant changes or volatility in interest rates could have a material adverse impact on the business, financial condition or results of operations of the Group.

The Group is exposed to market risks.

The Group engages in various activities for its own account, including entering into interest rate, credit, equity and exchange rate derivative transactions, as well as taking positions in fixed income and equity in the domestic and international markets and trading in the primary and secondary securities markets, including for government securities. The Group also offers these types of products and services to its customers.

As at 31 December 2017, the Group's securities portfolio, excluding the securities portfolio held by GNB Vida (which is now treated as a discontinued operation), amounted to €8.5 billion, of which 70.4% was public debt instruments, 11.3% were classified as bonds and 18.3% were shares and other variable income securities.

Additionally, 66.8% of such assets were classified as Level 1 (those that are quoted on a recognised market as of such date), 7.8% as Level 2 (those for which valuation methods with prices and standards that are observable in the markets are used), 24.8% as Level 3 (those for which valuation methods with prices and standards that are not observable in the markets are used) and the remaining 0.6% were registered at acquisition cost. As at 31 December 2016, the Group's securities portfolio amounted to €11.8 billion (€7.4 billion excluding GNB Vida), of which 55.3% were public debt instruments, 23.6% were classified as bonds and 21.1% were shares and other variable income securities. Additionally, 73.2% of such assets were classified as Level 1, 7.2% as Level 2, 19.1% as Level 3 and the remaining 0.5% were registered at acquisition cost.

As at 31 December 2017, the Group had a value at risk ("**VaR**") of €34.4 million in its trading positions in respect of equities, interest rates, volatility and credit spread, total commodities position and total foreign exchange position and liquidity management portfolios, compared to €27.0 million as at 31 December 2016. The Group's VaR is calculated using the Monte Carlo simulation, with a 99% confidence level and a holding period of ten days. See "*Description of the Issuer's Business—Risk Management—Market and Liquidity Risks—Market Risk—Trading Book and Liquidity Management Portfolio Risks*".

The Issuer's proprietary trading securities portfolio, excluding GNB Vida, is highly concentrated on sovereign exposure, reflecting a more conservative portfolio management approach and based on securities with lower risk and higher liquidity and its trading activities are mainly concentrated on the provision of these services/product offerings to its customers and risk management of the balance sheet (for further detail see "*—The Group is exposed to the risk of public debt securities of peripheral Eurozone countries*"). Nevertheless, proprietary trading involves a certain degree of risk. Protracted adverse market movements, particularly price declines, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to losses if the Group cannot close out deteriorating positions in a timely way.

The Group is exposed to the risk of public debt securities of peripheral Eurozone countries.

The Group is exposed to public debt securities of peripheral Eurozone countries. The Group is a market maker for Portuguese sovereign debt and also engages in proprietary trading. The amounts and average maturity of the debt held over time varies as a result of its market making and proprietary trading activities and of its outlook as to the attractiveness of such debt.

As at 31 December 2017, the Group's public debt securities of Eurozone countries portfolio comprised approximately €3.9 billion in Portuguese public debt (of which approximately €1.0 billion has a maturity of more than five years and, because of that, is subject to more volatility), approximately €1.5 billion in Spanish public debt, approximately €0.3 billion in Italian public debt and no exposure to Greek public debt, which together represents 67% of the Group's total securities portfolio. As at 31 December 2016, the Group's public debt securities of Eurozone countries portfolio comprised approximately €3.5 billion in Portuguese public debt (of which approximately €1.3 billion had a maturity of more than five years), approximately €1.0 billion in Spanish public debt, approximately €1.9 billion in Italian public debt and no exposure to Greek public debt. Following the implementation of IFRS9 as of January 2018, this portfolio is registered at fair value through other comprehensive income.

The fair value of the public debt portfolio could be adversely affected by volatility in financial markets, creating a risk of substantial losses that can have the effect of reducing the Issuer's Common Equity Tier 1 capital ("**CET1**") used to determine its capital ratios and could adversely affect its results of operations. Any decrease in the Issuer's capital ratios could hinder its ability to operate its business in accordance with its strategy.

In extreme situations of economic, political and social crises, governments may be reluctant or may not have access to funding in order to refinance or repay capital or pay interest on their debt securities. In a default scenario, security holders' recourse to legal mechanisms may be limited. In addition, there could be an increase in default risk in a scenario in which a Member State enters into default thereby exacerbating the negative sentiment toward other Eurozone members through a contagion effect.

The Group is exposed to reputational risks.

Negative public opinion regarding the Group and the context of its incorporation or the Portuguese financial services sector as a whole may arise from actual or perceived practices, including from the past, within the banking sector, such as defaults by issuers of securities sold to investors through entities related to the BES group, or in the way, real or perceived, that the Group conducts its activities. Many of these reputational risks are inherent in the nature of the banking industry and the Group's operations. For example, customers will generally only place funds on deposit with banks where they believe that the bank has sufficient stability and soundness. The circumstances leading up to the Resolution Measure and creation and incorporation of the Issuer as a bridge institution may have exacerbated these considerations. For example, negative publicity, public opinion and litigation relating to the Resolution Measure continue to affect the Issuer's reputation and as a result may make it difficult to retain and attract customers, leading to outflows of deposits from the Group and otherwise impacted business volumes. In addition, since the Issuer's incorporation, a number of Grupo Espírito Santo ("**GES**") security holders (such as commercial paper holders), BES security holders and holders of preferential shares issued by EuroAforro, TopRenda, Poupança Plus and EG Premium continue to claim that the Issuer is liable for the payments of their investments. These customers have generated media attention and continue to pose a reputational risk to the Issuer.

Reputational risk may also arise from any failure to comply with mandatory or permissive rules, regulations, contracts, codes of conduct, corporate governance codes or other duties, as well as any violation, or suspicion or suggestion of violation, of any rules regarding the prevention of money laundering operations and/or activities associated with economic, financial or organised crime or terrorism financing, or any international sanctions.

Negative publicity or negative public opinion in respect of management decisions or dissemination of untrue or misleading facts or circumstances may adversely affect the ability of the Group to retain and attract customers, especially retail and institutional depositors, or increase the costs of attracting and maintaining its customer base, the loss of which could have a material adverse effect on the Group's financial results and operations.

The Group is exposed to risks related to money laundering activities and compliance with anti-money laundering and anti-terrorism financing rules involves significant cost and effort.

The Group is subject to rules and regulations regarding anti-money laundering, bribery and anti-terrorist financing. In general, the risk that banks will be subjected to or used for money laundering has increased worldwide in recent years. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences for the Issuer and the Group, including in their relationships with clients, partners and other third parties. Although the Group believes that its current anti-money laundering and anti-terrorism financing policies and procedures and conduct rules (including anti-bribery) are adequate to ensure compliance with applicable legislation, the Group cannot guarantee that it has in the past or will comply, at all times, with all applicable rules or that its policies and regulations for preventing money laundering and terrorism financing and bribery, as extended to the whole Group, are applied by its employees under all circumstances. Certain past practices at BES, which occurred before the date of the Resolution Measure, evidenced non-compliance with these rules and, although any such liabilities have not been transferred to the Issuer, an investigation by relevant authorities could cause a material impact on the Group's financial results, reputation and results of operations. Non-compliance or even any suspicion of a violation of these rules may have serious reputational, legal and financial consequences, which could lead to material adverse effects on the Group's business, financial condition, results of operations and prospects. For further details on the anti-money laundering and anti-terrorist rules applicable to the Group, see "*Description of the Issuer's Business—Supervision and Regulatory Environment—Anti-money Laundering*".

The Group is exposed to actuarial and financial risks related to its pension obligations.

The Group has significant pension liabilities associated with its defined benefit pension fund, which includes the following three plans: the Master Plan (or Base Plan), the Complementary Plan and the Executive Committee's Complementary Plan (the Executive Committee's Complementary Plan is only for members of the Executive Committee and is subject to the split between the Issuer and BES pursuant to the Resolution Measure and related decisions) (the "**Pension Fund**"). The Group's expected return on the assets in its Pension Fund is based on certain assumptions. If the returns on the assets in its Pension Fund is less positive than expected or negative, the Group will be required to recognise actuarial losses on the difference between a greater expected value of the assets and the actual value. Similarly, demographic factors, such as an increase in life expectancy among active employees and pensioners, can result in changes in mortality tables used by insurance companies and thus negatively affect the Group's defined-benefit obligations, generating actuarial losses that require recognition and contribution to the Group's Pension Fund in order to guarantee that its Pension Fund liabilities are fully funded, as required by regulation.

In addition to such losses requiring contribution to the Group's Pension Fund, these actuarial losses may have the effect of reducing the Issuer's CET1, undermining the Issuer's capital ratios and negatively impacting the Issuer's shareholders' equity. Until 1 January 2018, the Issuer was required to deduct from its CET1 the portion of actuarial losses exceeding 10% of its pension liabilities or the value of its pension assets, adjusted by a phase-in factor (20% per year). After 1 January 2018, actuarial losses are deducted from CET1 in full. As at 31 December 2017, the Group's pension obligations in the Pension Fund amounted to €1,663 million, and the fair value of the Pension Fund allocated to the Issuer as at the same date was €1,648 million. The unfunded liabilities amounted to €15.1 million as at 31 December 2017 (€19.8 million as at 31 December 2016).

The Group's hedging operations may not avoid losses or be effective.

The Group undertakes hedging operations in order to reduce its exposure to the different risks associated with its activities, such as interest rate risk, credit risk and currency risk, among others. However, the Group does not hedge all of its risk exposure The Group cannot assure its hedging strategies will be successful, and furthermore, hedge counterparties are subject to credit risk. In case the hedging strategies or operations are not effective, this could have a material adverse effect on the financial condition and results of operations of the Group.

The Group faces currency fluctuation risks relating to its operations outside the Eurozone.

The Group's reporting currency is the euro. However, a portion of the Group's operations, assets and customers are located in countries outside of the Member States that use the euro.

Certain loans granted by the Group are denominated in currencies other than euro. A devaluation of any such currencies against the euro may result in a revaluation charge. Further, the Group may incur credit losses as certain borrowers may be exposed to interest payments on loans in foreign currencies while having income in local currencies. Any significant devaluation in any such currency could make it more difficult for its customers to repay their loans, and the credit risk associated with such customers and default rates could increase. Conversely, a devaluation of the euro against other currencies in which loans are made to customers would result in an increase in the Group's loan portfolio, resulting in an increase in risk weighted assets and a negative impact on capital ratios. The Group hedges certain currency risks either through its balance sheet or using financial instruments; however, the Group's hedging strategies or operations may not be successful.

As at 31 December 2017, net exposure to currencies other than the euro was €38 million (€18 million as at 31 December 2016). The currencies other than the euro to which the Group has greatest exposure are the US dollar, the British pound and the Angolan Kwanza. Fluctuations in currency exchange rates can thus adversely affect the Group's net income and assets. In addition, these currency fluctuations can adversely affect the Group's capital ratios and thus impact its ability to conduct business in line with its strategy.

The Group's business is subject to operational risks.

The Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised fraud, as a result of the Group's financial operations), fraud by the Group's own employees or management, breach or delays in the provision of services, breach of confidentiality obligations with regards to customer information and compliance with risk management requirements. The Group continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks. However, the Group may be unable to successfully monitor or prevent all or part of these risks in the future. Any failure to successfully execute the Group's operational risk management and control policies could result in reputational damage and/or have a material adverse effect on the Group's financial condition and results of operations. See "*—The Group is dependent on information technology systems and, as a result, is exposed to the risk of cyber-attack, information or security breach and information technology system failure*".

The Group is dependent on information technology systems, which may not be promptly updated or otherwise sufficient for the challenges the Group faces, including its regulatory objectives, and, as a result, it is exposed to the risk of cyber-attack, information or security breach and information technology system failure.

Banks and the activities they undertake are dependent on highly sophisticated information technology ("**IT**") systems. IT systems are vulnerable to a number of problems, such as software or hardware defects, malicious hacking, physical damage to vital IT centres and computer viruses.

Harmonising the IT systems of the Issuer and across the Group to create a consistent IT architecture poses significant challenges. IT systems need regular upgrading to meet the needs of changing business and regulatory requirements and to keep pace with possible expansion into new markets. Because IT systems used across the Group are built upon highly customised solutions relying on software from disparate vendors, the Group may not be able to implement necessary upgrades on a timely basis, and such upgrades may fail to function as planned. Moreover, the Group maintains back-up systems for its operations, with at least one of those back-up systems being located outside of its premises in Portugal. However, there are certain scenarios, for example in the event of a major catastrophe resulting in the failure of its information systems, where the Group could lose certain recently entered data with regard to its Portuguese operations or could lose more significant portions of data with regard to its international operations. Furthermore, the Group is reliant on its outsourcing contracts with IBM for the maintenance and operation of its IT systems, with Altice MEO for its communications and its software licensing contracts with Microsoft, Mysis, Calypso and Wallstreet for enterprise, treasury, dealing room and risk management software. Should any of these service providers become unwilling or unable to fulfil its obligations under these contracts, the Group could face significant challenges in maintaining and operating its IT systems, which would impact its ability to carry out its operations. Any of these challenges could add to the costs and risks associated with IT systems integration and maintenance.

In addition to costs that may be incurred as a result of any failure of its IT systems, the Group could face fines or other penalties from banking regulators if its IT systems fail to enable it to comply with applicable banking or reporting regulations, including disclosure requirements. For example, companies in Portugal must comply with data protection requirements under the Data Protection Act (*Lei da Proteção de Dados Pessoais*) Law no. 67/98 of 26 October 1998 (which transposes Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 and, in this context, covers EU requirements) (the "**Data Protection Act**") and, as from 25 May 2018, also with the General Data Protection Regulation approved by the Regulation (EU) 2016/679 of 27 April 2016 ("**GDPR**"). Under the Data Protection Act failure to comply or inadequate compliance with the Data Protection Act may result in an administrative offence (misdemeanour) punishable with a fine of up to approximately €30,000 per breach or €5 million in the case of personal data processing in the telecommunications sector). Under the GDPR, failure to comply with the obligations set out in therein results in an administrative offence punishable with a fine of up to 4% of the total worldwide annual turnover of the preceding financial year. Companies must also comply with the ePrivacy Act (Law no. 46/2012 of 29 August, which transposes Directive 2009/136/EC of the European Parliament and of the Council of 25 November, amending Directive 2002/58/EC of the European Parliament and of the Council of 12 July and, in this context, covers EU requirements) (the "**ePrivacy Act**"), which regulates the sending of direct marketing communications, use of cookies and phone call recording. Failure to comply or inadequate compliance with the ePrivacy Act may result in an administrative offence (misdemeanour) punishable with a fine of up to €5 million per breach.

Moreover, critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could significantly and adversely affect the Group's ability to service its customers, result in a loss of customers and significant compensation costs, including under breach regulations under which the Group operates, and cause long-term damage to the Group's business and reputation. For example, the failure to protect the Group's operations from cyber-attacks could result in the loss of customer data or other sensitive information. Although the Group has been implementing measures to improve its resilience to the increasing intensity and sophistication of cyber-attacks and these measures have been successful defeating such attacks, the Group can be the target of cyber-attacks in the future and there can be no assurance that it will be able to prevent all threats.

Any of the foregoing could have a material adverse effect on the normal operation of the Group's business and thus on its reputation, financial condition and results of operations.

The Group maintains contractual relationships with a large number of customers, across the jurisdictions in which the Group operates.

In order to efficiently manage these contractual relationships, the Group employs general terms and conditions and standard templates in its contracts and forms. Although this standardisation facilitates contract management, it exposes the Group to significant legal risks due to drafting errors, non-compliance with applicable requirements or insufficient legal analysis. In the light of recent amendments to applicable legal frameworks as a result of new laws and judicial decisions, and the growing influence of EU legislation on national laws, it is possible that not all of the general terms and conditions, standard contracts and forms used by the Group comply or will comply with all the applicable legal requirements at all times. This legal risk is compounded by the sheer volume of contracts entered into by the Group in the ordinary course of business.

If there are drafting errors, interpretive issues, or if the individual contractual terms or the contracts are invalid in their entirety or in part, a large number of client relationships may be affected negatively, which may result in claims for compensation or other legal consequences or reputational issues that may have an adverse effect on the financial condition and results of operations of the Group.

The Group is dependent on recruiting and maintaining senior management and key personnel.

The Group's capacity to implement its strategy depends on its ability to recruit and maintain appropriately qualified and competent employees, particularly at the senior management level. The inability to attract and retain qualified and competent employees for each specific task, in particular on a senior level, could limit or delay the execution of the Group's strategy, which could have a negative impact on the business, financial condition and operating results of the Group. The ability to attract and retain qualified and competent employees may be further impaired by the restrictions to remunerations policies imposed by the Commitments, which apply during the Restructuring Period under the conditions set out therein. See "*Description of the Issuer's Business—European Commission Commitments*".

Terrorist attacks, pandemics or other unpredictable events could have an adverse effect on the business and results of the Group.

Despite the likelihood, time, place and degree of disruption of an event of this nature being very difficult to measure, a major terrorist attack or a pandemic or other similar unpredictable event could cause a significant disturbance to economic activity, an increase in the degree of economic uncertainty, a reduction in the levels of economic confidence and could lead to a serious distortion in regional or global economic activity and, consequently, interrupt the Group's business and result in substantial losses. In addition, if the Group's business continuity plans do not address such events or cannot be implemented under the circumstances, such losses may increase. Unforeseen events can also lead to increased operating costs, such as higher insurance premiums and the need for redundant back-up systems. Insurance coverage for certain risks may also be unavailable and thus increase the Group's risk. The occurrence of any of these events or the ability to manage these risks could have a material adverse effect on the business, financial condition and results of operations of the Group.

Regulatory Risks

Risks associated with the disposal of non-performing assets.

In recent years, the supervisory authorities have focused on the value of non-performing assets ("**NPAs**") and the effectiveness and organisational structures of banks' recovery processes. The importance of reducing the ratio of NPAs to total loans has been stressed on several occasions by the supervisory authorities.

The Issuer has, mostly due to its legacy portfolio, a significantly high volume of NPAs, even when compared to its Portuguese peers, which are already considered to have a high volume of NPAs by both supervisory authorities and the market in general.

In this context and as one important pillar of its strategy, the Issuer has approved a five-year NPA reduction plan (2017 – 2022), which is expected to materially reduce the stock of NPAs, including various sales to the market, potentially in the near term. The NPA strategy and reduction plan (which mostly relates to NPLs) are aligned with the ECB's draft guidance to banks on NPLs, which addresses the main aspects of the strategy, governance and operations relating to an efficient disposal of NPLs.

However, the aim of the NPA reduction plan carries risk. The completion of the disposal of NPAs could result in a significant amount of additional losses being recorded by the Issuer due to the possible differential between their book value and the value that market participants are willing to offer for the NPAs. In addition, the final terms of any sale (if completed) may be significantly different from the Issuer's expectations, as they depend on, among other things, market conditions at the time of the sale and the existence of a secondary NPL market.

On 19 July 2017, the European Council agreed an action plan to address the problems of NPLs in the banking sector. On 4 October 2017, the ECB launched a public consultation on an addendum to the guidelines for banks on NPLs. The draft addendum specifies the expectations for minimum prudential provisioning levels, for all new exposures classified as non-performing as of 1 January 2018. More specifically, the ECB expects banks to fully cover the unsecured portion of new NPLs at the latest after two years and the secured portion after a maximum of seven years. If the addendum to the guidelines were to be substantially approved on the same terms used during the consultation (or if further ECB policies are issued in relation to the prudential coverage and regulatory treatment of current NPL stock) it may be necessary for the Issuer to increase the coverage levels for loans, or adopt other measures in relation to NPLs. There is also currently an EC proposal on prudential backstops amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures.

Other risks exist in relation to further requirements that may be imposed by the ECB, through guidelines or legislation, to accelerate the reduction of NPAs, such as the following, which are currently under discussion by the ECB: (i) reforms of insolvency and debt recovery frameworks, (ii) development of secondary markets for distressed assets, (iii) accelerated loss recognition with backstop provision limits, and (iv) requirements on the use of templates for information on NPLs. Furthermore, an increase in the entry levels of new NPLs may hinder the Issuer's ability to reduce its NPL stock.

Any of the above could have negative effects on the business, results of operations, capital and financial position of Issuer and/or of the Group.

The Group is exposed to risks associated with using internal models dependent on certain assumptions, judgements and estimates.

The Group regularly uses quantitative analysis and models in the course of its operations and general decision making. Models are used to determine the value of certain of its assets (such as certain loans and financial instruments, including illiquid financial instruments where market prices are not readily available, goodwill and other intangible assets) and liabilities (such as the Group's defined benefit obligations and provisioning) as well as the Group's risk exposure. These financial models also generally require the Group to make assumptions, judgements and estimates which, in many cases, are inherently uncertain, including expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults.

Even though the Group works continually to upgrade its internal models to adapt them to constantly changing facts, trends, market conditions and regulatory requirements, the Group may incur losses associated with factors not foreseen or contemplated by or in the models' parameters or methodology or other model related risks.

The Issuer is subject to Targeted Review of Internal Models.

The Targeted Review of Internal Models ("**TRIM**") is an exercise initiated by the ECB in 2016 that applies to all banks supervised by the European single supervisor, to assess whether the internal models currently used by banks comply with regulatory requirements and whether their results are reliable and comparable. One major objective of TRIM is to reduce inconsistencies and unwarranted variability when banks use internal models to calculate their risk weighted assets.

The TRIM exercise will entail a large number of on-site inspections to be undertaken by the ECB teams over several years. These inspections will apply to banks with internal ratings-based model certification, such as the Issuer. The first on-site inspection of the Issuer was announced in 2017 and started in January 2018.

Despite the fact that this exercise is still ongoing, and therefore the outcome is not yet known, one potential outcome may be that the Issuer's risk weighted assets are subject to an upward adjustment. If the risk weighted assets of the Issuer are subject to a material increase as a result of the TRIM exercise, this could have a significant negative impact of the Group's business and regulatory capital position.

The establishment of a uniform framework for the recovery and resolution of credit institutions may have a material adverse effect on the Group's business, financial condition and results of operations.

Law no. 23-A/2015, of 26 March amended the RGICSF by implementing Directive 2014/59/EU of 15 May 2014 establishing the framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**"), which provides for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms.

The BRRD is designed to provide authorities with a credible set of resolution tools and powers to (among other things) protect depositors and investors and to minimise reliance on public financial support.

The BRRD's broad range of resolution tools and powers may be used alone or in combination where the relevant resolution authority considers that certain required conditions are met, namely, that an institution is failing or likely to fail, that no alternative private sector measure, or supervisory action, would prevent the failure of the institution within a reasonable timeframe and that the taking of a resolution action is necessary to the public interest. The resolution tools include the power to sell or transfer assets (or ownership thereof) to another institution or to an asset management vehicle and a general bail-in tool, which provides for the write-down or conversion of certain liabilities of an institution that meet relevant conditions.

In addition to the resolution tools (such as the general bail-in tool), the BRRD provides for resolution authorities to have a further power to permanently write-down or convert into shares or other instruments of ownership, securities such as the Notes at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**"). Any shares or other instruments of ownership issued to holders of Notes upon any such conversion into shares or other instruments of ownership may also be subject to any future cancellation, transfer or dilution.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant resolution authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or (ii) the relevant resolution authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity or its group other than, where the relevant entity is an institution, for the purposes of remedying a serious disturbance in the economy of a Member State of the EEA and to preserve financial stability

In Portugal, the relevant resolution authority under the RGICSF and BRRD was, until 31 December 2015, the Bank of Portugal. On 1 January 2016, under the Single Resolution Mechanism framework, the SRB (as defined below) became fully operational, with a complete set of resolution powers. See "*Description of the Issuer's Business—Supervision and Regulatory Environment—Bank Recovery and Resolution Directive*" for a further discussion of the tools available to the relevant resolution authority pursuant to the BRRD.

The resolution powers under the RGICSF and the BRRD, by imposing funding obligations upon the Issuer and bail-in, write-down, conversion and other loss-absorption obligations upon its shareholders and creditors, may (as may perception of the exercise of any of these powers) have an impact on the manner in which the Issuer is managed and may adversely impact the credit rating of the Issuer and the Notes and their market value, as well as possibly leading to the write-down in full of the Notes or their conversion into shares. In addition, as the criteria that the relevant resolution authority will be obliged to consider in exercising any resolution powers under the RGICSF and the BRRD provide it with considerable discretion, holders of securities issued by the Issuer (including the Noteholders) may not be able to refer to publicly available criteria in order to anticipate the exercise of any such power and consequently its potential effect on the Group and the securities issued by the Group.

The creation of a deposit protection system applicable throughout the EU may result in additional costs to the Group.

On 3 July 2014 Directive 2014/49/EU, providing for the establishment of deposit guarantee schemes (the "**recast DGSD**"), introduced harmonised funding requirements (including risk-based levies), protection for certain types of temporary high balances, a reduction in pay-out deadlines, the harmonisation of eligibility categories (including an extension of scope to cover deposits by most companies, regardless of size) and new disclosure requirements, and the harmonisation of the deposit guarantee systems throughout the EU. The recast DGSD was transposed in Portugal through Law no. 23-A/2015, of 27 March 2015, as amended from time to time.

Furthermore, a proposal for a Regulation of the European Parliament and of the Council, amending Regulation (EU) No. 806/2014 in order to establish a European Deposit Insurance Scheme, is currently under discussion at an EU level.

The Group may incur additional costs and liabilities as a result of these developments. The additional indirect costs of the deposit guarantee systems may be significant, even if these are much lower than the direct contributions to the fund (as in the case of the costs associated with the provision of detailed information to clients about products, as well as compliance with specific regulations on advertising for deposits or other products similar to deposits), thus affecting the activity of the Group and, consequently, also its business activities, financial condition and results of operations. See "*Description of the Issuer's Business—Supervision and Regulatory Environment—Deposit Guarantee Fund*" for further details.

The Issuer is subject to contributions to the Single Resolution Fund, which could increase expenses or losses resulting in a negative impact on the Group's financial condition.

The Single Resolution Mechanism, which became fully operational in January 2016, is one of the pillars of the European Banking Union, alongside the Single Supervisory Mechanism (the "**SSM**") and a common deposit guarantee scheme under recast DGSD. The establishment of the Single Resolution Mechanism reflects the awareness that the harmonisation of rules on resolution, as set out in the BRRD and the Single Resolution Mechanism Regulation (Regulation (EU) No 806/2014 of the European Parliament and of the Council, of 15 July 2014) (the "**SRM Regulation**"), should be supplemented by the standardisation of procedures. To achieve this, the Single Resolution Mechanism provides for an institutional system composed of a central decision mechanism, entrusted to the Single Resolution Board ("**SRB**") and to the national resolution authorities. In sum, the Single Resolution Mechanism is a common mechanism for resolving failing banks in the European Banking Union and it is supported by a new, common, financing arrangement, the Single Resolution Fund ("**SRF**").

For its part, the SRF was created to break the link between sovereigns and the banking sector and to prevent investors from establishing borrowing conditions according to the place of establishment of the banks rather than to their creditworthiness. The SRF is financed from annual and extraordinary ex post contributions from the entities within the scope of the Single Resolution Mechanism. Such contributions are calculated by the SRB, in accordance with the SRM Regulation and the BRRD, and collected by the national resolution authorities in order to be transferred in accordance with the Agreement on the Transfer and Mutualisation of Contributions to the SRF.

The SRF has a target level of covering at least 1% of covered deposits of all credit institutions authorised in all of the participating Member States, to be reached over an eight-year period starting 1 January 2016. During this transitional period, the SRF comprises national compartments corresponding to each participating Member State. The resources accumulated in these compartments are progressively mutualised over the said period of eight years.

The Issuer and certain other members of the Group are required to contribute to the SRF. In 2017, the Group's annual contribution totalled €19.7 million The Group cannot at this stage anticipate the amount of contributions that it may need to provide in the future, which may also depend on the number and materiality of resolutions which may occur within the European Banking Union. There is the risk that such contributions may result in a significant increase to the Group's expenses or losses, which may have a material adverse effect on its business, financial condition and results of operations.

The Group operates in a highly regulated industry.

Banking and insurance activities in Portugal and in the EU are subject to extensive and detailed regulation and supervision by supervisory authorities, which have broad administrative power over many aspects of the financial and banking services business, including liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices, among others, as well as those relating to insurance services, including insurance, reinsurance, pension funds and their management companies and insurance mediation. The resources dedicated to ensure compliance with these various regulations can significantly increase the costs of the Group and limit its possibilities for increasing its income.

The laws governing banking, insurance activity, asset management and provision of financial services may change at any time in ways which may have an adverse effect on the business of the Group. Furthermore, the Group cannot predict the timing or form of any future regulatory initiatives. Changes in existing laws may materially affect the way in which the Group conducts its business, the products and services it can offer and the value of its assets.

Examples of recent regulatory changes include:

- MiFID II and Regulation 600/2014 ("**MiFIR**") and Regulation 1286/2014 relating to retail and insurance-based investment products ("**PRIIPs**"), all of which entered into force or were required to be implemented on 2 January 2018 and which has required the Issuer to adopt new internal policies in order to ensure compliance with such regulations. MIFID II has not yet been implemented in Portugal, although the draft legislation is in the final stage of the approval process and implementation is expected to take place soon. The Issuer's new internal policies and procedures (including reporting) were revised based on the expected implementation and may therefore be subject to further changes.
- The General Data Protection Regulation (Regulation (EU) No. 2016/679) which came into force on 25 May 2018 and which, as a regulation, is directly effective in all EU member states without the need for the implementation of additional national legislation. The implementation of and compliance with this regulation (and any additional national legislation passed in the context of the General Data Protection Regulation) is complex and entails significant costs and time, given that the General Data Protection Regulation introduces substantial and ambitious changes. These further changes are pending legislative approval for full GDPR implementation and until there is full GDPR implementation the previous regime is still in force, as applicable. Additionally, non-compliance with the General Data Protection Regulation may cause reputational damages and the application of very significant fines. The final impact on and costs arising for the Group from the implementation and compliance with the General Data Protection Regulation cannot be anticipated.
- On 11 May 2018, the Portuguese Parliament approved Proposal no. 90/XIII/1ª. This statute is currently subject to approval ("*promulgação*") by the President of Portugal and will enter into force as law on the day following its publication, which, as of the date of this Prospectus, has not yet taken place. This statute will require banks to reflect EURIBOR decreases in housing loan agreements. Essentially, where the interest rate applicable to a housing loan contract is negative, banks will be required to either deduct such negative value from the outstanding capital payment instalments or to constitute a claim in favour of the borrowers, which would be set-off against future interest payments once the applicable interest rate becomes positive (the borrower having the right to be fully compensated if, on the termination date of the

agreement, such a claim against the lending bank still exists). The full impact of this regime is yet to be determined.

- Anti-money laundering laws, such as Law 83/2017 of 18 August 2017 which implemented Directives 2015/849/EC and 2016/2258/EC, which may require the establishment of new internal policies and procedures and involve ongoing reporting obligations to the Bank of Portugal.
- The forthcoming implementation into Portuguese law of the directive on insurance distribution ((EU) 2016/97) (commonly known as the Insurance Distribution Directive (the "**IDD**")), which is designed to improve EU regulation in the insurance market and which will repeal and replace the Insurance Mediation Directive (2002/92/EC). For further details, see "*Description of the Issuer's Business—Supervision and Regulatory Environment*".

Moreover, the Group is subject to ongoing supervision from the SSM, including the ECB and the Bank of Portugal, as well as from the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* or "**CMVM**") and the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões* or "**ASF**"). *Non-compliance with* rules and regulations enforced by the ECB, SSM, the Bank of Portugal, CMVM or ASF may result in severe penalties and other sanctions such as bans, restrictions or activities and suspensions, which would directly impact the Group's ability to perform its activities.

In addition, the Group's operations are subject to regulation in each jurisdiction in which it operates. Often, these regulations are complex and costly to comply with in terms of time and other resources. Breach of applicable regulations may lead to penalties, fines, compliance costs, reputational harm and even loss of licences to operate.

The solvency framework for insurance companies is uncertain and may negatively impact the Issuer's operations.

The EU has developed a solvency framework for insurance companies, commonly known as "Solvency II", based on three pillars: minimum capital requirements, supervisory review of firms' assessment of risk and enhanced disclosure requirements, and encompasses valuations, the treatment of insurance groups, the definition of capital and the need for capital at a global level. The EC is continuing to develop the detailed rules that will complement the high-level principles of Directive 2009/138/EC, of 25 November 2009, as last amended by Directive 2014/51/UE, of 16 April 2014 ("**Solvency II**"). In parallel, Solvency II was transposed into Portuguese law through Law No. 147/2015, of 9 September 2015 (*Regime jurídico de acesso e exercício da atividade seguradora e resseguradora*), as amended by Decree-Law No. 127/2017, of 9 October 2017, introducing a significant change in the legal framework of the insurance business.

Solvency II implementation poses challenges for insurers that may require them to gradually adapt to the new requirements, provide for data quality and analytics needs, revise their governance systems and develop adequate tools for recurrent reporting and disclosure of information. Further regulatory developments are expected in the forthcoming years, such as review of capital requirements, long-term guarantees and macroprudential tools.

There is a risk that the effect of Solvency II implementation or any further regulatory requirements could be adverse for GNB Vida's business operations, strategy and profitability and result in an increase in capital required to support its business and a competitive disadvantage with respect to other European and non-European financial services groups. Such impact may affect the dividends policy and/or result in an increase of capital that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is required to comply with new and increased regulatory capital and liquidity requirements.

The Issuer is required by the SSM, ECB and the regulators in Portugal and other countries in which it undertakes regulated activities to maintain minimum levels of capital and liquidity. In jurisdictions in which it has branches, including within the EEA, the Issuer is also subject to the regulatory capital and liquidity requirements of such jurisdictions. The Issuer, its regulated subsidiaries and its branches may be subject to the risk of having insufficient capital resources to meet the minimum regulatory capital and/or liquidity requirements. In addition, the minimum regulatory capital and liquidity requirements may increase in the future, or the methods of calculating capital and liquidity resources may change. Changes in regulatory requirements may also require the Issuer to raise additional capital and liquidity.

In June 2013, the European Parliament and the Council of Europe issued Directive 2013/36/EU (the "**CRD IV Directive**") and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, referred to as the EU Capital Requirements Regulation (the "**CRR**") (CRR and the CRD IV Directive together, "**CRD IV**") which incorporate the key amendments of the Basel Committee for Banking Supervision (known as "**Basel III**"). The new regulations have been directly applicable to all EU Member States since 1 January 2014, but some changes under CRD IV will be implemented gradually.

On 23 November 2016, the European Commission published legislative proposals for amendments to the CRR ("**CRR II**"), the CRD IV Directive ("**CRD V**"), the BRRD ("**BRRD II**") and the Single Resolution Mechanism (collectively, the "**Proposals**"). Amendments to the BRRD to introduce a new asset class of "non-preferred" senior debt entered into force on 28 December 2017 and must be transposed into national law by 29 December 2018. Implementing domestic legislation has not yet been enacted in Portugal and no legislative proposals have been published or submitted for public discussion. The Proposals cover multiple areas, including the Pillar 2 framework, a binding minimum leverage ratio requirement, a binding net stable funding ratio requirement, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, the Basel Committee's new standardised approach for measuring counterparty credit risk exposures, the Basel Committee's Fundamental Review of the Trading Book, the MREL framework and the integration of the Total Loss-absorbing Capacity ("**TLAC**") standard into EU legislation.

The Proposals are to be considered by the European Parliament and the Council of the EU (although the Council of the EU published its general approach to the Proposals in May 2018) and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process.

In addition, on 7 December 2017, the Basel Committee and the Group of Governors and Heads of Supervision ("**GHOS**") presented reforms to the Basel III regulatory framework also known as "Basel IV". The final Basel III reforms include several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for undue variation in capital requirements for banks across the globe. The measures comprise revisions to the standardised approach for credit risk, internal ratings based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework and a revised output floor. The changes also include the introduction of a leverage ratio buffer requirement for globally systemic important banks, which the Issuer is not. The proposals contained in the Basel III reforms are intended to be applied from 2022 with a transitional period for the output floor until 2027, although these timelines remain unclear until such rules are translated into draft European and Portuguese legislation. See "*Description of the Issuer's Business—Supervision and Regulatory Environment—Capital and Capital Ratios*".

If the Group does not satisfy these or other minimum capital ratio and liquidity requirements in the future, it may be required to raise additional capital and liquidity or be subject to measures or sanctions by the Bank of Portugal or the ECB or the SSM.

If the Issuer is required to raise further capital in the future after failing to satisfy the minimum capital ratio requirements, but is unable to do so or to do so on acceptable terms, the Issuer may be required to further reduce the amount of the Group's risk weighted assets and engage in the disposition of core and non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Issuer. Any failure to maintain minimum regulatory capital ratios could result in administrative actions or other sanctions, which in turn may have a material adverse effect on the Issuer's operating results, financial condition and prospects. In addition, if the Issuer is required to strengthen its capital position, and it is not possible for the Issuer to raise additional capital from the financial markets or to dispose of marketable assets, that could potentially lead to requests for state aid in the circumstances permitted under the BRRD, as implemented in Portugal through the amendments in the RGICSF, by Law 23-A/2015 of 26 March, which could result in the dilution or elimination of the interests of ordinary shareholders and the write-off or conversion of the Notes into shares, and which may result in the Bank of Portugal exercising full control over the Issuer.

Effective management of the Group's regulatory capital and liquidity is critical to its ability to operate its business and to pursue its strategy. Any change that limits the Group's ability to manage its balance sheet and regulatory capital and liquidity resources effectively, including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk weighted assets, changes in its asset composition, delays in the disposal of certain assets or an inability to receive loans as a result of market conditions or otherwise to access funding sources, could have a material adverse impact on the Group's business, financial condition and regulatory capital position.

The Group is subject to annual review by the supervisory authorities, which may result in the Issuer being requested to maintain capital levels in excess of regulatory minimums.

In December 2014 the European Banking Authority ("**EBA**") published its final guidelines on the common procedures and methodologies that will form its Supervisory Review and Evaluation Process ("**SREP**") assessments, taking into account the general framework and principles defined in CRD IV. The SREP assessments include reviews of capital, liquidity, internal governance and institution-wide risk controls, risks to liquidity and funding, business model analysis, and broader stress testing, in order to evaluate whether the subject institution has implemented adequate arrangements, strategies, processes and mechanisms to comply with CRD IV and evaluate risks to which they are or might be exposed and risks institutions may pose to the financial system.

The Issuer is subject to the SREP review on an annual basis, and the next SREP assessment for the Issuer is expected to be completed by the ECB in 2018.

Where the SREP review identifies risks or elements of risk that are not adequately covered by Pillar 1 capital requirements or the combined buffer requirement, the ECB can determine the appropriate level of the institution's own funds under CRD IV and assess whether additional own funds are required. In addition, the SREP also includes an assessment of the adequate level of capital to be maintained in order to have sufficient capital as a buffer to withstand stressed situations, in particular as assessed on the basis of the adverse scenario in the supervisory stress tests, which is usually referred to as pillar 2 guidance ("**Pillar 2 Guidance**"). Despite the fact that Pillar 2 Guidance is not binding, banks are expected to comply with it. As indicated by the ECB, aside from any changes to the overall annual SREP assessment, the Pillar 2 Guidance is expected to be reduced by the progressive phase-in of capital buffers requirements.

Following a SREP assessment, the Group may be required to raise additional capital in order to comply with the requirements arising under the SREP. Furthermore, the ECB or other relevant supervisory authorities may take other actions that could have a material adverse effect on the Group's business, results of operations or financial condition. In addition, public statements about a failure by the Group to meet SREP requirements, or other considerations adversely affecting the Group's reputation, could lead to an increase in its cost of funding, which could in turn have a material adverse effect on the Group's business, financial condition and results of operations. Moreover, the SREP requirements may change from year to year, making it difficult for the Issuer to anticipate relevant requirements and take appropriate measures in advance of subsequent reviews.

In addition, credit institutions, such as the Issuer, are subject to additional buffer requirements, expressed as an additional CET1 ratio requirement (for further information see *"Description of the Issuer's Business—Supervision and Regulatory Environment—Capital Requirements"*). An increase in these buffers may require the Issuer to raise additional capital which could have a material adverse effect on the Group's business, results of operations or financial condition.

The Issuer has been subject to the EBA EU-wide stress testing and transparency exercises.

The Issuer was subject to the EBA's EU-wide stress testing and transparency exercises in 2015, and the final results of these exercises were disclosed in November 2015, which showed that the Issuer had a shortfall of approximately €1.4 billion in the third year of the adverse scenario defined by the EBA. Following the retransfer of €2 billion in senior bonds in connection with the Decision of 29 December 2015 on Retransfer, the Issuer no longer had a shortfall. Although the Issuer has not been subject to the EBA EU-wide stress test since 2015, it could be subject to these exercises or similar ones in future years and there can be no assurance that a shortfall will not be assessed against the Issuer at such time. If such a capital shortfall is assessed, the Issuer may be required to strengthen its own funds. Compliance with such additional requirements may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may be subject to stringent requirements with respect to MREL (as defined below).

The Financial Stability Board has issued a standard on TLAC, which sets requirements for global systemically important banks. The TLAC requirement is expected to be phased in starting from 1 January 2019. The Issuer is not a global systemically important bank.

However, the European Commission has proposed to incorporate TLAC into the European capital requirements framework, as an extension to the own funds requirements and as part of the Proposals discussed above. Although TLAC only applies to global systemically important banks, in the Proposals, the European Commission has proposed that other banks in certain EU Member States be subject to a firm-specific minimum requirement for own funds and eligible liabilities ("**MREL**") regime under which they would be required to issue a sufficient amount of eligible instruments to absorb expected losses in resolution and to recapitalise the institution or the surviving part thereof.

The Issuer expects that the SRB together with the Bank of Portugal will notify the Issuer of its MREL requirements during 2018, as well as of the timing for their implementation. The Group may not hold sufficient MREL as at the date it is required to meet such requirements and/or raising such levels could be expensive, which could have a material adverse effect on the Group's financial condition and results of operations.

The Group's capital may be impacted by changes in accounting standards.

The Issuer's and the Group's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU (IFRS). From time to time, the applicable accounting standards are amended and/or replaced with new requirements, which could have a material adverse effect on the Issuer's results of operations and financial condition.

For example, IFRS 9 was endorsed by the European Union and its implementation is mandatory for annual periods starting on or after 1 January 2018. The Group expects the principal impact of IFRS 9 on it to result from the introduction of a new model for recognising and measuring impairments based on expected credit losses. IFRS 9 requires the Group to move from an incurred loss model previously applied under IAS 39 to an expected loss model requiring the Group to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. As permitted by the transitional provisions of IFRS 9, the Group will not restate the comparative values in its financial statements arising from the application of IFRS 9. The impacts on the consolidated financial statements of the Group will be recognised in retained earnings and, therefore, in its reported regulatory capital. The Issuer considers that IFRS 9 can have a negative effect on the Issuer's results of operations and financial condition.

The impacts on the Group's consolidated financial statements resulting from the adoption of IFRS 9 are estimated, as at 1 January 2018, and based on available information at that date and a number of assumptions, to result in a decrease in the total equity of the Group of approximately €349 million. The Group adopted the transitional regime set in Regulation (EU) no. 2017/2395, amending Regulation (EU) no. 575/2013. Consequently, the prudential impact of the adoption of IFRS 9 as at 1 January 2018 was estimated at about €97 million (equivalent to €90 million in accounting terms), which corresponds to a reduction of approximately 29 basis points in the consolidated CET1 ratio of the Issuer. The tax treatment of the impacts of IFRS 9 adoption, mainly arising from credit impairment, is dependent on tax legislation in Portugal that is expected to enter into force in 2018. The actual impact of IFRS 9 adoption may be materially different.

IFRS 9 has increased the complexity of the Group's impairment modelling as it involves considerable management judgement with respect to forward looking information. IFRS 9 may lead to a one-off increase in impairment allowances for certain financial assets on the Group's balance sheet, which could impact the Group's regulatory capital position and also the manner the Group accounts for its deferred tax assets. For further information on IFRS 9, see note 54 to the Group's audited annual consolidated financial statements for the year ended 31 December 2017.

Further changes in financial reporting standards or policies, including as a result of choices made by the Group, could have a material adverse effect on the Issuer's business, financial condition, results of operations and regulatory capital position.

The Group may be adversely affected by changes in fiscal legislation and regulations.

The Group may be adversely affected by fiscal changes in Portugal, in the EU, and in the other countries where it operates. The Group has no control over these fiscal changes or over changes in the interpretation of fiscal legislation by any tax or other authority. Significant changes in fiscal legislation in Portugal, the EU or the other countries where the Group operates, or difficulties in implementing or complying with new tax laws and regulations may have a material adverse impact on the Group's activity, financial condition and results of operations.

Risks Related to the Notes

The obligations of the Issuer in respect of the Notes are unsecured and subordinated to the claims of Senior Creditors.

The Notes constitute unsecured and subordinated obligations of the Issuer.

On a Winding-Up of the Issuer, all claims in respect of the Notes will rank junior to the claims of all Senior Creditors (as defined in the Conditions) of the Issuer. If, on a liquidation of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Noteholders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank pari passu with the Notes, Noteholders will lose all or some (which may be substantially all) of their investment in the Notes.

For the avoidance of doubt, the Noteholders shall, in a liquidation of the Issuer, have no claim in respect of the surplus assets (if any) of the Issuer remaining in any liquidation following payment of all amounts due in respect of the liabilities of the Issuer.

Although the Notes may pay a higher rate of interest than securities which are not subordinated, there is a substantial risk that the Noteholders will lose all or some of the value of their investment should the Issuer become insolvent.

As at 31 December 2017, the Issuer had total liabilities of €42 billion, all of which ranks senior to the Notes. Other than the ordinary shares and any additional Tier 1 or Tier 2 capital issued by the Issuer in the future, all claims against the Issuer will be senior to the Notes.

Noteholders are also subject to the provisions of the BRRD relating to, inter alia, the write down of capital instruments and the bail-in of liabilities. See, "*The Notes, as subordinated notes, may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer or the Group*" for a further description.

The Notes, as subordinated notes, may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer or the Group.

The BRRD contemplates that subordinated notes, such as the Notes, may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool.

The powers provided to resolution authorities in the BRRD include write-down/conversion powers to ensure that capital instruments (including Tier 2 instruments, such as the Notes) absorb losses at the point of non-viability of the Issuer or the Group. Accordingly, the BRRD contemplates that resolution authorities may require the write down of such capital instruments (including the Notes) in full on a permanent basis, or their conversion in full into shares or other instruments of ownership at the point of non-viability independently of or in conjunction with any resolution action, if any.

The BRRD provides, *inter alia*, that the relevant resolution authorities shall exercise the write down power of reducing or converting, according to an order of priority of claims in normal insolvency procedures, in a way that results in:

i) CET1 instruments absorbing the relevant losses first; and then

ii) To the extent necessary, the principal amount of other capital instruments (additional Tier 1 and then Tier 2 instruments (such as the Notes)) being written down and/or converted into shares or other instruments of ownership.

The taking of any such actions could adversely affect the rights of Holders, including the write-down or conversion (in whole or in part) of their Notes. Any such actions or the perceived likelihood of any such actions being taken may adversely impact the price or value of their investment in the Notes.

The remedies available to Noteholders under the Notes are limited.

Noteholders may not at any time demand repayment or redemption of their Notes, although in a Winding-Up the Noteholders will have a claim for an amount equal to the principal amount of the Notes together with any accrued interest and any Additional Amounts thereon.

The sole remedy in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described in Condition 7 (*Default*), is that a Noteholder may, subject to applicable laws, institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the Issuer arising under the Notes in any Winding-Up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes are more limited than those typically available to the Issuer's unsubordinated creditors. For further details regarding the limited remedies of the Noteholder, see Condition 7 (*Default*).

Limitation on gross-up obligation under the Notes.

The obligation under Condition 8 (*Taxation*) to pay Additional Amounts in the event of any withholding or deduction in respect of taxes on any payments under the terms of the Notes applies only to payments of interest and not to payments of principal or any such other amount. As such, the Issuer would not be required to pay any Additional Amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal or any such other amount. Accordingly, if any such withholding or deduction were to apply to any payments of principal or any such other amount under the Notes, Noteholders may receive less than the full amount of principal or any such other such amount due under the Notes upon redemption, and the market value of such Notes may be adversely affected.

Further, the obligation under Condition 8 (*Taxation*) to pay Additional Amounts in the event of any withholding or deduction in respect of taxes on any interest payments is subject to certain exceptions, including where a Noteholder fails to comply with certain documentary and/or information obligations as foreseen under the STRID regime, in which case the Issuer would not be required to pay any Additional Amounts and the Noteholders would potentially receive less than the full amount of interest due under the Notes. Noteholders are advised to consult their own tax advisors and to closely monitor any applicable documentary and information requirements.

The terms of the Notes may be modified (including a change in the governing law of the Notes), or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances.

If a Tax Event or a Capital Disqualification Event occurs and is continuing, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities, without the consent of the Noteholders.

Qualifying Tier 2 Securities must have terms which are the same as the terms of the Notes to the greatest extent possible (save as needed to ensure that the relevant Tax Event or Capital Disqualification Event is addressed) and (other than in respect of the effectiveness and enforceability of Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*) and any changes to the governing law, jurisdiction and service of process provisions of the Notes as set out in Conditions 14(a), (b) and (c) not be materially less favourable to holders than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial advisor of international standing. However, there can be no assurance that, due to the particular circumstances of a Noteholder, such Qualifying Tier 2 Securities will be as favourable to each investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Qualifying Tier 2 Securities are not materially less favourable to holders than the terms of the Notes.

In particular, any change to the governing law and jurisdiction provisions of the Notes may be materially unfavourable to Noteholders. For example, procedural and substantive provisions of such other law may be less favourable to creditors than, or otherwise significantly different from, English law. Furthermore, the courts may generally be less experienced, predictable, or efficient than the English courts. While it is difficult to foresee the exact impact of any such changes, any of the foregoing factors or other consequences of changing the governing law and jurisdiction of the Notes may have a material adverse effect on Noteholders' investment in the Notes and may subject them to losses that they would not have otherwise incurred. See also "—*Brexit may lead to a Capital Disqualification Event and, among other things, to changes to the terms and conditions of the Notes, including a change in the governing law of the Notes*".

Brexit may lead to a Capital Disqualification Event and, among other things, to changes to the terms and conditions of the Notes, including a change in the governing law of the Notes.

With certain exceptions, the Notes and the Instrument and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England (see Condition 14(a) of the Notes). However, in certain circumstances, the Issuer has the right to change various important terms of the Notes, including the governing law of the Notes, without the Noteholders' consent.

Uncertainty remains over the terms of the United Kingdom's expected exit from the EU. Until the terms and timing of the exit are clearer, it is not possible to determine whether it and/or any related matters may have an impact on the capital treatment of the Notes for the Issuer. Under regulations currently applicable to the Issuer and the Notes, given that the United Kingdom is a member state of the European Union it is not necessary for the Notes to include a contractual recognition by Noteholders of the possibility of their claims under the Notes being bailed in or converted in the circumstances contemplated in the BRRD. Once the United Kingdom has left the European Union, the BRRD as currently in force may require liabilities such as the Notes to include a provision in which their holders agree to be bound by any exercise of write-down or conversion powers by the resolution authority unless transitional provisions are introduced or such authority is satisfied that English law, or a binding agreement entered into by the United Kingdom, means that this is not required.

If the United Kingdom were to leave the European Union in the circumstances described above where such a contractual provision were required under the BRRD and/or any amended form of the CRR, such a provision may be required in order for the Notes to continue to count as Tier 2 capital for the Issuer. For this reason, the Issuer has included such a provision in Condition 14(d) of the Notes in which (among other matters) Note holders acknowledge and accept that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority (as such terms are defined in Condition 14(d)). If the Portuguese or any European resolution authority were not to accept the effectiveness or enforceability of such provision, or if they were to require the Notes to be governed by a law other than English law for them to continue to count as Tier 2 capital of the Issuer or the Group, it is possible that a Capital Disqualification Event might occur. If a Capital Disqualification Event were to occur, the Issuer would have the right (subject to the conditions set out in Condition 5(b)) (i) to redeem the Notes at their principal amount together with any accrued and unpaid interest or (ii) (without any requirement for the consent or approval of the Noteholders) to substitute the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities and to make any related amendments to the Instrument and the Agency Terms.

In the case of (i), one of the conditions to any such redemption prior to the fifth anniversary of the Issue Date would be that, if and to the extent then required under prevailing Regulatory Capital Requirements, the Issuer demonstrates to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

In the case of (ii), in respect of any change to the terms of the Notes made to ensure the effectiveness and enforceability of Condition 14(d) and any changes to the governing law, jurisdiction and service of process provisions of the Notes as set out in Conditions 14(a), (b) and (c), there is no requirement that the terms of the Notes after variation or substitution (as the case may be) be not materially less favourable to an investor than the terms of the Notes prior to such variation or substitution, and nor is there is any requirement that any changes to the governing law, jurisdiction and service of process provisions of the Notes as set out in Conditions 14(a), (b) and (c) not cause a negative change in any rating of the Notes. See also "*—The terms of the Notes may be modified (including a change in the governing law of the Notes), or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances*".

There is no limit on the amount or type of further bonds or indebtedness that the Issuer may issue, incur or guarantee.

There is no restriction on the amount of bonds or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or pari passu with, the Notes. The issue, incurrence or guaranteeing of any such bonds or other liabilities may reduce the amount (if any) recoverable by Noteholders during a winding-up or administration or resolution of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes. The Issuer may also issue, in the future, subordinated liabilities which rank senior to the Notes.

Because the Notes are held in Interbolsa, investors will have to rely on Interbolsa procedures.

The Notes will be issued in uncertificated, dematerialised book-entry form and cleared in Interbolsa, through direct or indirect accounts with Euroclear and Clearstream, Luxembourg. Legal title to the Notes will be evidenced by book entries in individual Securities Accounts established by Affiliate Members of Interbolsa. Transfers of title to the Notes will take place in accordance with Portuguese law and the rules and procedures for the time being of Interbolsa.

Each person who is for the time being shown in individual Securities Accounts established by an Affiliate Member of Interbolsa as the Holder of a particular principal amount of the Notes shall be treated by the Issuer and the Paying Agent as the Holder of such principal amount of such Notes for all purposes.

Noteholders may not require the redemption of the Notes prior to their maturity.

Unless previously redeemed or purchased and cancelled, the Notes will mature on 6 July 2028 (the "**Maturity Date**"). The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Noteholders have no right to require the Issuer to redeem or purchase any Notes at any time. Prior to the Maturity Date, any redemption of the Notes and the purchase of any Notes by the Issuer will be subject always to receiving Supervisory Permission (as defined in the Conditions), and the Noteholders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

The Notes are subject to early redemption at the option of the Issuer and upon the occurrence of certain tax and regulatory events.

Subject to receiving Supervisory Permission (if required), the Issuer may, at its option, redeem all (but not some only) of the Notes at any time at their principal amount plus interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the redemption date on the Reset Date, or, upon the occurrence of a Tax Event or a Capital Disqualification Event, at any time.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. Further, during periods when there is an increased likelihood, or perceived increased likelihood, that the Notes will be redeemed early, the market value of the Notes may be adversely affected.

If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Noteholders may only be able to reinvest the redemption proceeds in securities with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

The events referred to above may occur and lead to circumstances in which the Issuer may elect to redeem the Notes, but even then, the Issuer may not satisfy the conditions or may not elect to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes on the Reset Date if the Issuer's funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed the Noteholders may not be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

The interest rate on the Notes will be reset on the Reset Date, which may affect the market value of the Notes.

The Notes will initially accrue interest at a fixed rate of interest to, but excluding, the Reset Date. From, and including, the Reset Date, however, the interest rate will be reset to the Reset Rate of Interest (as described in Condition 4 (*Interest Payments*)). This reset rate could be less than the initial rate of interest, which would affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

In addition, the Reset Rate of Interest derives in part from the EURIBOR benchmark. On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Whilst the announcement related to LIBOR, similar concerns may be applicable to EURIBOR. The Financial Stability Board also made certain recommendations to reform major interest rate benchmarks, such as key interbank offered rates. It is not possible to predict whether, and to what extent, banks will continue to provide EURIBOR submissions to the administrator of EURIBOR going forwards.

The Notes do not contain provisions for the substitution of EURIBOR should such rate be discontinued.

The rate of interest on the Notes for the period from (and including) the Reset Date is calculated as the aggregate of 8.233 per cent. and the Reset Reference Rate (as defined in the Conditions) which is based on the mid-swap rate for swap transactions in euro (with a maturity equal to five years) (the "**Mid-Swap Rate**") as displayed on the relevant screen page at 11:00 a.m. (in London) on the Reset Determination Date (as defined in the Conditions). If EURIBOR, as a component of the Mid-Swap Rate, were reformed, discontinued or otherwise unavailable, the Mid-Swap Rate appearing on the relevant screen page on the Reset Determination Date may be higher or lower than it has been in the past and any such consequences could adversely affect the value of and return on the Notes.

To the extent that the Mid-Swap Rate does not appear on the relevant screen page at 11:00 a.m. on the Reset Determination Date, the Reset Reference Rate shall be determined using the alternative methods described in the Conditions. Any of these alternative methods may result in interest payments that are lower than or that do not otherwise correlate over time with the payments that would have been made on the Notes if the Mid-Swap Rate was available in its current form. Further, the same costs and risks that may lead to the discontinuation or unavailability of EURIBOR (and as a consequence, the Mid-Swap Rate) may make one or more of these alternative methods impossible or impracticable to determine. The final alternative method set forth in the Conditions sets the Reset Reference Rate at the Mid-Swap Rate which was last displayed on the relevant screen page prior to the Reset Determination Date. Any of the foregoing may have an adverse effect on the value of the Notes.

The Issuer may be substituted as sole obligor in respect of the Notes.

At any time, the Issuer or any previously substituted company may (subject to receiving Supervisory Permission (if required)) substitute for itself on a subordinated basis equivalent to that referred to in Condition 2 (*Status*) and Condition 3 (*Subordination*) as the sole obligor under the Notes any Subsidiary of the Issuer without the consent of the Noteholders, provided that (i) no payment in respect of the Notes is at the relevant time overdue and (ii) certain other conditions set out in Condition 10(c) (*Substitution*) are satisfied. Such substitution may have adverse consequences, including adverse tax consequences for Noteholders.

Meetings of Noteholders and modification.

The Conditions of the Notes and the Instrument will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The quorum requirements for such meetings does not require all Noteholders to vote or be present. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain Conditions (including, inter alia, the provisions regarding subordination referred to in Condition 2 (*Status*) and Condition 3 (*Subordination*), the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes, or the Interest Rate or varying the method of calculating the Interest Rate) the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

In addition, the Agent and the Issuer may, without the consent of the Noteholders, make any modification of the Conditions, the Instrument or the Agency Terms which (i) is not prejudicial to the interests of the Holders, (ii) is of a formal, minor or technical nature, (iii) is made to correct a manifest error, or (iv) is to comply with mandatory provisions of any applicable law or regulation. Any such modification shall be binding on the Holders and shall be notified to the Holders as soon as practicable.

Each investor in the Notes must act independently as they do not have the benefit of a trustee.

Because the Notes will not be issued pursuant to an indenture or a trust deed, the Noteholders will not have the benefit of a trustee to act upon their behalf and each investor will be responsible for acting independently with respect to certain matters affecting their interests in the Notes including instituting proceedings, following an event described in Condition 7(b) (*Enforcement*), and responding to any requests for consents, waivers or amendments.

Change of law.

The Conditions of the Notes will be governed by the laws of England save that (i) the provisions of Condition 3 (Subordination) relating to the subordination of the Notes and set-off and (ii) the provisions of Condition 1 (*Form, Denomination, Title and Transfer*) relating to the form and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by, and shall be construed in accordance with, the laws of Portugal. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or Portugal or administrative practice after the date of this Prospectus, including as a result of the United Kingdom's departure from the EU. As set out above, any security interests (rights in rem) granted by the holders thereof over the Notes will need to comply with the mandatory requirements of Portuguese law, including relating to perfection.

Legality of purchase.

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

A Noteholder's actual yield on the Notes may be reduced from the stated yield by transaction costs.

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Credit ratings assigned to the Issuer or the Notes may not reflect all the risks associated with an investment in those Notes.

The Notes have been rated by Moody's and DBRS. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In addition, rating agencies may assign unsolicited ratings to the Notes. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable solicited ratings assigned to the Notes, which could adversely affect the market value and liquidity of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Risks Related to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk and interest rate risk.

There is no existing secondary trading market for the Notes and one may not develop.

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded bonds from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition of the Issuer deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes in full, or of the Notes being subject to loss absorption under an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer’s control.

Any or all of such events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Issuer and any subsidiary of the Issuer can (subject to receiving Supervisory Permission (if required)) purchase Notes at any time, they have no obligation to do so. Purchases made by the Issuer could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, Noteholders should be aware of the prevailing credit market conditions (which continue at the date of this Prospectus), whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the Notes or the assets of the Issuer. The Issuer cannot predict whether these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Although applications have been made for the Notes to be admitted to trading on Euronext Dublin, there is no assurance that such application will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the

"**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency or euro may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal as measured in the Investor's Currency.

Interest rate risks.

An investment in the Notes, which bear interest at a fixed rate (reset after five years), involves the risk that subsequent changes in market interest rates may adversely affect their value. The rate of interest will be reset after five years, and as such the reset rate is not pre-defined at the date of issue of the Notes; it may be different from the initial rate of interest and may adversely affect the yield of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes.

The issue of the €400,000,000 8.500 per cent. Fixed Rate Reset Callable Subordinated Notes due 2028 (the "**Notes**") of Novo Banco, S.A. (the "**Issuer**") was authorised by a resolution of the Executive Board of Directors of the Issuer passed on 20 June 2018 further to the prior consent of the General and Supervisory Board by a resolution passed on 23 May 2018. The Notes are in book-entry form and are constituted by registration in individual securities accounts ("**Securities Accounts**") held by or on behalf of the Holders in Affiliate Members of Interbolsa, and governed by these terms and conditions (the "**Conditions**") and a deed poll given by the Issuer in favour of the Holders dated 6 July 2018 (the "**Instrument**"). The Notes also have the benefit of the Agency Terms dated 6 July 2018 (such Agency Terms as amended and/or restated and/or supplemented from time to time, the "**Agency Terms**"). The Issuer will be the initial paying agent (the "**Paying Agent**") and the initial agent bank (the "**Agent Bank**") in respect of the Notes. The Holders are entitled to the benefits of, bound by, and are deemed to have notice of, all the provisions of the Instrument and the Agency Terms applicable to them. Copies of the Instrument and the Conditions are available for inspection by Holders during normal business hours at the registered office of the Issuer.

Words and expressions defined in the Instrument or the Agency Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between the Agency Terms and the Instrument, the Instrument will prevail and that in the event of any inconsistency between the Agency Terms or the Instrument and the Conditions, the Conditions will prevail.

1 Form, Denomination, Title and Transfer

The Notes are issued in denominations of €100,000. The Notes are issued in dematerialised book-entry (*forma escritural*) and are in registered (*nominativas*) form. The Notes are registered with the Central de Valores Mobiliários (the "**CVM**"), a Portuguese Securities Centralised System managed and operated by Interbolsa – *Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* ("**Interbolsa**"). Each person shown in the individual Securities Accounts held with an Affiliate Member of Interbolsa as having an interest in the Notes shall be considered the Holder of the principal amount of Notes recorded therein. Title to the Notes passes upon registration in the relevant individual Securities Accounts held with an Affiliate Member of Interbolsa. Any Holder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in respect of it) and no person will be liable for so treating the Holder.

In these Conditions, "**Holder**" or "**Noteholder**" means the person in whose name a Note is registered in the relevant individual Securities Accounts held with an Affiliate Member of Interbolsa.

2 Status

The Notes constitute direct and unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of Holders in respect of, or arising under, their Notes (including any damages awarded for breach of obligations in respect thereof) are subordinated as described in Condition 3.

3 Subordination

(a) *Winding-Up*

If a Winding-Up occurs, the rights and claims of the Holders against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any accrued and unpaid interest thereon, Additional Amounts and any damages awarded for breach of any obligations in respect of such Note, provided however that such rights and claims shall (to the extent permitted by applicable law) be subordinated as provided in this Condition 3(a) to the claims of all Senior Creditors but shall rank (i) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith and (ii) in priority to the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith and to the claims of holders of all classes of share capital of the Issuer.

(b) *Set-Off*

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes or the Instrument and each Holder shall, by virtue of his holding of any Note, be deemed, to the extent permitted under applicable law, to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up, the liquidator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator of the Issuer and accordingly any such discharge shall be deemed not to have taken place.

4 Interest Payments

(a) *Interest Rate*

The Notes bear interest at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 4.

Interest shall be payable on the Notes annually in arrear on each Interest Payment Date as provided in this Condition 4 and, in respect of each full Interest Period up to the Reset Date, shall amount to €8,500 per Calculation Amount.

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a year, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

(b) ***Interest Accrual***

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 5(a), (c), (d) or (e) or the date of substitution thereof pursuant to Condition 5(f), as the case may be, unless payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall, save as provided in Condition 4(a) in relation to payments of Interest for each Interest Period up to the Reset Date, be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 4(a) for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(c) ***Initial Fixed Interest Rate***

For the Initial Fixed Rate Interest Period, the Notes bear interest at the rate of 8.500 per cent. per annum (the "**Initial Fixed Interest Rate**").

(d) ***Reset Rate of Interest***

The Interest Rate will be reset (the "**Reset Rate of Interest**") in accordance with this Condition 4 on the Reset Date. The Reset Rate of Interest will be determined by the Agent Bank on the Reset Determination Date as the sum of the Reset Reference Rate and 8.233 per cent.

(e) ***Determination of Reset Rate of Interest***

The Agent Bank will, as soon as practicable after 11:00 a.m. (Central European time) on the Reset Determination Date, determine the Reset Rate of Interest in respect of the Reset Period. The determination of the Reset Rate of Interest by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

(f) ***Publication of Reset Rate of Interest***

The Agent Bank shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 4 in respect of the Reset Period to be given to the Paying Agent (if a different entity to the Agent Bank), any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 11, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth TARGET Business Day thereafter.

If the Notes become due and payable pursuant to Condition 7(a), the accrued interest per Calculation Amount and the Reset Rate of Interest payable, as applicable, in respect of the Notes shall nevertheless continue to be calculated as previously by the Agent Bank in accordance with this Condition 4 but no publication of the Reset Rate of Interest need be made.

(g) ***Agent Bank and Reset Reference Banks***

The Issuer will maintain an Agent Bank and (if required) the number of Reset Reference Banks provided below where the Reset Rate of Interest is to be calculated by reference to them.

The Issuer may from time to time replace the Agent Bank or any Reset Reference Bank with another leading investment, merchant or commercial bank or financial institution. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Reset Rate of Interest in respect of the Reset Period as provided in Condition 4(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid. A Reset Reference Bank may not be the Issuer or any of its affiliates.

(h) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank, shall (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Paying Agent and all Holders and (in the absence of wilful default or negligence) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

5 Redemption, Substitution, Variation and Purchase

(a) ***Final Redemption***

Unless previously redeemed or purchased and cancelled or (pursuant to Condition 5(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on 6 July 2028. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.

(b) ***Conditions to Redemption, Substitution or Variation, and Purchase***

Any redemption or purchase of the Notes or substitution or variation of the terms of the Notes, in each case in accordance with Conditions 5(c), (d), (e), (f) or (g) is subject to:

(i) the Issuer obtaining prior Supervisory Permission therefor;

(ii) in the case of any redemption or purchase, if and to the extent then required under prevailing Regulatory Capital Requirements, either: (A) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and

(iii) in the case of any redemption prior to the fifth anniversary of the Issue Date, if and to the extent then required under prevailing Regulatory Capital Requirements (A) in the case of redemption upon a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Capital Disqualification Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase, the prevailing Regulatory Capital Requirements permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 5(b), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with Article 78 of the CRR shall not constitute a default of the Issuer under the Notes or for any purpose.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 5 (other than a redemption pursuant to Condition 5(c)), the Issuer shall deliver to the Paying Agent to make available at its registered office to the Holders a copy of a certificate signed by two members of the Executive Board of Directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied and, in the case of a substitution or variation, that the terms of the relevant Qualifying Tier 2 Securities comply with the definition thereof in Condition 16 and, in the case of a redemption pursuant to Condition 5(d) only, an opinion from a nationally recognised law firm or other tax adviser in Portugal, experienced in such matters to the effect that the relevant requirement or circumstance referred to in any of paragraphs (i) to (iii) (inclusive) of the definition of "Tax Event" applies.

(c) ***Issuer's Call Option***

Subject to Condition 5(b), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

(d) ***Redemption Due to Tax Event***

If, prior to the giving of the notice referred to in this Condition 5(d), a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

(e) ***Redemption Due to Capital Disqualification Event***

If, prior to the giving of the notice referred to in this Condition 5(e), a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

(f) ***Substitution or Variation***

If a Tax Event or a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable and shall specify the date for substitution or, as the case may be, variation of the Notes) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the Reset Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities and may make any consequential amendments to the Instrument and the Agency Terms. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 5(f), as the case may be and make any consequential amendments to the Instrument and the Agency Terms.

In connection with any substitution or variation in accordance with this Condition 5(f), the Issuer shall comply with all securities and other laws and the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

The exercise of such substitution or variation rights may have adverse tax and other consequences for Holders and Holders should consult their own tax and other advisers in connection therewith. The Issuer is not required to take into account the consequences to Holders if it exercises its rights of substitution or variation hereunder.

(g) ***Purchases***

The Issuer may, subject to Condition 5(b), purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. The Notes so purchased (or acquired), while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders.

(h) ***Cancellation***

All Notes redeemed or substituted by the Issuer pursuant to this Condition 5 will forthwith be cancelled in accordance with the applicable regulations of Interbolsa. All Notes purchased by or on behalf of the Issuer may, subject to obtaining any Supervisory Permission therefor, be held, reissued, resold or, at the option of the Issuer, cancelled in accordance with the applicable regulations of Interbolsa.

6 Payments

(a) ***Method of Payment***

Payments in respect of the Notes will be made by transfer to the account of the Holder maintained by or on its behalf in the relevant Affiliate Member of Interbolsa, details of which appear in the records of the relevant Affiliate Member of Interbolsa at close of business on the TARGET Business Day before the due date for payment of principal and/or interest.

If the due date for payment of any amount in respect of any Note is not a TARGET Business Day, the Holder shall not be entitled to payment of the amount due until the next succeeding TARGET Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

(b) ***Payments Subject to Laws***

Save as provided in Condition 8, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

7 Default

(a) *Default*

(i) If the Issuer shall not make payment in respect of the Notes for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Instrument and the Notes and a Holder may notwithstanding the provisions of Condition 7(b), institute proceedings for the winding-up of the Issuer.

(ii) In the event of a Winding-Up of the Issuer (whether or not instituted by a Holder pursuant to the foregoing), a Holder may prove and/or claim in such Winding-Up of the Issuer, such claim being as contemplated in Condition 3(a). If a Winding-Up occurs, then any Holder may give notice to the Issuer and to the Paying Agent at their respective registered offices, effective upon the date of receipt thereof by the Issuer, that the Notes held by such Holder(s) are, and they shall accordingly thereby forthwith become, immediately due and repayable together with accrued interest and any Additional Amounts thereon.

(b) *Enforcement*

Without prejudice and subject to Condition 7(a), a Holder may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Instrument, the Agency Terms or the Notes (other than any payment obligation of the Issuer under or arising from the Instrument, the Agency Terms or the Notes, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions, the Instrument and the Agency Terms. Nothing in this Condition 7(b) shall, however, prevent a Holder from instituting proceedings for the winding-up of the Issuer (in accordance with and to the extent permitted by applicable law at the relevant time) and/or proving and/or claiming in any Winding-Up of the Issuer in respect of any payment obligations of the Issuer arising from the Notes, the Instrument and the Agency Terms (including any damages awarded for breach of any obligations) in the circumstances provided in Condition 3(a) and 7(a).

(c) *Extent of Holders' Remedy*

No remedy against the Issuer, other than as referred to in this Condition 7, shall be available to the Holders, whether for the recovery of amounts owing in respect of the Instrument, the Notes or in respect of the Agency Terms or any breach by the Issuer of any of its other obligations under or in respect of the Instrument, the Notes or under the Agency Terms.

8 Taxation

All payments of principal, interest and any other amounts by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction or any political subdivision thereof or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount) the Issuer will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders of such amounts as would have been received by them in respect of payments of interest had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

(a) held by a recipient which is not the ultimate beneficial owner of the income arising from such Note; or

(b) held by or on behalf of a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than a mere holding of such Note; or

(c) held by, or by a third party on behalf of, a Holder who could lawfully prevent (but has not so prevented) such deduction or withholding by complying or procuring that any third party complied with any statutory requirements or by making or procuring that any third party made a declaration of non-residence or other similar claim for exemption to any applicable tax authority; or

(d) held by, or by a third party on behalf of, an entity resident for income tax purposes in a country, territory or region subject to a clearly more favourable tax regime, as listed in the Ministerial Order no. 150/2004, of 13 February 2004, issued by the Portuguese Minister of Finance and Public Administration (as amended), or legislation replacing it, unless a Double Tax Convention or a Tax Information Exchange Agreement entered into between such country, territory or region and Portugal is in force at the time the interest becomes due and payable; or

(e) to, or to a third party on behalf of, a Holder in respect of whom the documentation required to certify the tax residence, pursuant to the conditions set forth in Decree-Law no. 193/2005, of 7 November 2005, as amended, and accessory regulations, or legislation replacing it, is not provided within 30 days after the Relevant Date.

References in these Conditions to principal, interest, and/or any other amount in respect of interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions.

Notwithstanding any other provisions of these Conditions, all payments of principal, interest and any other amount by or on behalf of the Issuer in respect of the Notes shall be made net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.

9 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Meetings of Holders, Modification, Waiver and Substitution

(a) ***Meetings of Holders***

The Instrument contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Instrument. Such a meeting may be convened by the Issuer or Holders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes or the Interest Rate or varying the method of calculating the Interest Rate) the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. The agreement or approval of the Holders shall not be required in the case of any substitution or variation of the Notes required to be made in the circumstances described in Condition 5(f) in connection with the substitution of the Notes for, or variation of the terms of the Notes so that they remain, or as appropriate become, Qualifying Tier 2 Securities.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Instrument provides that a resolution in writing signed by or on behalf of the Holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) ***Modification of the Notes***

The Agent and the Issuer may, without the consent of the Holders, make any modification of these Conditions, the Instrument or the Agency Terms which (i) is not prejudicial to the interests of the Holders, (ii) is of a formal, minor or technical nature, (iii) is made to correct a manifest error, or (iv) is to comply with mandatory provisions of any applicable law.

Any such modification shall be binding on the Holders and shall be notified to the Holders as soon as practicable. No modification to these Conditions or any provisions of the Instrument shall become effective unless (if and to the extent required at the relevant time by the Competent Authority) the Issuer shall have given such period of prior written notice thereof required by the Competent Authority, to, and received Supervisory Permission therefor from, the Competent Authority (provided that there is a requirement to give such notice and obtain such Supervisory Permission).

(c) ***Substitution***

Subject to the Issuer giving at least 30 days' prior written notice thereof to, and receiving Supervisory Permission therefor from, the Competent Authority (or such other period of notice as the Competent Authority may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such Supervisory Permission) the Issuer, or any previous substituted company, may at any time, without the consent of the Holders, substitute for itself on a subordinated basis equivalent to that referred to in Conditions 2 and 3 as principal debtor under the Notes any Subsidiary of the Issuer (the "**Substitute**"), provided that no payment in respect of the Notes is at the relevant time overdue. The substitution shall be made by a deed poll (the "**Deed Poll**") and may take place only if (i) the obligations of the Substitute under the Deed Poll and the Notes shall be unconditionally guaranteed by the Issuer on a subordinated basis equivalent to that referred to in Conditions 2 and 3 by means of the Deed Poll, (ii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll and the Notes represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Issuer have been taken, fulfilled and done and are in full force and effect, (iii) legal opinions addressed to the Holders shall have been delivered to them (care of the Agent) from a lawyer or firm of lawyers with a leading securities practice in England and the country of incorporation of the Substitute as to the fulfilment of the preceding conditions of this Condition 10(c) and (iv) the Issuer shall have given at least 14 days' prior notice of such substitution to the Holders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Holders, will be available for inspection at the registered office of the Paying Agent. References in Condition 7 to obligations under the Notes shall be deemed to include obligations under the Deed Poll.

In connection with any substitution in accordance with this Condition 10(c), the Issuer shall comply with all securities and other laws and the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(d) ***Notices***

Any such modification or substitution shall be binding on all Holders and shall be notified to the Holders in accordance with Condition 11 as soon as practicable thereafter.

11 Notices

Notices required to be given to the Holders pursuant to the Conditions shall be valid if published in such manner as the stock exchange on which Notes are listed or its rules and regulations may prescribe or accept. The Issuer shall also ensure that all such notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. The Issuer shall also comply with the requirements of Interbolsa and of Portuguese law generally in respect of notices relating to the Notes.

As at the Issue Date, notices are required to be (i) published on the website of the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") and (ii) delivered to Interbolsa for communication to its Affiliate Members.

12 Further Issues

The Issuer may from time to time without the consent of the Noteholders, but subject to any Supervisory Permission required, create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

13 Agents

The Issuer shall be the initial Paying Agent and the initial Agent Bank. Any Paying Agent or Agent Bank does not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Paying Agent or the Agent Bank and to appoint replacement agents, provided that it will:

(a) at all times maintain a Paying Agent; and

(b) whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank.

Notice of any such termination or appointment and of any change in the registered offices of the Paying Agent or Agent Bank will be given to the Holders in accordance with Condition 11. If either the Agent Bank or the Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the Issuer shall appoint an independent financial institution to act as such in its place. All calculations and determinations made by the Agent Bank or the Paying Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Agent Bank, the Paying Agent and the Holders.

14 Governing Law and Jurisdiction

(a) ***Governing Law***

The Instrument, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England, save that (i) the provisions of Condition 3 relating to the subordination of the Notes and set-off and (ii) the provisions of Condition 1 relating to the form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by, and shall be construed in accordance with, the laws of Portugal. The Agency Terms and any non-contractual obligations arising out of or in connection therewith, shall be governed by, and shall be construed in accordance with, the laws of Portugal.

(b) ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Instrument or the Notes (other than Condition 3 relating to the subordination of the Notes and set-off and Condition 1 relating to the form and transfer of the Notes, creation of security over the Notes, and the Interbolsa procedures for the exercise of rights under the Notes (together the "**Excluded Matters**"), in respect of which the courts of Portugal shall have jurisdiction) and accordingly any legal action or proceedings arising out of or in connection with the Notes (including any legal action or proceedings relating to non-contractual obligations arising out of or in connection with them) ("**Proceedings**") may be brought in such courts. The Issuer has in the Instrument irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (other than in respect of Excluded Matters) and to the jurisdiction of the courts of Portugal in respect of any Proceedings relating to Excluded Matters.

(c) ***Service of Process***

The Issuer has in the Instrument irrevocably appointed Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX as agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

(d) ***Acknowledgement of Statutory Loss Absorption Powers***

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements or understanding between the Issuer and any Noteholder (which, for the purposes of this Condition 14(d), includes each Holder of a beneficial interest in the Notes), by its acquisition of the Notes, each Noteholder acknowledges and accepts that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

(1) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:

(i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;

(ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Noteholder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes, in which case the Noteholder agrees to accept in lieu of its rights under the Notes any such shares, other securities or other obligations of the Issuer or another person;

(iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and

(iv) the amendment or alteration of the maturity date of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and

(2) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

16 Definitions

In these Conditions:

"**Additional Amounts**" has the meaning given to it in Condition 8;

"**Affiliate Member**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") for the purpose of holding individual Securities Accounts on behalf of Euroclear and Clearstream, Luxembourg

"**Agency Terms**" has the meaning given to it in the preamble of these Conditions;

"**Agent Bank**" has the meaning given to it in the preamble to these Conditions;

"**BRRD**" means Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as the same may be amended or replaced from time to time;

"**Calculation Amount**" means €100,000 in principal amount;

"**Capital Disqualification Event**" is deemed to have occurred if there is a change (which the Issuer determines has occurred or which the Competent Authority considers to be sufficiently certain) in the regulatory classification of the Notes which becomes effective after the Issue Date and that results, or would be likely to result, in some of or the entire principal amount of the Notes being excluded from the Tier 2 Capital of the Group or the Issuer (other than as a result of any applicable limitation on the amount of such capital as applicable to the Group or the Issuer, as the case may be). For the avoidance of doubt, any amortisation of the Notes pursuant to Article 64 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012 (or any equivalent or successor provision) shall not constitute a Capital Disqualification Event;

"**Competent Authority**" means the Bank of Portugal, the European Central Bank or such other authority having primary supervisory authority with respect to prudential matters concerning the Issuer and/or the Group;

"**Conditions**" means these terms and conditions of the Notes, as amended from time to time;

"**EEA Regulated Market**" means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

"**euro**" or "**€**" means the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome establishing the European Communities as amended;

"**Extraordinary Resolution**" has the meaning given to it in the Instrument;

"**Group**" means the Issuer and its Subsidiaries;

"**Holder**" has the meaning given to it in Condition 1;

"**Initial Fixed Interest Rate**" has the meaning given to it in Condition 4(c);

"**Initial Fixed Rate Interest Period**" means the period from (and including) the Issue Date to (but excluding) the Reset Date;

"**Interest Payment Date**" means 6 July in each year, starting on (and including) 6 July 2019;

"**Interest Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the Initial Fixed Interest Rate and/or the Reset Rate of Interest, as the case may be;

"**Issue Date**" means 6 July 2018, being the date of the initial issue of the Notes;

"**Issuer**" means Novo Banco, S.A.;

"**Market**" means Euronext Dublin's EEA Regulated Market;

"**Noteholder**" has the meaning given to it in Condition 1;

"**Notes**" has the meaning given to it in the preamble to these Conditions;

"**Official List**" means the official list of Euronext Dublin;

"**Paying Agent**" has the meaning given to it in the preamble to these Conditions;

"**Qualifying Tier 2 Securities**" means securities issued directly by the Issuer or issued indirectly by the Issuer and guaranteed by the Issuer (on a subordinated basis equivalent to the subordination set out in Conditions 2 and 3) that:

(a) have terms which are the same as the terms of the Notes to the greatest extent possible (save as needed to ensure that the relevant Tax Event or Capital Disqualification Event is addressed) and (other than, if needed to ensure that the Capital Disqualification Event is addressed, in respect of the effectiveness and enforceability of Condition 14(d) and any changes to the governing law, jurisdiction and service of process provisions of the Notes as set out in Conditions 14(a), (b) and (c)) are not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer)) prior to the issue of the relevant securities or, as appropriate, variation of the Notes, and, subject thereto, which (i) contain terms which comply with the then current requirements of the Competent Authority in relation to Tier 2 Capital; (ii) provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes; (iii) rank senior to, or *pari passu* with, the ranking of the Notes; (iv) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to the timing of and amounts payable upon such redemption; and (v) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; and

(b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other internationally recognised stock exchange as selected by the Issuer;

provided that where the Notes which have been substituted or varied had a solicited published rating from the Rating Agency immediately prior to their substitution or variation, the Rating Agency has ascribed, or announced its intention to ascribe, a published rating to the relevant Qualifying Tier 2 Securities equal to or higher than (i) the solicited published rating of the Notes from the Rating Agency immediately prior to their substitution or variation or (ii) where the solicited published rating of the Notes was, as a result of Condition 14(d) becoming ineffective and/or unenforceable, amended prior to such substitution or variation, the solicited published rating of the Notes from the Rating Agency immediately prior to such amendment, save that this proviso shall not prevent any changes being made to Conditions 14(a), (b) and/or (c) where such changes are needed to ensure that the relevant Capital Disqualification Event is addressed;

"**Rating Agency**" means Moody's Investors Service Ltd. or its successor;

"**Regulatory Capital Requirements**" means, at any time, any requirement contained in the laws, regulations, requirements, guidelines and policies of the Competent Authority, Portugal and/or any regulation, directive or other binding rules adopted by the institutions of the European Union then in effect in Portugal relating to capital adequacy and applicable to the Group and/or the Issuer;

"**Relevant Amounts**" means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and Additional Amounts due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority;

"**Relevant Date**" means (i) in respect of any payment other than a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that such payment will be made, provided that payment is in fact made, and (ii) in respect of a sum to be paid by the

Issuer in a Winding-Up of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the Winding-Up;

"**Relevant Jurisdiction**" means Portugal or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes;

"**Relevant Resolution Authority**" means the resolution authority with the ability to exercise any Statutory Loss Absorption Powers in relation to the Issuer;

"**Reset Date**" means 6 July 2023;

"**Reset Determination Date**" means, in respect of the Reset Period, the day falling two TARGET Business Days prior to the first day of such Reset Period;

"**Reset Period**" means the period from and including the Reset Date to but excluding 6 July 2028;

"**Reset Rate of Interest**" has the meaning given to it in Condition 4(d);

"**Reset Reference Banks**" means five leading swap dealers in the principal interbank market relating to euro selected by the Agent Bank in its discretion after consultation (if the Agent Bank is not the Issuer at the relevant time) with the Issuer;

"**Reset Reference Rate**" means in respect of the Reset Period:

(i) the mid-swap rate for swap transactions in euro (with a maturity equal to five years) as displayed on the Screen Page at 11:00 a.m. (in London) on the Reset Determination Date or

(ii) if such rate is not displayed on the Screen Page at such time and date, the Reset Reference Bank Rate or

(iii) if, in such circumstances, no Mid-Swap Quotations are provided as set out below, the Reset Reference Rate will be the mid-swap rate for swap transactions in euro (with a maturity equal to five years) which was last displayed on the Screen Page prior to the Reset Determination Date.

Where:

"**Mid-Swap Quotations**" means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (a) has a term commencing on the Reset Date which is equal to five years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

"**Reset Reference Bank Rate**" means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Agent Bank at or around 11:00 a.m. in London on the Reset Determination Date and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided;

"**Screen Page**" means Reuters screen page " ICE SWAP 2", or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates;

"**Senior Creditors**" means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer; and (b) creditors of the Issuer whose claims are or are expressed to be subordinated to the claims of other creditors of the Issuer (other than those whose claims are in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital or Tier 2 Capital or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of Holders in respect of the Notes);

"**Statutory Loss Absorption Powers**" means any write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Portugal, relating to (i) the transposition of the BRRD (including but not limited to the General Framework for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), established by Decree-Law no 298/92 of December 1992, as amended) and (ii) the instruments, rules and standards created thereunder, pursuant to which any obligation of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period);

"**Subsidiaries**" means any entity of which the Issuer, from time to time (i) owns, directly or indirectly, more than 50 per cent. of the share capital or similar right of ownership, or (ii) owns or is able to exercise, directly or indirectly, more than 50 per cent. of the voting rights, or (iii) has the right to appoint the majority of the members of the board of directors, and in each case is within the consolidation perimeter of the Issuer;

"**Supervisory Permission**" means, in relation to any action, such supervisory permission or non-objection (or, as appropriate, waiver) by the Competent Authority as is required therefor under prevailing Regulatory Capital Requirements (if any);

"**TARGET Business Day**" means a day on which the TARGET System is operating;

"**TARGET System**" means the Trans European Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto);

"**Tax Event**" is deemed to have occurred if, as a result of a Tax Law Change:

(i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; or

(ii) the Issuer is no longer entitled to claim a deduction in respect of any payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced; or

(iii) the Issuer is not able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable Portuguese tax purposes (whether under the tax grouping system current as at the date of issue of the Notes or any similar system or systems having like effect as may from time to time exist);

and, in any such case, the Issuer could not avoid the foregoing by taking measures reasonably available to it;

"**Tax Law Change**" means a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Notes, which change or amendment becomes public or becomes effective on or after the Issue Date;

"**Tier 1 Capital**" has the meaning given to it from time to time by the Competent Authority or the applicable prudential rules;

"**Tier 2 Capital**" has the meaning given to it from time to time by the Competent Authority or the applicable prudential rules; and

"**Winding-Up**" means:

(i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by an Extraordinary Resolution and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions); or

(ii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the General Framework for Credit Institutions and Financial Companies (*Regime Geral das Instituções de Crédito e Sociedades Financeiras*), established by Decree-Law no 298/92 of December 1992, as amended.

FORM OF THE NOTES

General

The Notes will be cleared through Interbolsa and will be held through a centralised system (*'sistema centralizado'*) composed of interconnected Securities Accounts, through which such securities (and inherent rights) are created, held and transferred, and which allows Interbolsa to control at all times the amount of securities so created, held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The CVM, managed and operated by Interbolsa, provides for all procedures required for the exercise of rights carried by the Notes held through Interbolsa, except for information and voting rights.

The CVM will comprise, *inter alia*, (i) the issue account, opened by the Issuer in the CVM and which reflects the full amount of the Note outstanding from time to time; and (ii) the control accounts opened by each of the Affiliate Members (as defined below) of Interbolsa, and which reflect at all times the aggregate nominal amount of the Notes held by such Affiliate Member by or on behalf of the Holders in individual Securities Accounts.

The Notes will be allocated an International Securities Identification Number ("**ISIN**") through the codification system of Interbolsa. The Notes will be accepted and registered with CVM and settled by Interbolsa's settlement system.

Form of the Notes

The Notes will be in book-entry form and title thereto will be evidenced by book entries in accordance with the provisions of the Portuguese securities code (*Código dos Valores Mobiliários*) enacted by Decree-Law no. 486/99 of 13 November 1999 (as amended and restated from time to time) (the "**Portuguese Securities Code**") and the applicable CMVM and Interbolsa regulations. No physical document of title will be issued in respect of the Notes.

The Notes will be registered in the relevant issue account opened by the Issuer with the CVM and will be also recorded in control accounts by each Affiliate Member (as defined below) of Interbolsa. Such control accounts reflect at all times the outstanding amount of the Notes held in the individual Securities Accounts opened with each of the Affiliate Member of Interbolsa. Where used in this Prospectus, the expression "**Affiliate Member of Interbolsa**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding individual Securities Accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the Securities Accounts established in an Affiliate Member of Interbolsa as having title to the Notes shall be treated as the Holder of the principal amount of the Notes recorded therein.

Payment of principal and interest in respect of Notes

Payment of principal and interest in respect of the Notes will be subject to Portuguese laws and regulations, notably the regulations from time to time issued and applied by the CMVM and by Interbolsa.

The Issuer must give Interbolsa advance notice of all payments and provide all necessary information for that purpose.

Prior to any payment, the Paying Agent shall provide Interbolsa with a statement of acceptance of its role of Paying Agent.

Interbolsa must notify the Paying Agent of the amounts to be settled, which will be determined by Interbolsa on the basis of the account balances of the control accounts of each relevant Affiliate Member of Interbolsa.

On the date on which any payment in respect of the Notes is to be made, the corresponding entries and counter-entries will be made by Interbolsa in the TARGET2 System current accounts held by such Paying Agent and by the relevant Affiliate Members of Interbolsa.

Whilst the Notes are recorded at the CVM, payment of principal and interest in respect of the Notes will be (a) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) from the payment current account which the Paying Agent has indicated to, and has been accepted by, Interbolsa to be used on the Paying Agent's behalf for payments in respect of the Notes to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members of Interbolsa whose control accounts with the CVM are credited with such Notes and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current accounts to the accounts of the Holders of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

Transfer of the Notes

The Notes may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Notes. No Holder will be able to transfer the Notes, except in accordance with Portuguese law and the applicable procedures of Interbolsa.

Each purchaser of Notes and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) it understands that the Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Regulation S, in each case in accordance with any applicable securities laws of any State of the United States; and

(iii) the Issuer and the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

USE OF PROCEEDS

The Notes are being issued (i) in exchange for outstanding securities of the Issuer, acting through its Luxembourg branch, and of NB Finance Ltd. validly offered for exchange and accepted pursuant to a concurrent exchange offer (the "**Exchange Offer**"); and (ii) to raise funds (a) in order to purchase outstanding securities of the Issuer, acting through its Luxembourg branch, and of NB Finance Ltd., pursuant to concurrent tender offers (the "**Tender Offers**") which, together with the Exchange Offer, are being made pursuant to a separate Tender and Exchange Offer Memorandum dated 22 June 2018, and (b) for general corporate purposes. For the avoidance of doubt, no funds will be raised with respect to any Notes issued pursuant to the Exchange Offer.

DESCRIPTION OF THE ISSUER'S BUSINESS

1 Overview

The Group is a financial group headquartered in Portugal, its primary market, with a strong franchise in the corporate and retail segments. The Issuer is a bank in Portugal focused on corporate banking, in particular for SMEs, with an estimated 18.1% and 18.5% market share of the Portuguese corporate loan market[1] and 21.1% and 22.6% in trade finance as at 31 December 2017[2] and 31 December 2016, respectively. As at 31 December 2017 corporate loans accounted for a 63.9% share of the Issuer's total gross loan book. The Issuer was the fourth largest bank in Portugal by total assets, with approximately 1.3 million clients as at 31 December 2017.[3] The Group's commercial banking operations are complemented by its asset management business GNB – Gestão de Ativos, SGPS, S.A. ("**GNB Gestão de Ativos**"). The Group also has a life insurance business, GNB Vida, which is currently subject to a sale process.

The Issuer is registered with the Commercial Registry of Lisbon under the single registration and tax identification number 513 204 016 and its registered address is Avenida da Liberdade, no. 195 1250-142 Lisbon, Portugal.

2 History of the Bank

The Issuer, the parent company of the Group, centres its activity on banking, having been incorporated by a decision of the Board of Directors of the Bank of Portugal on 3 August 2014 under no. 5 of article 145-G of the RGICSF following the Resolution Measure. Pursuant to the Resolution Measure, the majority of each of the assets, liabilities, off-balance sheet items and assets under management of BES were transferred to the Issuer in accordance with the aforementioned decision.

Following its establishment as a bridge bank in August 2014, the Issuer's main focus was to resolve its short-term liquidity and funding constraints and manage its capital position. The Issuer also sought to restore customer confidence, and experienced significant deposit growth following a period of significant deposit outflow and consequent stabilisation of its funding during the last quarter of 2014 with an increase of €4.2 billion. The Issuer also began to deleverage its balance sheet by engaging in selective asset sales, while continuing to support SMEs, in general, and exporting companies, in particular. As a result, the Issuer was able to maintain a central position in the Portuguese banking sector.

On 4 December 2014, the Resolution Fund announced the launch of the sale of the Issuer. The completion of the second phase of the sale process was announced by the Bank of Portugal on 17 April 2015 and five entities were selected to submit binding offers, of which three proceeded to do so. However, on 15 September 2015, the Bank of Portugal announced its decision to suspend the sale process as it was not satisfied with the binding offers submitted.

As a bridge bank and in accordance with the commitments agreed with the European Commission, the deadline for the sale of the Issuer was no later than 24 months after 3 August 2014. In December 2015, the European Commission authorised a one-year extension of such deadline and set out additional commitments. Such commitments were superseded in October 2017 by new commitments following the Lone Star Sale. For further details see "—*European Commission Commitments*".

[1] (Source: the Issuer and the Bank of Portugal).

[2] (Source: the Issuer and SWIFT).

[3] (Source: Caixa Geral de Depósitos, Banco Comercial Português, Banco Santander Totta and Portuguese Banking Association)

On 29 December 2015 the Board of Directors of the Bank of Portugal approved the Decisions of 29 December 2015, which resulted in a revised and consolidated version of Annex 2 to the decision of 3 August 2014 and consolidated the scope of assets, liabilities, off-balance sheet items and assets under management of the Issuer. Among other measures, the Bank of Portugal decided to retransfer to BES the responsibility for certain issues of non-subordinated bonds issued by BES, which were identified in Annex I to the Decision of 29 December 2015 on Retransfer.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star to purchase 75% of the Issuer's share capital and that the Resolution Fund had entered into a sale and purchase agreement with Lone Star for such sale. The sale of the Issuer to Nani Holdings, S.G.P.S., S.A. ("**NANI Holdings**"), a subsidiary fully controlled by funds managed by the Lone Star group, was concluded on 18 October 2017 through a €750 million capital increase funded by NANI Holdings. Upon completion of the sale and a further €250 million capital increase contributed by Lone Star through NANI Holdings, completed on 21 December 2017, the share capital of the Issuer increased to €5,900,000,000.00, represented by 9,799,999,997 dematerialised registered shares with no par value, of which 75% were fully subscribed, paid up and held by NANI Holdings and the remaining 25% by the Resolution Fund.

The conditions of the sale included the setting up of a contingent capital mechanism (see "—*Contingent Capital Agreement*"), under which the Resolution Fund, as a shareholder, undertook to make payments (up to a maximum of €3,890 million) in the event of certain conditions being met that relate to the performance of a defined set of assets of the Group and the evolution of the Group's capitalisation levels. The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund and to align incentives, as well as supervision mechanisms and an indemnification mechanism designed to mitigate economic risks arising from certain litigation. See "—*Description of the Issuer's Business—Legal Administrative and Arbitration Proceedings*".

Upon completion of the sale, the bridge institutions regime ceased to apply to the Issuer and it started to operate under normal conditions although it remains subject to certain measures imposed by the European Commission that limit its activity as further detailed herein. For further details see "—*European Commission Commitments*".

3 Recent Developments

3.1 Governance

On 18 October 2017, in addition to the completion of the sale process, the General Meeting of Shareholders approved an amendment to the Issuer's Articles of Association (the "**Articles**") and the appointment of new members to the corporate bodies. The amendments to the Articles included changes to the management and supervisory structure, which is currently composed of a General and Supervisory Board, the Executive Board of Directors and a Statutory Auditor. The new members of the General and Supervisory Board and the Board of the General Meeting were appointed for the 2017-2020 term of office. The General and Supervisory Board in turn appointed the members of the Executive Board of Directors for the same 2017-2020 term of office. See "—*Management and Supervisory Corporate Bodies*" for more information.

3.2 Contingent Capital Mechanism

In line with the conditions agreed in the Lone Star Sale, a contingent capital mechanism was created. The Issuer has requested the Resolution Fund to make a payment under the CCA in the amount of €791.7 million, which payment was made on 24 May 2018. See "—*Contingent Capital Agreement*" for more information.

3.3 2017 Liability Management Exercise

On 4 October 2017, the Issuer concluded a tender offer and consent solicitation in relation to 36 series of senior debt securities issued by entities within the Group, with the objective of strengthening the Issuer's equity. This liability management exercise ("**LME**") was one of the conditions precedent for the completion of the Lone Star Sale under the terms of the purchase and sale agreement announced on 31 March 2017. The offer targeted the purchase of all of the bonds of the target series, against a cash consideration; the offer was combined with a consent solicitation in relation to certain amendments to the terms and conditions of the securities (the "**Consent Solicitation**"). The 36 series of senior debt securities had maturities between 2019 and 2052 and a total nominal value of €8.3 billion, which corresponded to around €3 billion in book value. The completion of the LME involved the purchase and early redemption, under the terms of the LME, of €4.7 billion of bonds by nominal value, representing 57% of the nominal value of the bonds subject to the offer, for a total cash amount of €2.0 billion.

3.4 Current Liability Management Exercise

On 22 June 2018, the Issuer launched the Exchange Offer and the Tender Offers in respect of outstanding senior bonds issued by the Issuer, acting through its Luxembourg branch, and by NB Finance Ltd., pursuant to which eligible bondholders were invited to (i) offer their bonds for exchange for the Notes to be issued pursuant to this Prospectus or (ii) tender their bonds for purchase by the Issuer for cash. See "*Use of Proceeds*".

3.5 Disposals

The Group's strategy of focusing on its domestic banking business (see "—*Strategy*") involved the identification of assets for sale that were considered non-strategic to the Bank's activity including, consistent with the Commitments:

- Sale to BANCAMIGA, Banco Universal, CA (Venezuela) of the assets and liabilities of the Issuer's branch in Venezuela. With the completion of this transaction in February 2018, the Issuer ceased to have any banking activity in Venezuela and its Venezuelan branch is to be closed.
- Sale of the 36.65% stake held in Vortal SGPS, SA, an electronic procurement platform, to Vallis Sustainable Investments I, SCA, SICAR fund, which completed in October 2017.
- A sale and purchase agreement has been entered into with IIBG Holdings B.S.C., in respect of 90% of the share capital of Banco Internacional de Cabo Verde. The completion of this transaction was pending the necessary authorisation from Banco de Cabo Verde, which was granted on 22 May 2018. This transaction is expected to close soon.
- Sale to Amkor Technology, Inc. of a 41.06% stake in the share capital of, and loans granted to, Nanium, SA, a company in the semiconductors sector.
- Conclusion of the sale of 75% of the share capital of NOVO BANCO Ásia to a group of investors led by Well Link Group Holdings Limited, a company incorporated in Hong Kong, for €145.8 million. The sale agreement provides for a set of put and call options, under conditions already agreed, for the remaining 25% of the share capital. These options can be exercised within a period of up to 5 years, making up a total price for the 100% holding of €183 million.

- The indirect subsidiary ES Concessions International Holding BV completed the sale of a 22.21% stake in Empark – Aparcamientos y Servicios, SA to ASSIP, Asesoría y Estudios de Mercado SA and ESIF I, BV.
- Launch of a process to sell up to 100% of the share capital of GNB Vida which is currently underway. See note 53 of the 2017 financial statements for further information.
- A sale and purchase agreement has been entered into with Promontoria MMB SAS, an affiliate of Cerberus Capital Management, L.P., in respect of 87.5% of the share capital of Banque Espírito Santo et de la Vénétie, S.A. and related assets. The completion of this sale is conditioned on obtaining a set of authorisations from the relevant authorities.

Additionally, the Issuer is working on the sale of a number of different units or subsidiaries classified as non-core assets, some of which have already been classified as discontinued operations.

3.6 First Quarter 2018 Results Release

On 11 June 2018, the Issuer announced Group's unaudited consolidated financial information for the three months ended 31 March 2018 (herein referred to as the "Q1 Results"), which is incorporated by reference herein. See "*Documents Incorporated by Reference*".

In the first quarter of 2018, the Group reported a net profit and net operating income of €60.9 million and €130.2 million, respectively.

The loan portfolio as at 31 March 2018 amounted to €25.5 billion, in line with 31 December 2017. The non-performing loans decreased by €0.3 billion since 31 December 2017, therefore improving the asset quality ratios (NPL ratio decreased to 29.7%, with the respective impairment coverage increasing to 61.9%). Customer deposits, compared to 31 December 2017, were down by €1.1 billion as at 31 March 2018.

As at 31 March 2018, gross funding from the ECB amounted to €6.5 billion, while net funding from the ECB increased by €2.4 billion to €5.2 billion since 31 December 2017. The securities portfolio, the main source of eligible assets for funding operations with the ECB (€14.0 billion as at 31 March 2018), increased €1.2 billion since year end to €9.7 billion at 31 March 2018, mainly due to the increase of €1.0 billion in public debt held by the Group (of which €0.9 billion is Portuguese public debt).

The phased-in CET1, Tier 1 and Total Own Funds ratio as at 31 March 2018 were 13.5%, 13.5% and 13.9%, respectively (12.6% CET1 fully implemented). Risk weighted assets increased €0.5 billion to €32.3 billion since 31 December 2017. As at 31 March 2018, the Leverage Ratio stood at 9.0% (8.3% on a fully implemented basis).

4 Group Structure

As at 31 December 2017, the companies which are directly consolidated into the Issuer are set out below:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
Novo Banco, SA	2014	—	Portugal	Commercial banking		
Novo Banco Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100.00%	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,	2001	2001	Portugal	Electronic Banking	100.00%	Full consolidation

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
SA (BEST)...						
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)........................	1999	1999	Ireland	Non-bank financing	100.00%	Full consolidation
GNB Gestão de Ativos, SGPS, SA (GNB GA)...	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt collection	99.15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)...	2002	2003	Portugal	Holding	71.66%	Full consolidation
GNB - Sistemas de Informação, ACE (GNB SI)	2006	2006	Portugal	Services	82.58%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Services	88.36%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)...	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Fundo de Capital de Risco - BES PME Capital Growth...	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO.............	1997	1997	Portugal	Venture capital fund	56.78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II........................	2011	2012	Portugal	Real estate fund management	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	95.28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado................	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado................	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	95.86%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	85.84%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto..	1992	2014	Portugal	Real estate fund management	54.88%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional...	2009	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado................	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	94.16%	Full consolidation
Fundo de Investimento Imobiliário Fechado	2004	2015	Portugal	Real estate fund	100.00%	Full consolidation

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
Solid				management		
FLITPTREL VIII, SA	2011	2011	Portugal	Tourism real estate exploration	10.00%(1)	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias AS	2006	2012	Portugal	Real estate development	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	95.28%	Full consolidation
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	1990	2012	Portugal	Agricultural holdings	94.80%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100.00%	Full consolidation
Promotur - Empreendimentos Turístico, SA.	1983	2014	Portugal	Real estate development	99.875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA.	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate development	100.00%	Full consolidation
Palexpo Imobiliária, SA	2002	2014	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho Resort, SA	2007	2017	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho II - Investimento Imobiliário, SA	2008	2017	Portugal	Real estate development	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real estate fund management	100.00%	Full consolidation
R Invest - Fundo Especial de Investimento Imobiliário Fechado	2009	2017	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Alternativo Especial Capital Criativo Promoção e Turismo	2017	2017	Portugal	Special Investment Fund	96.06%	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%(3)	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	2010	2010	Portugal	Motorway concessionaire	18.57%(2)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non-bank financing	17.50%(2)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35.00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services	50.00%(3)	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Holding	22.52%	Equity method

Notes:

(1) 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

(2) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities

(3) Entities consolidated under the equity method as the breakdown of the voting rights grant control to the other shareholders

Sub-groups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
GNB Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100.00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50.00%(2)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full consolidation
Novo Activos Financieros, SA	1988	2000	Spain	Asset management	100.00%	Full consolidation
Novo Banco Gestión, SGIIC, S.A	2001	2001	Spain	Asset management	100.00%	Full consolidation
Novo Banco Pensiones, SGFP, SA	2001	2001	Spain	Pension fund management	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20.00%	Equity method
Fundo de Capital de Risco - BES PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100.00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100.00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Holding	100.00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate fund management	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate fund management	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56.78%**	**Full**

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
						consolidation
Enkrott SA..	2006	2006	Portugal	Water treatment and management	16.07%(1)	Equity method
Logic C - Logística Integrada, SA	2005	2016	Portugal	Logistics	20.74%	Equity method
Epedal, SGPS, SA	2007	2015	Portugal	Management of shareholdings	12.22%(1)	Equity method
Attentionfocus, Lda	2014	2015	Portugal	Exploitation of energy areas	18.92%(1)	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	33.83%	Equity method
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18.96%(1)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV ...	2010	2010	Holland	Holding	71.66%	Full consolidation
Lineas – Concessões de Transportes, SGPS, SA	2010	2010	Portugal	Holding	28.66%	Equity method
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	**1990**	**2012**	**Portugal**	**Agricultural holdings**	**94.80%**	**Full consolidation**
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	94.80%	Full consolidation
Herdade da Vargem Fresca V - Clube de Campo SA	1990	2012	Portugal	Equestrianism	94.80%	Full consolidation
Herdade da Vargem Fresca VII - Sociedade de Hotelaria SA	2000	2012	Portugal	Hotel business	94.80%	Full consolidation
Herdade da Vargem Fresca III - Comércio e Serviços SA	2000	2012	Portugal	Miscellaneous services	94.80%	Full consolidation
Fundo de Investimento Alternativo Especial Capital Criativo Promoção e Turismo	**2017**	**2017**	**Portugal**	**Special Investment Fund**	**96.06%**	**Full consolidation**
Moscatinvest Portugal, SA	2006	2006	Portugal	Real estate investment management	96.06%	Full consolidation

Notes:

(1) 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.

(2) Entities consolidated by the equity method due to the respective breakdown of the voting rights giving control to the other shareholders

In accordance with the requirements of IFRS 10, the Group also consolidates the following structured entities:

	Year incorporated	Year acquired	Registered office	Shareholding %	Consolidation method
Lusitano Mortgages No.6 plc(*).........................	2007	2007	Ireland	100.00%	Full consolidation
Lusitano Project Finance No.1, FTC(*)	2007	2011	Portugal	100.00%	Full consolidation
Lusitano Mortgages No.7 plc(*).........................	2008	2008	Ireland	100.00%	Full consolidation
Lusitano Finance No. 3(*).................................	2011	2011	Portugal	100.00%	Full consolidation
Lusitano SME No. 3(*)	2016	2016	Portugal	100.00%	Full consolidation

Note:

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

5 Ownership structure (including government relationship)

As at the date of this Prospectus, the Issuer's share capital is €5,900,000,000, represented by 9,799,999,997 nominative and dematerialised shares with no nominal value, fully subscribed and paid up.

Holdings in the Issuer's share capital as at the date of this Prospectus are as follows:

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

In view of the Commitments undertaken by the Portuguese State to the European Commission in the context of the approval of the Lone Star Sale pursuant to the Lone Star Sale's sale and purchase agreement under EU rules on state aid, the Resolution Fund as shareholder is obliged pursuant to the decision of the European Commission regarding the Commitments to refrain from exercising its non-economic rights (such as voting rights).

6 European Commission Commitments

In the context of the sale process of the Issuer, additional commitments by the Portuguese authorities have been adopted, which supersede those contained in the previous state aid decisions of 2014 and 2015 by the European Commission. The Commitments were approved by the European Commission on 11 October 2017 and will remain in place until 31 December 2021 (the "**Restructuring Period**"). An independent monitoring trustee has been appointed in order to monitor the full compliance of the Commitments which have been undertaken by the Portuguese Government but which are binding on the Issuer.

For further information see the decision of the European Commission State Aid no. SA.49275 (2017/N), which is incorporated by reference in this Prospectus.

Structural Commitments

Under the Commitments, the Issuer is required, during the Restructuring Period (with different deadlines depending on the assets), to divest or wind-down certain of its non-core assets in line with its strategy. For further information, see "—*Strategy*".

The Commitments impose certain targets for the deleveraging of the non-core assets throughout the Restructuring Period, which by the end of such period should not be greater than an established target. In addition, certain subsidiaries and business activities, including most international operations classified as non-core assets, must be divested, liquidated or wound-down before the end of the Restructuring Period, by specific pre-defined deadlines. See also "*Risk Factors—Risks Related to the Issuer's Business—The Group is subject to the commitments undertaken by Portugal to the European Commission, and a failure to achieve the commitments may result in further corrective measures being implemented*".

Behavioural Commitments

In addition to structural commitments, certain behavioural commitments have been established. These include remuneration limits put in place until 30 June 2020 (or until the end of the Restructuring Period if the viability targets are not achieved), such that no employee, director or manager of the Issuer may be paid a total annual remuneration higher than ten times the average employee salary.

The Issuer must also enter into all new business using a return on equity ("**RoE**") pricing tool, such that any new business must meet pre-tax RoE pricing targets. The Issuer is also subject to a prohibition on acquisitions (with certain exceptions, such as the assets required for the ordinary course of business in the management of existing claims towards ailing borrowers, including the conversion of existing debt into equity instruments or any other work-out strategy which does not increase the exposure of the Issuer but results in equity ownership, the enforcement of collateral or where the purchase price paid by the Issuer for any acquisition is less than 0.01% of the balance sheet size of the Group at the effective date of the commitment and where the cumulative purchase prices paid by the Issuer for all such acquisitions as at the effective date of the commitment is less than 0.025% of the total balance sheet size of the Group at the effective date of the commitment), and a prohibition on the payment of dividends (which limitation continues to apply post Restructuring Period, until 31 December 2025, or if the CCA maturity date is also extended until such date, until 31 December 2026 at the latest). Additionally, the Issuer shall refrain from any advertising which refers to state support during the Restructuring Period and from using commercial strategies that would not take place without governmental support.

Viability Commitments

The Issuer has also committed to progressively reduce the number of its employees and branches over the Restructuring Period and to reaching prescribed cost-to-income ratios and pre-provision income targets by specific dates within the Restructuring Period. Failure to comply with these targets, if not corrected in the subsequent year, will require the Issuer to comply with additional targets for reduction of the number of employees and branches.

The Issuer is required to comply with best lending practices, in particular to avoid preferential treatment of connected borrowers, and to ensure that certain exposures will undergo a regular credit (re-)rating process and set up risk management systems allowing for improved management reporting and risk management overview. Additionally, the Issuer shall refrain from proprietary trading beyond activities necessary for the normal operations of a commercial bank and set up specific Value-at-Risk limits for both treasury and market making activities.

The Issuer was required to change its auditor as part of its ordinary rotation procedures (this occurred with the appointment of Ernst & Young in December 2017) and to exercise prudence in its cumulative loan loss provisions and ensure that losses are provisioned. The Issuer is subject to a minimum amount for the cumulative loan loss provisions recorded by it. If the cumulative amount of the loan loss provisions (excluding CCA Assets (as defined below under "—*Contingent Capital Agreement*")) recorded up until an agreed date is lower than the reference minimum amount, the Issuer will register the difference as additional provisions, unless such additional provisions are not considered by the Issuer's auditor to be in accordance with the applicable IFRS framework.

In addition, if, following any SREP exercise carried out by the Single Supervisory Mechanism, the SREP total capital ratio of the Issuer falls below the SREP total capital requirement, and the Issuer is not able to address such shortfall through payments to be made under the CCA, the Portuguese Government has agreed in the context of the Lone Star Sale and the related state aid measures to provide additional capital to the Issuer (the "**Capital Backstop**"), and provided that:

(a) Routine capital measures implemented by the Issuer to make up the shortfall within the nine months following the breach are unsuccessful;

(b) Lone Star does not provide the necessary capital following a request by the Issuer; and

(c) The required capital cannot be raised from market sources.

The additional capital may take the form of a public capital injection or additional tier 1 instruments that may be (i) issued to the market with a coupon guaranteed by the Portuguese state or (ii) fully underwritten by Portugal directly, in each case with additional capital being raised in the amount necessary to ensure solvency of the Issuer in an adverse scenario. If public funds are used in the Capital Backstop, the Issuer will be obliged to further reduce the perimeter of the Bank (branches and employees) and submit a new restructuring plan.

7 Contingent Capital Agreement

The CCA is the contingent capital agreement entered into on 18 October 2017 by the Resolution Fund and the Issuer as part of the conditions of the Lone Star Sale. Under the CCA, in case (i) the Group's capital ratios decrease below the Minimum Capital Condition (as defined below) and (ii) losses are recorded in relation to the CCA Assets (as defined below) or other CCA covered losses (the "**CCA Losses**"), the Resolution Fund has undertaken, up to an aggregate maximum amount of €3,890 million, to make payments to the Issuer corresponding to the lower of the CCA Losses and the amount needed to restore the capital ratios to the Minimum Capital Condition, until 31 December 2025 (the "**CCA Maturity Date**"), which date can be extended until 31 December 2026 under certain conditions as mentioned further below in this section. This maximum amount shall be reduced by any amounts which the Resolution Fund provides in the underwriting of Tier 2 instruments (if any) pursuant to its underwriting commitment in respect of up to €400 million of Tier 2 instruments as described in "*Description of the Issuer's Business—Strategy*".

The "**CCA Assets**" comprise a predefined portfolio of assets which had an initial book value net of impairment, as of 30 June 2016, of approximately €7.9 billion, which included: €5.9 billion of loans to customers, €1.1 billion of restructuring funds, €0.1 billion of securities and €0.8 billion of other assets. As at 31 December 2017, the CCA Assets had a net book value of €5.4 billion, which included: €3.4 billion of loans (of which 83% were NPLs), €1.0 billion of restructuring funds and €1.0 billion of other assets (the "**CCA Assets**"). In addition, CCA Assets also include undrawn exposures relating to guarantees, committed credit lines and other commitments, which amounted to €1.3 billion and €0.9 billion as at 30 June 2016 and 31 December 2017, respectively, and provisions recorded as liabilities which amounted to €0.1 billion as at 30 June 2016 and 31 December 2017, in relation to such exposures. As at 30 June 2016 and 31 December 2017, the impairment related to the CCA Assets amounted to €4.8 billion and €5.5 billion, respectively.

The ability of the Issuer to claim payments under the CCA is subject to a capital ratio threshold (the "**Minimum Capital Condition**") and accumulated CCA Losses having been registered. The Minimum Capital Condition means that no payments shall be made unless (i) the Issuer's CET1 or Tier 1 ratio have fallen below the minimum required regulatory (SREP) CET1 or Tier 1 ratio plus a buffer, during the first three calendar years, 2017-2019; or (ii) the Issuer's CET1 ratio has fallen below 12%. Such threshold was 12.75% on 31 December 2017. Payments pursuant to the CCA are limited to the amount needed to restore the CET1 and Tier 1 ratios back to the relevant trigger level, provided that there are accumulated CCA Losses.

As a result of the CCA Losses recorded by the Issuer as at 31 December 2017 and the resulting decrease of the capital ratios below the Minimum Capital Condition, the contingent capital mechanism of the CCA was triggered in relation to the year ended 31 December 2017 and a payment by the Resolution Fund of €791.7 million was made on 24 May 2018.

The Articles of Association of the Issuer foresee a committee to function as a consulting body in the context of the CCA (the "**Monitoring Committee**"). The Monitoring Committee consists of three people, elected by the general meeting of shareholders of the Issuer, two of whom are appointed by the Resolution Fund and one of whom is an independent member jointly appointed by the parties to the CCA, and takes decisions by simple majority. Either the Resolution Fund or the Issuer can request an opinion from the Monitoring

Committee in respect of any relevant matter pertaining to the CCA Assets. For further details regarding the Monitoring Committee, see "*Management and Supervisory Corporate Bodies—Monitoring Committee*". The Resolution Fund has the right to take all decisions in respect of the CCA Assets, unless a pre-defined ratio of the then remaining aggregate net book value of the CCA Assets to the aggregate starting reference values is not verified (in which case the CCA Maturity Date may be extended to 31 December 2026), at which point the Issuer would need to inform the Resolution Fund in respect of most material management decisions with respect to these assets.

The powers of the Resolution Fund and delegation of powers to the Issuer (and the limits to such delegation) in respect of the CCA Assets are defined in a Servicing Agreement entered into on 14 May 2018 between the Resolution Fund and the Issuer, under which the Issuer acts as servicer in respect of the daily management of the CCA Assets.

8 Strategy

On 18 October 2017, the Issuer underwent a structural change, ceasing to be a bridge bank following the Lone Star Sale, pursuant to which Lone Star injected €1 billion in capital (€750 million in October 2017 and €250 million in December 2017).

The LME transaction which was completed on 4 October 2017, immediately prior to the Lone Star Sale and the initial capital injection into the Bank, allowed the Issuer to strengthen its equity, including via the immediate gain resulting from the price paid for the debt exchanged as against its accounting value and, on an ongoing basis, the expected interest savings resulting from the repurchase of the debt in the LME.

In addition, the sale and purchase agreement signed between the Resolution Fund and Lone Star provided for the setting up of a contingent capital mechanism. See "*—Contingent Capital Agreement*".

Also, in the context of the sale, to the extent that additional capital is required by the Group, the Resolution Fund has agreed an underwriting commitment to subscribe for and purchase up to €400 million of tier 2 instruments to be issued by the Issuer, subject to certain conditions, including that following the Bank's best efforts attempt in customary market conditions it is unable to procure subscribers for such instruments.

These changes together are expected to have a significant impact on the Bank's future prospects, the most relevant ones including the following:

- Stronger solvency position, improving its ability to comply with applicable capital regulatory requirements, both currently and in the future,
- Reduction of the cost of the outstanding debt securities from the prior high levels,
- Improvement in the Bank's perception by clients and other counterparties, creating improved conditions for a significant reduction in the cost of deposits and other funding, as well as for a partial recovery of deposits (particularly in the corporate and institutional segments),
- Stronger liquidity position, reinforcing its ability to comply with applicable regulatory requirements,
- The possibility of reducing the current high level of Non-Performing Assets' ("**NPAs**"),
- The improvement of the Bank's profitability, both due to the aforementioned reduction in the cost of funding and the reduction of impairment levels with normalisation of the cost of risk and
- The possibility of improving the Bank's SREP evaluation, both due to the above-mentioned factors and to other improvements which have already been implemented or which are being implemented (in terms of governance, internal control, risk management etc.).

The Issuer also continues to deleverage its balance sheet, to reduce its operational costs and to simplify its overall Group structure (through the sale and closure of international subsidiaries and branches which are not considered to be part of the core business of the Issuer).

Leveraging the evolution described above and the obligations of the Issuer pursuant to the Commitments, the Issuer's strategy is articulated by means of the following key areas:

Renewed focus on its leading core franchise

The Group's strategy for its core franchise is to maintain its central position in Portugal, supported by an international footprint in Spain and driven by the recovery in its core segments. As part of this strategy, the Issuer is particularly focused on strengthening its competitive position in the retail segment and maintaining its significant position in the corporate and SME segment.

Retail segment

The Group's commercial strategy for this business segment is to increase its market share in Portugal in residential mortgage lending and consumer credit and to reduce the current cost of deposits, while ensuring a more moderate evolution of the volumes thereof in the medium term. The Group seeks to optimise its funding mix, capitalising on the volume of deposits reaching maturity and exploring diversification opportunities to increase commissions. The Group aims to support its earnings generation through the origination of new loans in the private individual clients – residential mortgage and consumer lending – and small business segments, with the aim of increasing its portfolio of loans with high risk adjusted returns. Finally, the Group aims to reinforce its market share, through increased productivity, taking advantage of cross-segments synergies, a variable cost promoter networks and its distinctive digital offering, with the intention of strengthening the Issuer as the main relationship bank.

Corporate and SME segment

The Group's corporate banking strategy targets the consolidation of its current central position by supporting companies competing in the international arena and strengthening at the same time the Bank's own profitability by adopting new risk adjusted tools and procedures to manage business pricing and capital allocation. The Group intends to leverage its experience and commercial know-how in corporate banking in order to maintain a central position in the SME and business segments, reduce its exposure to large corporates with low margins, focus on companies with more sophisticated support requirements and that are sensitive to service levels not capable of being easily replicated by competitors, and refine its risk appetite according to the different business segments. In relation to the Group's strategic focus on SME banking, it targets SMEs with a good risk profile that either (i) operate in strategic sectors identified by the Issuer (primarily manufacturing and tourism) and/or (ii) are focused on competing in the international markets. The Issuer refers to such SMEs as "SME winners". The Group also seeks to consolidate its position in cash management services for Iberian customers, improve its product offering with a specialised team of international business managers and IT tools as well as increase client use of automated operations (e.g. payroll, operations) with user friendly interfaces.

Asset Management

After a period of rationalisation of the products and services offering along with the optimisation of processes and corporate simplification, the Group's current asset management strategy focuses on aligning the product and service offering with client needs. With mutual funds, both domestic and Luxembourg domiciled, real estate funds, pension funds and discretionary management services, GNB Gestão de Ativos is able to provide a range of products that offers investment alternatives to clients, supporting them on their endeavour to create financial and economic value through time. Supported by an experienced team of portfolio managers, the goal is to expand the current product offering to nearly all clients segments. GNB Gestão de Ativos is also present in Spain through NB Gestion, which follows a similar strategy for Spanish clients.

Proactive deleveraging of non-core assets

In line with the Commitments the Group's management has identified a group of non-core assets to be disposed of in the short to medium term. The disposal of these assets is expected to be realised mostly during the Restructuring Period. These assets include certain (i) selected international units, (ii) equity stakes, (iii) real estate assets, (iv) out-of-strategy loans and (v) restructuring funds (funds managed by external parties that were established by the Portuguese banking system to deal with the financial recovery of companies which were in financial stress).

Non-performing assets reduction plan

An important part of the Group's strategy relies on a reduction plan for its NPAs. The NPA reduction plan is a medium and long-term plan (with a five-year horizon) and envisages a significant reduction of the Group's NPLs and real estate assets through various strategies, including recoveries, foreclosure and through sales. Besides aligning with the ECB's guidance on the management of this type of exposure, the reduction of the NPA's is expected to have a positive effect on the overall asset quality of the Group and improve its future prospects and profitability, as these are generally not profitable assets.

Efficiency optimisation

The Group will focus on improving its efficiency and productivity levels, through the optimisation of its distribution channels with growing emphasis on the digital area. In the forthcoming years, the Issuer expects a reduction in the Group's branch network both in terms of footprint (to a total of approximately 400 branches) as well as development of best-in-class online and mobile banking services. The Group is also targeting a reduction of approximately 440 full-time equivalent employees in 2018 and efficiency improvements based on a structural transformation of the operating model towards digitalisation.

Normalisation of cost of risk

The Group has put in place new risk management procedures, focused on attracting customers with low and medium-risk profiles in retail and SME segments, which it expects will allow for a normalisation of its cost of risk. As a result, the Bank expects the cost of risk for its core franchise to normalise following the significant provision charges in previous years.

9 Principal Activities and Operations

The Group's activity is focused on corporate, institutional and private individual clients.

The domestic commercial banking segment, including retail, corporate and institutional banking sub-segments, along with the Group's international commercial banking segment, forms the Group's commercial banking operations, which are complemented by the Group's asset management business. The Group also has a life insurance business which is currently subject to a sale process.

In Portugal, the Group operates through a single-brand network of 434 branches (excluding NB Açores, Banco Best and SFE Madeira), 20 corporate centres and 12 private banking centres. The Group's strategy relies on the optimisation of the size of the distribution network by reducing the number of branches and strengthening its internet and mobile banking presence.

In addition to its widespread physical presence, the Group has developed a multi-channel approach in its relationship with customers, through internet- and technology-based products. The relationship between people and institutions has been undergoing a profound transformation due to the growing prevalence of so-called digital relationship channels, which in all market contexts have rapidly grown from niche solutions to become the channels of choice of an ever-increasing diversity of client profiles.

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

- Domestic commercial banking, which includes the retail, corporate and institutional sub-segments;
- International commercial banking;
- Asset management;
- Life insurance; and
- Markets.

9.1 Domestic Commercial Banking

(a) *Retail Banking*

The Issuer has a segmented approach to the market, featuring differentiated value propositions adjusted to the various client profiles:

- for the affluent clients segment, the **NB 360°** service is a proposition that includes monitoring by a specialised account manager who receives his/her clients in a dedicated space and strives to deliver the optimal solution to their requests;
- The **Small Businesses** segment is based on a specialised relationship service, where products and services designed to meet customer needs has driven growth in terms of the customer base (+5,650 customers compared to 2016), customer funds (+€277.1 million compared to 2016) and customer loans (+€73.9 million compared to 2016). The Issuer's offer of innovative cash management and payment and collection solutions for micro and small companies allows its clients to manage their working capital requirements more effectively;
- In the **mass market** segment, the Bank offers credit products, in particular residential mortgage loans and personal loans, as well as saving products, and everyday protection and other insurance products.

In retail, 2017 was characterised by a strengthening of individual clients' confidence in the Issuer, resulting in a €984 million increase in new deposits (excluding deposits created in connection with the LME) compared to 2016 (which is an increase of 18% year-on-year).

In 2017, new structured deposits reached €349 million, which gave a significant boost to this growth. This growth of the deposits portfolio was achieved while significantly reducing its cost.

Loans to individuals showed very positive results in 2017: residential mortgage loans origination grew by 59% year-on-year, bolstered by a differentiating offer:

- Introduction of a commitment to respond to loan requests within 24 hours;
- Broad and flexible offer in terms of terms, rates and amounts;
- Terms that can go up to 40 years;
- Possibility of fixing interest rate at the beginning of the loan, or during the life of loan;

- Favourable conditions to clients wishing to switch houses ("Oferta Spread Troca de Casa");
- Wide real estate offer and real estate financed by the Issuer in competitive conditions.

Consumer loans origination increased by 89% year-on-year. This was driven, among other reasons, by the growth of sales through digital channels. In car leasing, origination growth was 56% higher than in 2016.

In the segment of small businesses, loans granted under the 'Capitalizar' credit line, under which a total of 2,170 operations were concluded in 2017, amounted to €69 million. The active support provided to the clients in the preparation and submission of credit applications was a key factor in the Issuer achieving second place in the ranking of the sub-segment for small and micro companies in Portugal in 2017[4]. The results obtained by the Issuer continue to reflect the Bank's rigour, professionalism and quality in the provision of banking services and products, as reflected in the fact that it receives fewer complaints than the average for the financial system in Portugal. According to the Banking Conduct Supervision report published by the Bank of Portugal in October 2017, which analysed the complaints made by bank clients during the first half of 2017, the Issuer received the following number of complaints per product:

- Deposits – 0.13 complaints per one thousand sight deposit accounts, which compares with 1.13 complaints reported by the institution with the largest number of complaints (a 88% reduction);
- Mortgage Loans – 0.41 complaints per one thousand contracts, significantly below the 1.12 per one thousand complaints reported by the institution that has the largest number of complaints (a 63% reduction):
- Consumer Credit – 0.14 complaints per one thousand contracts, which compares with 0.61 reported by the institution with the largest volume of complaints (a 77% reduction).

In terms of international recognition for retail customer services, the Issuer was awarded the best provider of Securities and Custody services in Portugal by the Global Finance international magazine. This award provides international recognition the Bank's capabilities, service to clients and performance in this important business area.

(b) *NOVO BANCO dos Açores*

NOVO BANCO dos Açores ("**NB Açores**") continues to be the only bank headquartered in the Autonomous Region of the Azores. In line with its client acquisition strategy NB Açores undertook several initiatives addressed to companies and public-sector entities and services in 2017. The bank also pursued several activities aimed at promoting deposit taking and loan granting, and at reinforcing its market share, while continuing to improve the quality of the products and services made available to its clients. In 2017 both customer loans and customer funds decreased (by 1.7% and 2.4%, respectively), however, the average annual balance of customer deposits increased by 3.6% (in each case, as compared to 2016). Credit impairments totalled €23.2 million, with overdue loans decreasing by €1.4 million compared to 2016, to €17.5 million. As at 31 December 2017, NB Açores had assets of €538.6 million, reporting a net income for the year of €1.96 million.

[4] (Source: SPGM – Sociedade de Investimento, S. A. – Portuguese Society of Mutual Guarantees).

(c) *Banco Best*

Banco Best, the Group's digital bank, established in 2001, is a wholly-owned subsidiary of the Issuer that offers a wide range of financial products and services, including savings solutions and investment opportunities, as well as solutions tailored to day-to-day financial needs, in addition to offering credit facilities as specialized investment tools.

In 2017, Banco Best reinforced its leading position in Portugal's digital banking and fin-tech market, having introduced a fully digital account opening process by video call and won the Euronext Lisbon Award in the Financial Innovation category for the launch in Portugal of the first investment fund managed by artificial intelligence.

During 2017, several other initiatives supported Banco Best's position as a leader in innovation: (i) introduction of 'Best Voice' in Banco Best's APP, featuring a series of speech recognition user-controlled commands; (ii) facial recognition login - made available at the same time as it was launched in iPhone X; (iii) launch in Portugal of the Allianz Global Artificial Intelligence Fund, the first artificial intelligence fund in Europe; (iv) launch of the ACATIS AI Global Equities fund in Portugal, the first artificial intelligence managed investment fund, where decisions are taken with no intervention of the fund manager; and (v) at the same time, Banco Best also promoted financial literacy among investors, having organised five seminars in Lisbon and Oporto on robotics and artificial intelligence in the context of investment.

Banco Best is a leader in Portugal in terms of diversity of its offering of investment funds, with more than 3,000 funds from over 60 domestic and international asset management companies[5]. Assets under management reached €2.1 billion as at 31 December 2017, increasing by 5% year-on-year in business-to-business segment. Banco Best also reported good economic and financial indicators, posting a net income for the year of €3 million (which was an increase of 9.8% year-on-year).

(d) *Corporate Banking*

In Corporate Banking the Issuer has a network focusing on corporate clients, which is as follows:

- 20 Corporate Centres distributed throughout Portugal, with dedicated teams that serve medium-sized companies with turnover (at individual or group level) between €2.5 million and €200 million; at the end of 2017 this segment had more than 14,800 clients, accounting for approximately €7.8 billion of financial flow (the sum of the total volume of customer resources under management and total volume of credit including guarantees);
- 3 Corporate Clusters that serve companies with turnover (at individual or group level) of more than €200 million; at the end of 2017 this segment had more than 1,700 clients, accounting for approximately €7.6 billion of financial flow (the sum of the total volume of resources and credit including guarantees).

Within this segment, origination of medium and long-term loans reached €1.5 billion in 2017, upholding the Issuer's central role in supporting the development of companies and economic activity in Portugal. Moreover, production also increased under the 'NB FEI Inovação III'

[5] (Source: CMVM http://www.cmvm.pt/pt/Estatisticas/EstatisticasPeriodicas/GestaoDeActivos/Documents/GA%201T%202018%20%28s%C3%ADntese%29.pdf).

(credit line offer under a partnership with the European Investment Fund), 'PME Crescimento', 'IFD 2016-2020', 'Linha Capitalizar', and 'Linha NB Empresas Prime' Lines, under which disbursements reached €601.4 million between January and December 2017. As regards the day-to-day support provided to companies, the Group's Treasury Solutions offer provides tailored solutions to the needs of each client, which is reflected in products such as factoring solutions, the management of payments to suppliers and the NB Express Bill (forward payment orders with guarantee of payment by the Issuer, which allows beneficiaries, providing they have an account with the Bank, to receive the funds in advance). In 2017 Factoring, Confirming and NB Express Bill portfolios registered an increase of €137 million (which is an increase of 19.8% year-on-year).

In terms of customer funds, deposits in the Corporate Banking segment increased by approximately €1.05 billion in 2017 (which is an increase of 26% year-on-year).

The services provided to corporate clients also include cross-selling solutions targeting their employees, in particular through meal card allowances and Life Insurance, as well as the partnership protocols designed for these employees,

The trade finance area, an important business area of the Issuer, provides a wide range of products and specialised advice designed to support international trade. The Bank's know-how in this segment is evidenced by its market share in the Portuguese market, which stood at around 21% in December 2017[6].

The Issuer's corporate segment in the Corporate Banking segment (Non-Financial Companies), had market shares in Portugal[7] of 16.9% in Deposits (an increase of 1.6 percentage points year-on-year) and 18.1% in Customer loans (a decrease of 0.4 percentage points year-on-year) as at December 2017.

According to a survey conducted by the Issuer, the level of "Customer Service Satisfaction" in 2017 reached 89% (percentage of responses of 8 to 10 in a scale of 1 to 10, 10 being the best), which represents an increase of 1% relative to 2016. Moreover, the results of other surveys relating to "Global Satisfaction with the Bank", "Trust", "Repurchase intention" and "Recommendation" have also improved steadily since 2015.

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

9.2 International Commercial Banking

As part of its strategy, the Issuer develops its business activities for the corporate and retail segments focused on the Portuguese market, but also considering the Iberian market. With the renewed focus on its core franchise, and in accordance with the Commitments, most of its international operations are to be sold or unwound.

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6 As measured by the number of swift messages according to SWIFT.

7 Management estimate: Non-Financial Companies based in countries of the Economic and Monetary Union, for operations in euro; Issuer's perimeter: domestic activity, excluding NB Açores and Banco Best; Information on industry sector: the Bank of Portugal.

During 2017, a restructuring and operational streamlining plan for the Spanish, London and Luxembourg branches was undertaken as well as processes of disposals of the Group's operations in Venezuela and Cabo Verde:

- The Spanish branch carried out a business reorganisation that entailed the downsizing of its commercial network. Business volume decreased by 5.9% in 2017 compared to 2016, with both loans and deposits contracting, but assets under management increased by €33 million. Operating costs increased by 6%, mainly due to higher administrative costs and depreciation.
- The London branch (United Kingdom) focused its activity on the management of its portfolio, with total assets decreasing by €2.5 billion, mainly as a result of the LME and the sale of certain loans. Total assets amounted to €1.3 billion as at 31 December 2017, with the loan book accounting for 87% of the total. The branch posted net operating income for the year of €3.6 million. The closure of the London branch is expected to occur in the second half of 2018.
- Similarly to the London branch, the Luxembourg branch focused its activity in 2017 on the management of its portfolio. Its assets were also impacted by the LME and amounted to €1.8 billion as at 31 December 2017. The branch posted a net operating income for the year of €18.9 million.
- A sale and purchase agreement has been entered into with IIBG Holdings B.S.C. in respect of 90% of the share capital of Banco Internacional de Cabo Verde. The completion of this transaction was pending the necessary authorisation from Banco de Cabo Verde, which was granted on 22 May 2018. This transaction is expected to close soon.
- In February 2018, the Issuer sold to BANCAMIGA, Banco Universal, CA (Venezuela) the assets and liabilities of the Issuer's branch in Venezuela. With the completion of this transaction in February 2018, the Issuer ceased to have any banking activity in Venezuela and its Venezuelan branch will be closed.
- A sale and purchase agreement has been entered into with Promontoria MMB SAS, an affiliate of Cerberus Capital Management, L.P., in respect of 87.5% of the share capital of Banque Espírito Santo et de la Vénétie, S.A. and related assets. The completion of this sale is conditioned on obtaining a set of authorisations from the relevant authorities

9.3 Asset Management

The Issuer's asset management segment includes the Group's asset management activities in Portugal and abroad, mainly Luxembourg and Spain. GNB – Gestão de Ativos is the primary entity conducting these activities. The asset management product range covers all kinds of funds - mutual funds, real estate funds and pension funds – as well as discretionary and portfolio management services and wealth management. Total assets under management amounted to €10.8 billion and €11.9 billion as at 31 December 2017 and as at 31 December 2016, respectively, which represents a 9.3% reduction year-on-year. This reduction was mainly driven by decreases in mutual funds (in Luxembourg and Spain) and in the area of wealth management, which was partly set off by an increase in pension funds of around 5.7% in 2017 (4.6% in Portugal).

Operating costs in the Asset Management segment fell by 11.4% in 2017 as compared to 2016 as a result of the reorganisation and restructuring plan.

GNB – Gestão de Ativos posted a net income for the year of €8.0 million, a year-on-year reduction of 6.9%.

9.4 Life Insurance

The life insurance segment includes the activity developed by GNB Vida, that operates with traditional life insurance products, capitalisation products and pension plans. GNB Vida operates mainly in Portugal. GNB Vida assets represented €4.1 billion of the Group's total assets as at 31 December 2017.

On 3 August 2017 the Issuer announced the launch of a sale process of up to 100% of the share capital of GNB Vida which includes a distribution agreement of GNB Vida products.

9.5 Markets

This segment includes the overall financial management of the Group, including the taking and placement of funds on the financial markets, as well as the investment and risk management of credit financial instruments, interest rate, currency and securities financial instruments, whether of a strategic nature or related to the current activity of the markets segment. It includes also the results of strategic decisions taken by the Executive Board of Directors with an impact on the results of the Group.

9.6 Innovation

Although the levels of use of the main digital channels made available by the Issuer (- NBnet, NBnetwork and NB smart app) have always been high, 2017 was particularly noteworthy in terms of the increase in new users and in digital activity, reflecting innovation, the launch of new functionalities and a promotional effort.

In 2017 the number of frequent digital clients surpassed the 500,000 mark, while in respect of the NB smart app it reached 250,000, having increased by 44% relative to 2016. The number of companies using the app grew by 59% between 2016 and 2017, again demonstrating how widespread the adoption of mobile channels across all client profiles is. This very positive assessment of the NB smart app is also substantiated by its continuing position as one of the top national banking app users in the main app stores[8].

2017 was also marked by the intense pace at which new and innovative solutions for clients were launched, designed to facilitate their daily management of finances and permitting the subscription of a wider range of products and services.

In smartphone applications, NB smart app solutions offered in 2017 included: "Saving for Objectives", which permits customers to define and monitor saving targets, "Transfers to Contacts", whereby a customer only needs the phone number of the beneficiary in order to make a transfer, mortgage loan and consumer loan inquiries, loan simulators, credit card statements, and fingertip access.

In internet banking (NBnet and NBnetwork) the main new developments in 2017 were the possibility to apply for a consumer loan online, "Deposits Auctions", where, in a bidding process, clients may obtain favourable conditions for deposits; the application for a "Salary Advance", which allows clients who deposit their salary with the Bank to access this versatile solution to cope with unexpected higher expenses; and the simplified initiation of an application for a loan for small businesses and companies in NBnetwork.

Finally, NB Chat Pay is an innovative solution, unique in the market, which allows clients to make payments during a conversation between friends without leaving the messaging app or social network, with immediate crediting of the money if the beneficiary also has MB WAY app installed.

[8] (Source: The official app stores of Google and Apple).

10 Liquidity and Funding

The Issuer manages liquidity risk in accordance with all applicable regulatory rules, with the aim that all its responsibilities are met, whether under normal market conditions or under stress conditions. For further details, see *"Supervision and Regulatory Environment*" below.

The Issuer's liquidity risk is managed considering the following perspectives:

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

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

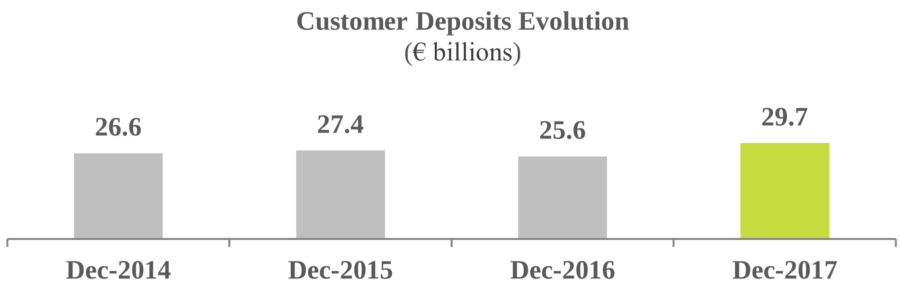
The Executive Board of Directors monitors the evolution of the liquidity position, including eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the treasury gap evolution by business unit, as well as certain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

In terms of the structural liquidity, the Issuer prepares a monthly liquidity report, taking into account not only the effective maturity but also behavioural maturity of the various products, which allows a determination of the structural mismatches for each time period (for further information, see "*—Risk Management—Solvency*" below). Based on this report an annual funding plan is prepared taking into account the established budget targets. This plan, which is regularly reviewed, favours, as far as possible, medium and long-term funding instruments over short-term instruments.

The Capital and Asset Liability Committee ("**CALCO**"), which meets monthly, also analyses the liquidity position of the Bank, including the balance sheet evolution and broad analysis of the key activity indicators (Liquidity Coverage Ratio ("**LCR**"), liquidity and commercial gaps, deposit rates and credit rates). CALCO performs a comprehensive analysis of the Group's liquidity risk and its evolution, with special focus on current liquidity buffers and generation / maintenance of eligible assets and respective impacts on the LCR.

For the liquidity contingency plan, the Bank defined a set of measures that were designed to manage and/or minimise the effects of a liquidity crisis. These measures were aimed at meeting the Group's liquidity needs in stress scenarios, and were in force from the beginning of August 2014 until February 2018 to address the effects of the crisis that led to the Resolution Measure and the incorporation of the Bank. Besides measuring accurately the liquidity risks faced by the Bank, these contingency procedures also take in consideration liquidity and funding shortages.

The Issuer's funding policy is one of the major components of the Bank's liquidity risk management, which favours the diversification of funding sources. The Issuer's strategy has, from its incorporation, largely relied on customer deposits as its major source of funding, reflecting the fact that since the Resolution Measure was implemented the Group's access to the interbank markets, international capital markets and wholesale funding markets has been very limited.

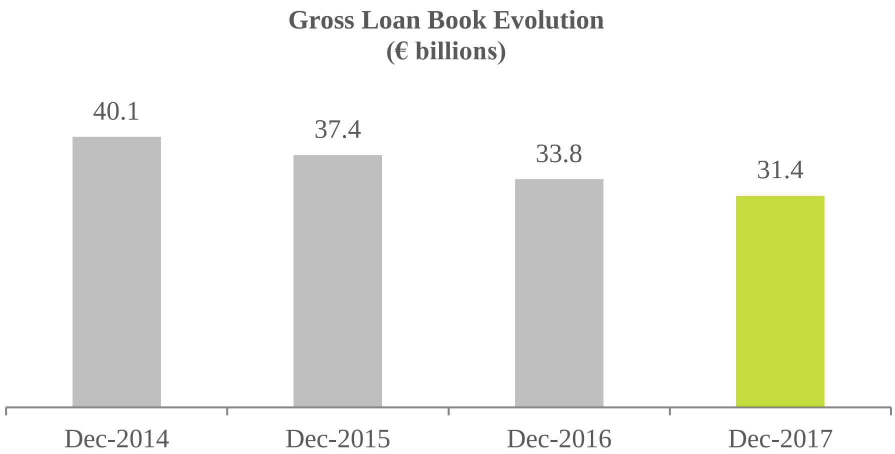


The completion of the Lone Star Sale had a positive impact on customer deposits, which in the last quarter of 2017, even excluding the deposits offered to the senior bondholders in connection with the LME, increased by €1.9 billion which represents approximately 80% of the total annual growth (€2.3 billion) in 2017, compared to 2016. At the end of 2017, the Issuer held total deposits in the amount of €29.7 billion, compared to €25.6 billion in 2016, the largest amount since its incorporation.

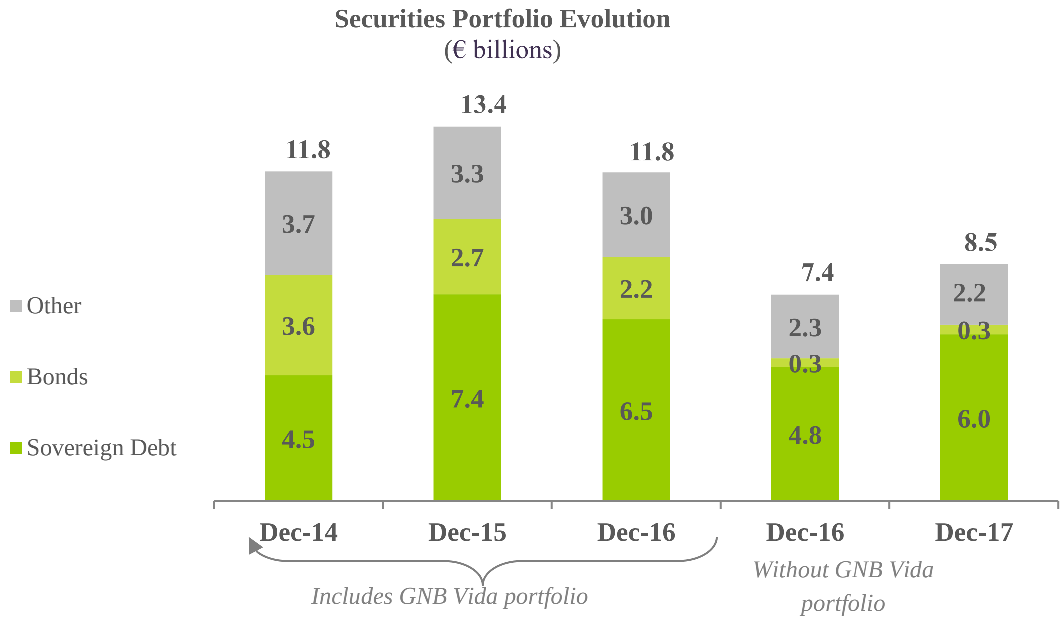
The LME launched on 25 July 2017, which was a condition precedent to the Lone Star Sale, had a strong impact on the medium and long-term funding portfolio of the Bank since it involved various senior bonds series issued by the Group. The LME allowed the purchase and early redemption by the Issuer of outstanding senior bonds (issued by the Issuer, the Luxembourg and London branches and the Cayman subsidiary) with a total nominal value of €4.7 billion (57% of the nominal value of the bonds subject to the LME), for a total cash amount of €2.0 billion. However, the impact of the operation on the Group's liquidity was relatively low, due to high take-up by bondholders of the commercial offer of deposits offered in connection with the LME.

Having met the conditions precedent on 18 October 2017, the Resolution Fund formally sold 75% of the Issuer's share capital via a €750 million capital increase that was fully subscribed by funds managed by Lone Star through NANI Holdings. Subsequently on 21 December 2017, Lone Star subscribed a second capital increase of €250 million. The Issuer's share capital was thus increased by €1 billion, resulting in a significant reinforcement of its liquidity position and financial strength.

Additionally, the deleveraging of non-core assets and the use of other types of funding, in particular repos, helped the Bank to finance its activities and manage the repayments of debt, and also to build regulatory liquidity buffers.



Within the scope of the policy of reducing non-core assets, asset deleveraging continued to be applied to the loan book, which in gross terms contracted by €2.3 billion in 2017 from €33.8 billion to €31.4 billion. This reduction occurred only in corporate loans, generating liquidity in the amount of €1 billion.



The securities portfolio increased by €1.1 billion in 2017 (excluding GNB Vida), resulting primarily from investment in predominantly Portuguese sovereign debt. The breakdown of the securities portfolio continues to show a larger share of Portuguese sovereign debt securities which increased by €1.6 billion compared to 2016 out of a total of €3.9 billion in 2017.

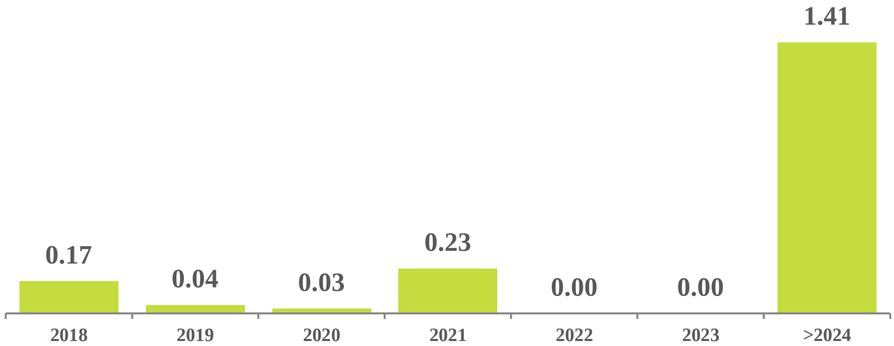
Excluding the LME, in 2017 the Issuer redeemed debt in the amount of approximately €1 billion, of which €940 million took place in the first half of 2017, before the launch of the LME.

In 2017 the Issuer ceased to have outstanding any debt instrument which benefited from a guarantee of the Portuguese State, while at the time of its incorporation it had three such debt issues, totalling €3.5 billion. In November 2016 the Bank redeemed the entire €1 billion bond issue that matured in December 2016 and in December 2016 it proceeded with early redemption of an additional €700 million of the €1.0 billion bond maturing in January 2017. The remaining €1.8 billion was redeemed on the respective maturity dates in 2017.

With regard to the medium-term and long-term funds, upon completion of the LME, the Issuer redeemed most bonds with shorter maturities (maturing up to 2022). Acceptance of the LME by holders of the longer dated bonds was lower and approximately €3.5 billion (nominal value) of bonds were left outstanding (principally zero-coupon bonds and four series of fixed-rate bonds maturing after 2043).

With a low redemption schedule going forward and therefore low funding requirements, no relevant liquidity strains are expected to occur in the next few years.

Maturity Profile*
(€ billions)

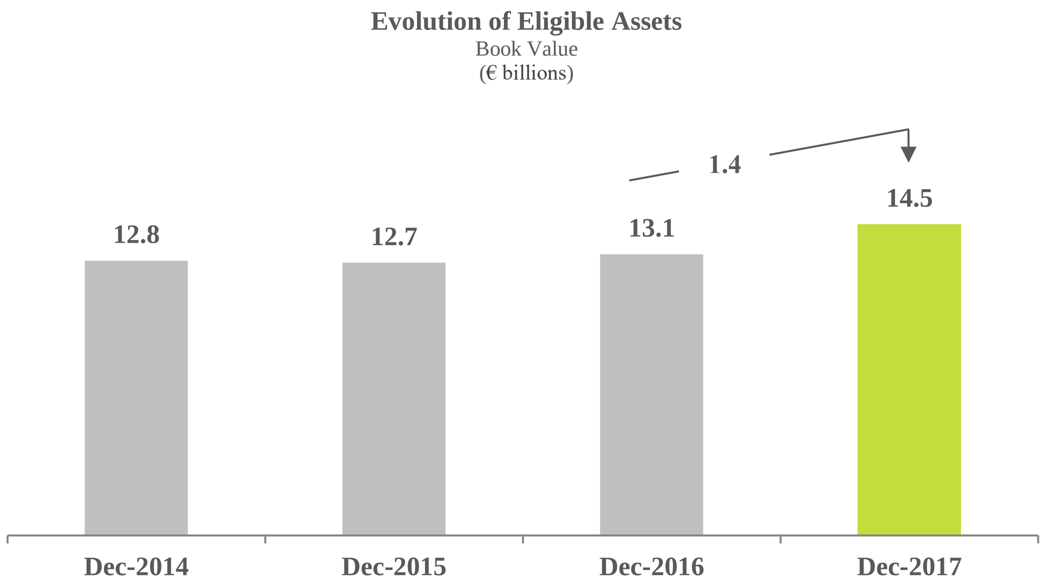


*: do not include the debt securities from the securitisation operations

Net funding from the ECB totalled €2.8 billion at the end of 2017 (€6.5 billion gross amount, all under the second series of longer-term refinancing operations, also known as TLTRO2), which is the lowest amount in the history of the Issuer and represents a very significant reduction both over the last quarter of 2017 and over the full year (a reduction of €2.3 billion and €2.4 billion, respectively).

Evolution of Net Funding from the European System of Central Banks
(€ billion)

Alongside its deleveraging and funding policy, throughout 2017 the Issuer optimised its portfolio of assets eligible for rediscount with the ECB. In July 2017 the Issuer increased the nominal amount of the €450 million covered bonds issued in December 2016 by €50 million, to €500 million. The overall amount in the portfolio of assets eligible for rediscount with the ECB increased by approximately €1.4 billion in 2017, to €14.5 billion, mostly through the increase in the portfolio of sovereign debt from Eurozone countries (mostly Portugal, Spain, Italy and Germany).



The improvement in the liquidity position is reflected in the increase in the Bank's regulatory ratios - the LCR and the Net Stable Funding Ratio ("**NSFR**") reached 124% and 108%, respectively, as at 31 December 2017 compared to 107% and 99% as at 31 December 2016, respectively.

11 Risk Management

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

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

At operational level, the risk management function is centralised in the Global Risk Department ("**GRD**") and Rating Department (the "**DRT**"), being independent from the business areas.

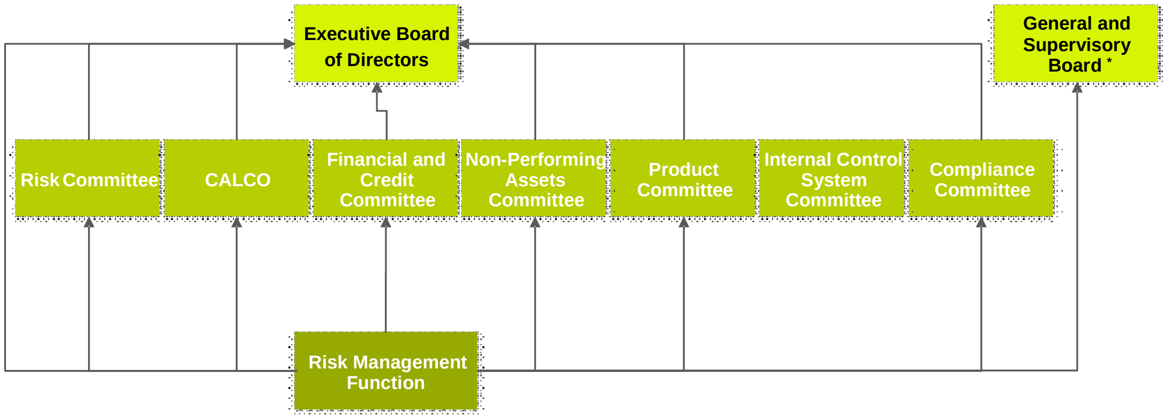
The functions of the GRD include:

- To identify, assess, monitor and report on the different types of risk assumed, thus managing the overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- To implement the risk policies defined by the Executive 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; and
- To develop the risk component of the Internal Capital Adequacy Assessment Process ("**ICAAP**"), Internal Liquidity Adequacy Assessment Process ("**ILAAP**") and stress tests.

The functions of the DRT include:

- Attribution of internal ratings to customers from the different business segments: large corporates, financial institutions, project finance, real estate, medium-sized companies, etc;
- Undertaking risk analyses; analysis of credit operations and issue of technical opinions; and
- "Single name" credit risk oversight and control.

The following chart presents the current structure of the Group's relevant risk function committees of the Executive Board of Directors during 2017:



Note:

(*) The Financial Affairs (Audit) Committee and the Risk Committee are committees of the General and Supervisory Board. See "*Management and Supervisory Corporate Bodies—General and Supervisory Board—Financial Affairs (Audit) Committee*" and "*Management and Supervisory Corporate Bodies —General and Supervisory Board—Risk Committee*".

From October 2017 onwards with the change in the Articles of Association and in the governance model, the General and Supervisory Board and the respective committees assumed significant responsibilities in the supervision of the risk management of the Group.

At the level of the Executive Board of Directors the specialised committees shown in the table below were maintained:

Specialised Committees

Risk Committee	Responsible for monitoring and following up on 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, operational, and market risks.
Financial and Credit Committee	Responsible for deciding the main credit operations in which the Group participates, in line with the risk policies defined for the Group.
Capital, Assets and Liabilities Committee (CALCO)	Responsible for setting and monitoring growth targets for customer loans and deposits, defining the funding strategy (management of balance sheet mismatch) and price / margin targets, as well as capital optimisation.

Product Committee	Responsible for approving the Group's units and commercial structures' products and services, including asset, liability and off-balance sheet products.
Non-Performing Assets (NPA) Committee	Responsible for overseeing the implementation of the 5-year strategic plan approved for NPAs, as well as compliance with the general and specific objectives defined in such plan by all areas of the Group.
Internal Control System Committee	Responsible for the oversight and monitoring of the Internal Control System ("**ICS**") of the Group in a group-wide and integrated way, notwithstanding the powers of the Corporate Bodies and of the other committees of the Group. The Committee has been granted powers by the Executive Board of Directors to take decisions related to the implementation of measures to promote the efficiency of the ICS and improve the internal control environment in the Group.
Compliance Committee	Responsible for the monitoring of all relevant compliance matters, with particular emphasis on: analysis of new legislation and regulations and of any ensuing actions required for the necessary adaptations, matters of conflicts of interest and matters of conduct.

At the level of the General and Supervisory Board the following risk management committees are also maintained:

General and Supervisory Board	
Financial Affairs (Audit) Committee	This Committee advises and supports the General and Supervisory Board in monitoring the effectiveness of the Issuer's internal control system, the risk management system and the internal audit system, in each case with regard to the Issuer, its parent undertakings and the Issuer's and the parent undertakings' subsidiaries, in each case only within the Issuer's scope of consolidation for regulatory purposes.
Risk Committee	This Committee advises and supports the General and Supervisory Board in monitoring the Issuer's overall actual and future risk appetite and risk strategy as well as the effectiveness of the internal control system and the risk management system, in each case with regard to the Issuer, its parent undertakings and its and the parent undertakings' subsidiaries, in each case only within the Issuer's scope of consolidation for regulatory purposes.

Risk monitoring is also performed through some specific second line support committees such as:

Support Committees	
Credit Risk Analysis Committee (CRAC)	The main objective of the process developed by the Credit

	Risk Analysis Committee ("**CRAC**") is the regular monitoring of current credit risk in the Retail segment. This process, which involves the analysis and assessment of clients that show symptoms of worsening creditworthiness, is conducted at least on an annual basis in each of the regional divisions. The analysis carried out throughout the CRAC process results in recommendations being issued per client, intended to mitigate the risk associated with each credit.
Credit Risk Monitoring Group (CRMG)	Monthly process of analysis and assessment of clients showing symptoms of worsening credit quality and definition and monitoring of their strategic options, with the participation and intervention of technical areas of the Bank. The clients analysed by the Credit Risk Monitoring Group ("**CRMG**") are classified on a monthly basis into three risk categories (pre-watchlist, watchlist and recovery) according to certain pre-defined risk measurement criteria. The CRMG issues recommendations and actions to be taken concerning these clients, also defining the structures responsible for managing these clients. This analysis covers the corporate commercial segment, and on an annual basis all corporate groups with liabilities above €15 million (including good risk clients).
Operational Risk Committee	Responsible for providing advice and recommendations to support the decision-taking by the Executive Board of Directors, keeping track of its responsibilities regarding the strategy, model, policies and risks related with the operational risk within the Group.

11.1 Credit Risk

Credit Risk represents the potential financial loss arising from (i) the failure of the Group's borrowers and other counterparties to fulfil their payment obligations; and (ii) insufficient collateral securing payments of such obligations. Management and control of this type of risk are based on an internal risk identification, assessment and quantification system.

The credit risk management process is carried out by the Credit Department as the credit decision maker, by the Rating Department that conducts the financial analysis of clients and by the Global Risks Department that defines the policies and activities for follow-up and for the risks control.

(a) *Organisational Adjustment*

The Credit Department is entrusted with implementing the credit decision function of the Issuer, ensuring the separation between the functions of managing the commercial relation with the clients (which is carried out by the Group's commercial departments responsible for managing day-to-day client business and relationships) and the decisions on granting credit to these clients.

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

The Credit Department's scope of action covers all the Issuer's commercial areas in general, including loans to individuals, loans to companies and operations originating in the international units of the Group, as well as the operations of the credit monitoring and recovery departments (companies).

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

The Issuer has been reducing its risk appetite in sectors such as real estate development and construction, and by reducing the concentration of credit exposure per client. Clients' credit ratings are a key element supporting the decision-making process.

In August 2017 the Credit Risk and Credit Risk Monitoring areas of the GRD were split, leading to the creation of the DRT. The function of the DRT is to assess the credit risk of the Group's clients through the assignment of ratings, non-binding technical opinions and the determination of credit impairments on an individual basis, to advise the Executive Board of Directors on the management of the credit risk of large clients, and to monitor single name exposures' credit risk. The separation of the credit risk areas from the credit risk monitoring areas allowed for greater focus and better monitoring of clients' risk, and strengthened the Group's credit decision process and a complete segregation of functions between the risk valuation and risk control areas.

(b) *Credit Risk Rating Systems*

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

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

Internal rating models for corporate and institutional clients' credit portfolios

Corporate credit portfolios are approached differently according to client size and industry sector, using different models specifically adapted to project finance, acquisition finance, object finance, commodity finance, and construction finance.

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

To assign internal risk ratings to these risk segments, classified as low default portfolios, the Rating Desk uses expert-based rating systems (templates) that include quantitative and qualitative variables strongly linked to the industry sector in question. Except for Specialised

Finance, the rating methodology used by the Rating Desk includes a risk analysis of the maximum consolidation scope, identifying the status of each subsidiary within the respective conglomerate. Ratings are validated daily by a Rating Committee formed by members of the Department Management and members of the various specialised teams.

For the medium-sized corporate segment (companies with annual turnover between €1.25 million and €50 million, except when in sectors classified as specific risk segments, such as real estate development), the Group uses statistical rating models, which combine economic and financial data with behavioural and qualitative data.

The disclosure of risk ratings requires previous validation by a team of risk analysts, who also take into account behavioural factors.

The teams also monitor the credit portfolios of the Group's clients by preparing risk analysis reports that take into account the client's current liabilities versus rating, as established in internal regulations, issuing specific recommendations concerning the credit relationship to be adopted with the client in question as well as technical opinions on loans to support investment, restructuring or other operations subject to credit risk.

In the Small Businesses segment (corporate with annual turnover below €1.25 million), ratings are also determined through statistical rating models, which in addition to financial and qualitative data, also use behavioural information concerning both the companies and the respective partner(s).

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

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

(c) *Internal Models used for Credit Risk Assessment*

The Issuer holds the Internal Rating Based ("**IRB**") certification, using internally developed risk models that cover the main corporate and individual credit portfolios: Medium-sized Companies, Small Companies, Start-Ups, Entrepreneurs, Residential Mortgage Loans, Consumer Credit and Credit Cards. In addition, the Bank uses the templates developed by Risk Solutions firm, customised to the Portuguese reality, to assign internal ratings to the Large Corporates, Municipalities, Financial Institutions, exposures to the Real Estate Sector, Project Finance and Acquisition Finance, among other portfolios.

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

In 2017 the following activities were carried out within the GRD's modelling area:

- Recalibration of the main corporate credit portfolios and incorporating the most recent information available on the level of default observed by the Issuer for these portfolios.

In accordance with the legislation in force applicable to the so called relevant changes to the IRB approach, the results were submitted to the supervision authorities, pursuant to the Commission Delegated Regulation no. 529/2014;

- Development of the LGD models through the inclusion of updated information on the activity and results of the Bank's recovery areas. This included both the LGD parameters used for the calculation of impairment and the LGD and ELBE parameters used to calculate regulatory capital, in the last case only for the Retail portfolios, for which the Issuer is certified to use the A-IRB (Advanced Internal Ratings-Based) approach.

In terms of the governance model, the performance of the risk models (Probability of Default ("**PD**"), LGDs and CCFs) is monitored by a model validation unit working separately from the model development unit, which since the end of 2014 has been integrated in the Internal Audit Department. The independent validation unit is responsible for assessing whether each of the internal risk models maintains a good predictive ability and a proper calibration, which are fundamental for the support of business decisions and for the calculation of regulatory capital. The validation exercise is recurrent, and the validation of the model occurs at least once a year.

In 2017, the Issuer has created specific and dedicated teams to address the new accounting standard, that came into force in 2018 (IFRS9) and the TRIM exercise, carried out by the ECB.

(d) *IFRS9*

After the global financial crisis of 2007-2009 and following request from the G20 group of countries, IASB introduced a new accounting standard.

The changes introduced by IFRS9 can be grouped under three categories: (i) changes in the classification of financial assets, (ii) changes in the measurement of financial assets, and (iii) changes in the model used to calculate impairment. The text below focuses only on the changes relating to impairment.

Under IFRS9, impairment losses are determined based on an expected loss model, whereas under the model in force until 31 December 2017 (IAS39) impairment losses were determined using the incurred loss model.

As IFRS9 represents a structural change, the Issuer undertook a set of actions within the scope of an IFRS9 project which was started in 2016 and involved a large number of the Bank's staff from the risk, accounting and financial areas. Examples of changes brought about in the impairment model are:

- The GRD's models team, with the support of external consultants, developed risk parameters designed to address the IFRS9 regulatory guidelines, ensuring that no lifetime parameters will be used, and considering forward looking information, i.e., macroeconomic and financial information available for a given projection timeframe, under three scenarios:

- The credit portfolio was classified in the three stages foreseen in IFRS9: Stage 1; Stage 2; and Stage 3.

- This classification required defining criteria, in particular those to be used in Stage 2, to identify credit exposures with a significant increase in credit risk, to be measured between the moment of initial recognition and the time of reporting.

- For credits in Stage 2, impairment losses must be lifetime losses, calculated using a lifetime PD. Hence the definition of the relevant events (criteria) that trigger the transfer of a credit exposure from Stage 1 to Stage 2 was one of the main challenges of the works carried out.
- Development of the technical support infrastructures.

(e) *Targeted Review of Internal Models ("TRIM")*

The TRIM is an exercise initiated by the ECB in 2016 that applies to all banks supervised by the European single supervisor, having as main objectives to:

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

The TRIM exercise entails a large number of on-site inspections to be undertaken by the ECB teams over several years. These inspections will apply to banks with IRB certification, as is the case of the Issuer.

The first on-site inspection to the Issuer was announced in 2017 and started in January 2018. This inspection examines the Residential Mortgage Loans portfolio (or 'Retail – Secured by Real Estate non-SME', to use the regulatory classification). The Issuer's internal PD (scorings) and LGD models are covered by this inspection. The TRIM inspection started on 15 January 2018 and field work finished on 11 May 2018. The findings of the inspection are expected to be communicated to the Issuer in the near future.

(f) *Credit Risk Monitoring*

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

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

The CRAC holds face-to-face meetings with the commercial areas to monitor clients with warning signs of a deterioration in credit quality, which may be observed in their financial accounts, assets, behavioural profile and type of exposure to the banking system.

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

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

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

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

The monthly meetings (Levels I, II and III), attended by the management staff of the various departments, analyse clients showing a deterioration in their risk classification, regardless of their liabilities, and groups with liabilities between €15 million and €50 million.

The quarterly meetings (Level IV), attended by the managing directors of the various departments, analyse the Bank's largest corporate clients (with liabilities above €50 million), including good risk clients.

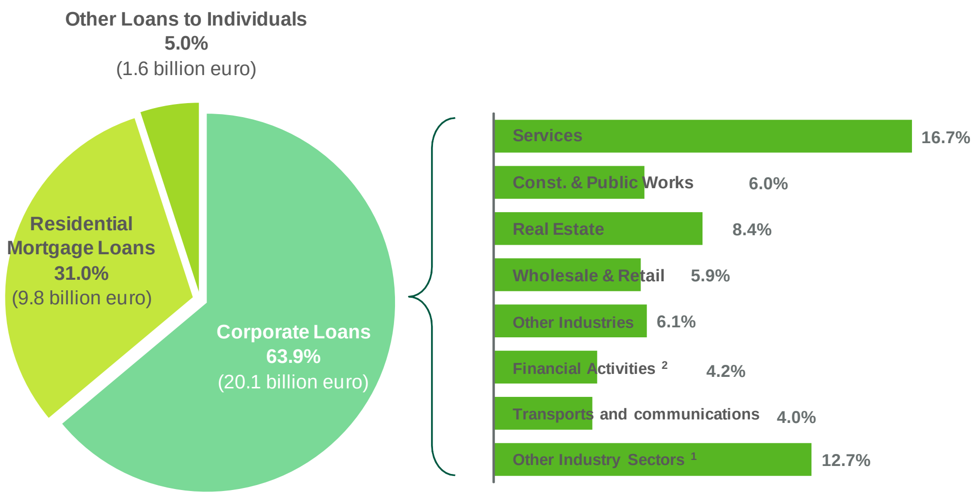
(g) *Analysis of the Credit Portfolio Risk Profile*

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

(h) *Credit Portfolio Breakdown by Industry Sector*

The breakdown of the credit portfolio by industry sector shows not only the Group's continued support to the business community but also that concentration levels by industry sector remain within prudent levels. For further details please see Note 50 of the Issuer's 2017 audited annual consolidated financial statements.

Gross Loan Portfolio as of 31 December 2017 (31.4 billion euro)



[1] Represents a composite of other sectors of the economy none representing more than 3% per se.
[2] Includes investment funds

(i) *Credit Portfolio Geographic Breakdown*

In December 2017 domestic activity accounted for 88.3% of the Group's gross loan portfolio, and mainly consisted of loans to corporates. The table below shows the geographic breakdown between domestic and international activity of the Group's gross loan portfolio.

	Domestic Activity			**International Activity**			**Total NOVO BANCO Group**		
	December		**weight to**	**December**		**weight to**	**December**		**weight to**
	2016	**2017**	**total**	**2016**	**2017**	**total**	**2016**	**2017**	**total**
					(€ million)				
Residential Mortgage ..	9,472	9,511	34.3%	254	241	6.5%	9,726	9,751	31.0%
Loans to Individuals (other)	1,298	1,330	4.8%	276	249	6.8%	1,574	1,579	5.0%
Subtotal.....................	10,769	10,841	39.1%	530	490	13.3%	11,300	11,330	36.1%
Corporate	18,325	16,904	60.9%	4,125	3,188	86.7%	22,451	20,092	63.9%
Total Loans	29,095	27,745		4,656	3,678		33,750	31,422	

(j) *Asset Quality*

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

	December		**Change**	
	2016	**2017**	**absolute**	**relative**
Base Data (€ million)				
Gross Loans	33,750	31,422	(2,328)	(6.9)%
Overdue Loans.........................	5,936	5,215	(721)	(12.1)%
Overdue Loans > 90 days.........	5,728	5,127	(601)	(10.5)%
Credit at Risk(1)	8,636	7,423	(1,213)	(14.0)%
Restructured Credit(2)	8,007	7,099	(908)	(11.3)%
Restructured Credit not included in Credit at Risk(1), (2)	4,008	3,384	(624)	(15.6)%
Non-Performing Loans (NPL) .	11,288	9,594	(1,694)	(15.0)%
Credit Provisions......................	5,566	5,631	65	1.2%
Additional Credit Provisions (accumulated)...........................	673	1,229	557	82.7%
Indicators (%)				
Overdue Loans / Gross Loans ..	17.6	16.6	(1.0) p.p.	
Overdue Loans > 90 days / Gross Loans	17.0	16.3	(0.6) p.p.	
Credit at Risk(1) / Gross Loans..	25.6	23 6	(2.0) p.p.	
Restructured Credit(2) / Gross Loans	23.7	22.6	(1.1) p.p.	

	December		Change	
	2016	2017	absolute	relative
Restructured Credit not included in Credit at Risk [(1), (2)] / Gross Loans	11.9	10.8	(1.1) p.p.	
Non-Performing Loans (NPL) / Gross Loans	33.4	30.5	(2.9) p.p.	
Credit Provisions / Overdue Loans	93.8	108.0	14.2 p.p.	
Credit Provisions / Overdue Loans > 90 days	97.2	109.8	12.7 p.p.	
Credit Provisions / Credit at Risk[(1)]	64.5	75.9	11.4 p.p.	
Credit Provisions / Non-Performing Loans (NPL)	49.3	58.7	9.4 p.p.	
Credit Provisions / Gross Loans	16.5	17.9	1.4 p.p.	
Cost of Risk (%)	2.0	3.9	1.9 p.p.	
Cost of Risk net of recoveries (%)	1.9	3.8	1.9 p.p.	

Notes:

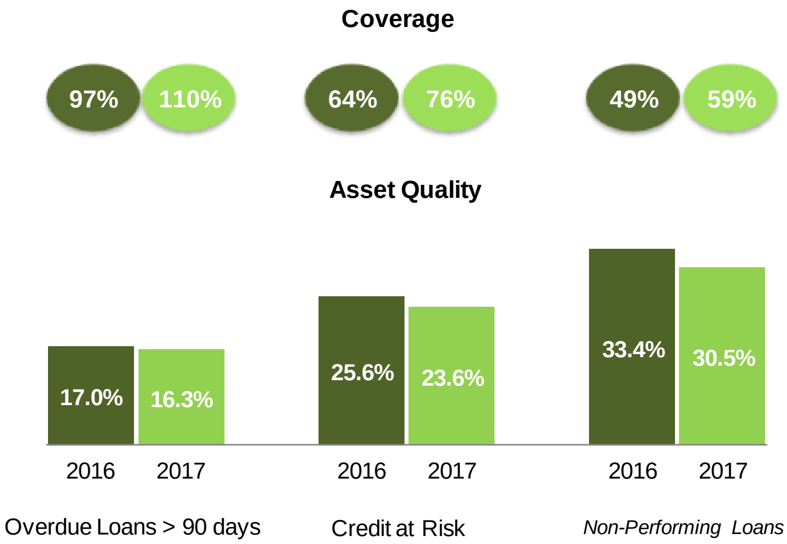
(1) According to definition included in instruction no. 23/2011 of the Bank of Portugal.

(2) According to definition included in instruction no. 32/2013 of the Bank of Portugal.

The overdue loans > 90 days / gross loans ratio decreased to 16.3% as at 31 December 2017 (December 2016: 17.0%). The corresponding provision coverage ratio is 109.8%, representing an increase of 12.7% compared with December 2016 (December 2016: 97.2%) maintaining a high level of coverage of overdue loans.

The €1.7 billion reduction in NPLs - from €11.3 billion as at 31 December 2016 to €9.6 billion as at 31 December 2017 - was particularly noticeable, with the respective asset quality ratio improving by 290 basis points, to 30.5%. The coverage of NPLs by impairments reached 58.7% (compared to 49.3% December 2016).

(k) *Asset Quality and Provisions Coverage*



Reflecting the improvement of the overdue loans ratio, the credit at risk ratio decreased from 25.6% to 23.6% in 2017. Coverage was maintained at a high level (110% for overdue loans > 90 days and 76% for credit at risk). In 2017, the NPL ratio excluding the CCA Assets would have been 9.1%, instead of 30.5%.

(l) *Credit at Risk* by Type of Credit and Balance Sheet Provisions*

	Credit at Risk(1)		**Coverage(2)**		**Balance Sheet Provisions(3)**	
	31 December					
	2016	**2017**	**2016**	**2017**	**2016**	**2017**
Total Loans...........................	**25.6%**	**23.6%**	**64.5%**	**75.9%**	**16.5%**	**17.9%**
Corporate	33.4%	32.3%	68.5%	81.0%	22.9%	26.2%
Mortgage................................	7.7%	6.6%	24.6%	24.8%	1.9%	1.6%
Loans to Individuals (other)...	24.5%	18.2%	63.2%	73.1%	15.5%	13.3%

Notes:

* Credit at Risk according to definition included in Instruction no. 23/2011 of the Bank of Portugal

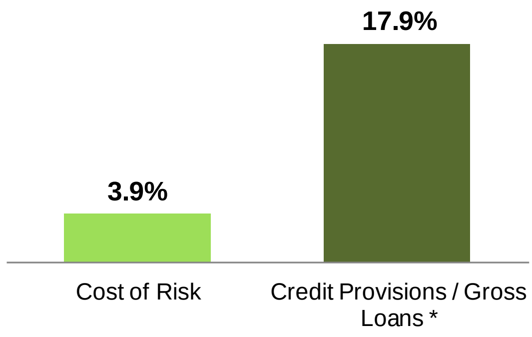
(1) Credit at Risk / Gross Loans

(2) Credit Provisions / Credit at Risk

(3) Credit Provisions / Gross Loans

Credit provisions were increased by €1,229 million, corresponding to a cost of risk of 3.9%. The cost of risk net of written-off credit recoveries was 3.8% in 2017.

Credit Provisions in 2017 as of 31 December 2017



* On Balance Sheet Credit Provisions / Gross Loans

11.2 Market and Liquidity Risks

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

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

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

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

11.2.1 Market Risk

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

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

(a) Trading Book and Liquidity Management Portfolio Risks

Management Controls

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

To calibrate the VaR assessment, daily back testing exercises are performed, allowing the comparison of losses foreseen by the VaR model with theoretical losses given by the model. These exercises allow the model to be fine-tuned and its predictive capacity improved. As a complement to the VaR model, stress testing is also carried out to assess the potential losses under extreme scenarios. These analyses are performed either based on a real stress period (stressed VaR ("**sVaR**"), or through sensitivity analysis, applying extreme individual shocks to risk factors.

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

Market Risk Analysis

The Group's VaR as at 31 December 2017 was €34.4 million in its trading portfolio positions in equities, interest rate instruments, volatility and credit spreads, commodities as well as foreign exchange positions and liquidity management portfolios. On 31 December 2016 this value was €27.0 million. The increase in risk observed in 2017 was mostly driven by the increase in interest rate risk and credit spread risk due to the growth of the liquidity management portfolio and the extension of its maturity.

Value at Risk 99% 10 days

	31 December				
	2016	**2017**	**Change**	**Maximum**	**Minimum**
			(€ million)		
FX	1.9	1.2	(0.7)	1.9	0.6
Interest Rate	10.4	21.4	11.0	28.7	13.5
Equities and Commodities	2.6	0.9	(1.7)	2.9	0.5
Credit	29.5	34.0	4.5	41.1	18.1
Volatility	0.1	0.1	0.0	0.3	0.1
Diversification effect	(17.6)	(23.2)	(5.6)	(39.3)	(13.9)
Total	27.0	34.4	7.4	35.5	18.9

(b) Banking Book Risks

For the other banking book risks, and in accordance with the RAS, there are general position limits, which are assessed through sVaR at 99.9% for a selected stress period of one year based on historical data series, with the respective annual shocks being applied to the portfolio.

Banking Book Interest Rate Risk

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

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

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

Additionally, every month the Group measures the banking book interest rate risk in stress situations, based on the one-year historical VaR, with a 99.9% confidence level, and applying a floor on the simulation of rates. On 31 December 2017 this value was €129 million, compared with €197 million on 31 December 2016. This change mainly reflects the decrease in the outstanding fixed-rate debt securities of the Issuer following the LME and the increase and extension of the maturity of the Issuer's sovereign debt portfolio.

Other Banking Book Risks

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

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

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

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

(c) Pension Fund Risk

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 between the value of the assets and the liabilities. The Group makes payments to the fund in order to assure the minimum levels set by the Bank of Portugal, which are: (i) the liability to pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%. The payments made to the fund, when necessary, are recorded as an outflow from demand deposits against the net asset/liability related to Pensions recorded in the Group's balance sheet.

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

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

11.2.2 Liquidity Risk

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

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

Management Controls

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

(a) Management of collateral

The management of collateral is a process that aims to maximise the potential for financing through balance sheet assets.

(b) Funding adequacy and diversification

In line with its prudent liquidity management policy, the Group strives for an adequate diversification of its funding sources, stressing in particular the increase in deposits and funding, that may or may not be guaranteed by collateral, with market counterparties.

(c) Definition of a transfer pricing policy

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

(d) Implementation of internal liquidity stress tests

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

(e) Development of a liquidity contingency plan

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

The Group continues to follow all changes in the legislation in order to comply with regulatory requirements, including the LCR and NSFR, as well as to meet all regulatory reporting requirements in terms of liquidity through the development and analysis of information in connection with the Additional Liquidity Monitoring Metrics ("**ALMM**"), Liquidity Risk Monitoring Tool ("**LRMT**") and Single Supervisory Mechanism Liquidity Exercise (Crisis Management Liquidity Template). These three reports are intended, respectively, to complement the liquidity reporting previously carried out with additional liquidity monitoring measures, to allow the regulator to assess weekly the liquidity ratios, survival periods, and liquidity gaps of the institutions, and to endow banks with liquidity tools for temporary and opportune use in real crisis situations.

Liquidity Risk Analysis

The Group's liquidity risk registered an improvement in 2017, as reflected in a €4.4 billion increase in available net assets[9] compared to 2016, essentially through an increase in deposits that counteracted the decrease in debt securities resulting from the LME, the deleveraging of the Bank's assets and the capital increases carried out during the year.

Net funding from the ECB decreased to €6.5 billion (gross) or €2.8 billion (net) on 31 December 2017, which (on a net basis) represents a year-on-year reduction of €2.3 billion. At the end of 2017 the portfolio of assets eligible as collateral (after the application of haircuts set by the ECB to assets accepted as eligible collateral) for rediscounting operations with the ECB totalled €12.7 billion, which compares with €11.6 billion in 2016.

Due to the increase in available net assets, the LCR rose by 17%, from 107% on 31 December 2016 to 124% at the end of 2017.

The NSFR increased from 99% on 31 December 2016 to 108% on 31 December 2017, mainly underpinned by the deleveraging of non-liquid assets.

There was also a decrease in the loan to deposit ratio, from 110% on 31 December 2016 to 88% at the end of 2017 resulting from an increase in deposits and decrease of the loan book.

11.3 Operational Risk

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

Consequently, operational risk is inherent to all the activities of the Group, with no exception, i.e., to all businesses, processes, activities and systems. Therefore, all the employees are responsible for the management and control of operational risk within their sphere of responsibility; and the attempt to eliminate all operational risks is not feasible from a cost-benefit perspective. Therefore, the occurrence of events with immaterial net individual losses is considered tolerable. As to material losses, the frequency of which tends to be low, the Group seeks to remove the inherent risk source.

Management Practices

Operational risk is managed through the application of procedures that standardise, systematise and regulate the frequency of actions aimed at the identification, monitoring, control and mitigation of this

[9] In accordance with the LRMT definition of available net assets.

risk. The priority in operational risk management is to identify, measure, control, mitigate or eliminate, and report risk sources, even if these have not resulted in financial losses.

The management methodologies in place are supported by principles and approaches to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal.

The operational risk management model implemented is supported by a specific structure within the Global Risk Department exclusively dedicated to designing, monitoring and maintaining the model. This structure guarantees the dissemination, implementation and standardisation of the Operational Risk Management Model within the various entities of the Group, in compliance with the methodologies approved by the Executive Board of Directors. For the model to be effective, close coordination with and the active participation of the Global Risk Department, the operational risk representatives from the Group's departments, branches and subsidiaries, and their teams, who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of Operational Risk within their sphere of responsibility, is crucial. The Operational Risk Control and Management Model also complies with the 3 Lines of Defence principle.

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

- Definition of risk policies and methodologies to manage and control operational risk;
- Monitoring of Operational risk appetite (including the risk appetite defined for its various categories) through Group-wide Key Risk Indicators ("**KRI**"), allowing a comparative analysis, and specific indicators to meet the risk control needs of certain business units;
- Identification and reporting of operational risk incidents in the Group's corporate operational risk IT platform. This database is designed to consider all incidents, with no restrictions in terms of financial limits or type of impacts, i.e., it takes into account incidents with no accounting impacts or incidents with positive impacts. Knowledge of these situations is essential to allow the control and mitigation of risk;
- Execution of procedures to control the registration of events, in order to verify the effectiveness of the processes of risk identification implemented in each financial institution and at the same time ensure the recording and conformity of the information on incidents with financial impacts. The main control process consists in checking the financial movements booked under certain items against the incidents recorded in the database;
- Identification and systematisation of risk sources and potential incidents in order to define incident reporting responsibilities within the institutions and thus promote a risk awareness culture and further improve the established identification process;
- Regularly performing self-assessment exercises to identify the larger risks and corresponding mitigation actions;
- 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 to the Group's top management, as well as specific reporting to certain business units;

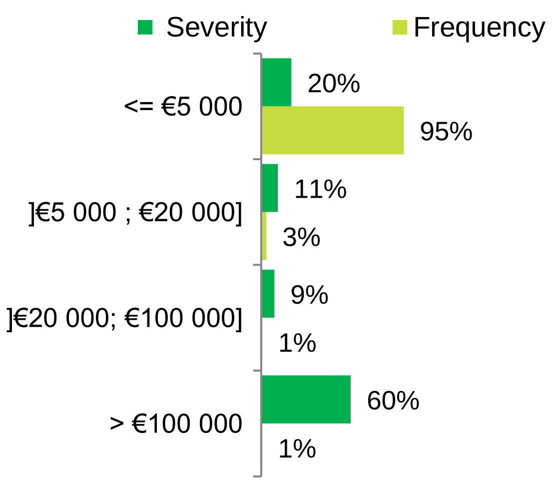
- Training and sharing of experiences in a "lessons learned" perspective and adoption of best practices by the Group's several business units;
- Active participation in the process of signing off new products and services of the Group; Monitoring of exclusions to the sign off process of new products and services that enhance or generate Operational Risk; and
- Development, dissemination and monitoring of the IT Risk Models adopted by the financial institutions of the Group in terms of the severity of the incidents detected.

In the area of Compliance and Reputational risks, the Compliance Department plays a particularly important role, reviewing and implementing metrics viewing the constant monitoring and control of these risks, as well as their prevention. The consolidation of these instruments improved the monitoring of the actions required for the proper mitigation of risks.

Moreover, other activities carried out concurrently also reinforced the control environment: (i) the projects undertaken to adjust the Bank's processes to regulatory changes, in particular those arising from the comprehensive legislative framework, including MIFID II, and legislation on Product Oversight and Governance and Packaged Retail & Insurance-Based Investment products; (ii) the definition/revision of the Policy on Conflicts of Interest and the Policy on Related Party Transactions; (iii) the reporting of compliance risks to the Compliance Committee; (iv) the consolidation of the product sign-off process through the Product Committee; and (v) the Bank's anti-money laundering and anti-terrorism financing policies.

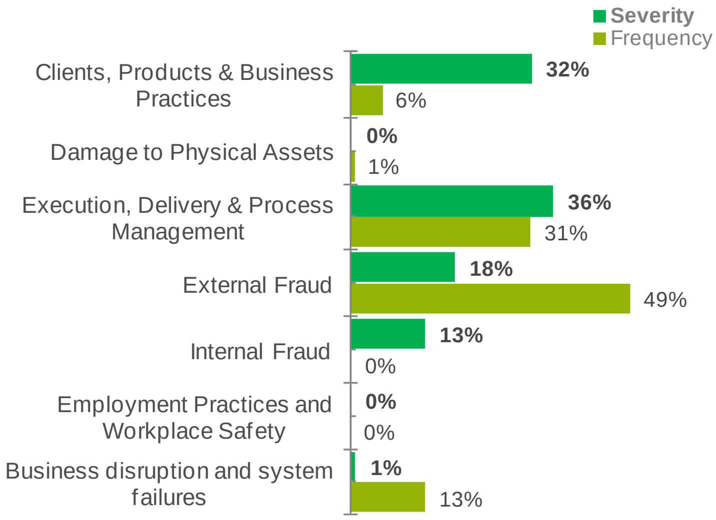
Analysis of Operational Risk

The Group's operational risk profile shows a high frequency of incidents with low financial impact, and very few incidents with a material impact. In 2017, 95% of incidents had a net financial impact of less than €5,000, representing 20% of the total reported losses related to operational risk. Incidents with an impact above €100,000 were few and represented 60% of the total impact. Measures were taken to seek to solve the problems which were identified.



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

In 2017, the 'External Fraud' incidents (mostly involving credit cards) registered the highest score in terms of frequency, with 49% of the incidents representing 18% of the lost amount, which is broadly in line with the average in the Portuguese and European financial system.[10] The "execution, delivery & process management" events registered the highest score in terms of severity (36%), corresponding to 31% of the reported incidents. Clients, Products and Business Practices was responsible for 32% of the losses. This was due to a particular failure that was promptly and efficiently corrected.



11.4 Solvency

Capital Management and Regulatory Solvency

The primary objective of the Group's capital management is to ensure compliance with the Group's strategic targets in terms of capital adequacy, respecting and enforcing the rules regarding the calculation of capital requirements and solvency levels set by the supervisors (the Bank of Portugal and the ECB). The requirements set by the supervisors as imposed by CRD IV apply to the Issuer on both an individual and consolidated basis. The capital adequacy strategy is defined by the Executive Board of Directors as part of the Group's global objectives.

The Group's capital ratios are calculated based on the rules stipulated in Directive 2013/36/EU and Regulation (EU) no. 575/2013, which define the criteria for access to the activity of credit institutions and investment firms and determine the prudential requirements for these institutions, and also in Regulation (EU) no. 2016/445, which regulates the transitional (phased-in) arrangements for own funds set forth in CRR. The Group is authorised to use the IRB for the calculation of risk weighted assets for credit risk. For the calculation of risk weighted assets for market and operational risk it uses the standardised approach.

The capital ratios of the Group, as of 31 December 2016 and 31 December 2017, were as follows:

[10] (Source: the Issuer).

	Capital Ratios		
	31 December 2016	31 December 2017	
	Phased-in	Phased-in	Fully implemented
Common Equity Tier 1 Ratio	12.0%	12.8%	12.0%
Tier 1 Ratio	12.0%	12.8%	12.0%
Total Own Funds Ratio	12.0%	13.0%	12.4%

The phased-in CET1 ratio as of 31 December 2017 was 12.8%. The ratio reflects both the maintenance of CET1 level, once the 2017 phasing in of the CRR and the net income (loss) for the year were off-set by the shareholder capital increases that took place in the year and, and the risk weighted assets reduction that occurred in 2017. The fully implemented CET1 ratio for 31 December 2017 was 12.0%.

Own Funds

Currently, under the Basel III legal framework, the calculation of the Group's capital ratios considers the following capital elements: CET1, Additional Tier 1 (AT1), which together with CET1 forms the Tier 1 capital and Tier 2, which together with Tier 1 capital comprises the total own funds.

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

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

	Consolidated	
	31 December	
	2016	2017
	(€ million)	
Realised ordinary share capital	4,900	5,900
Reserves and retained earnings	1,289	420
Net income for the year	(837)	(1,389)
Revaluation reserves	(275)	(153)
Non-controlling interests	55	52
A - Accounting Equity	5,132	4,830
Revaluation reserves	(49)	(54)
Non-controlling interests	(24)	(28)
B - Prudential adjustments to Equity	(73)	(82)
Goodwill and other intangibles	(62)	(26)
Deferred taxes	(796)	(635)
Equity participations in financial entities	(146)	(11)
Other	(4)	(29)

	Consolidated	
	31 December	
	2016	2017
	(€ million)	
C - Prudential deductions	(1,008)	(701)
D - Common Equity Tier 1 (A+B+C)	4,051	4,047
Eligible instruments for Tier 1	2	3
Deductions to Tier 1	(2)	(3)
E - Tier 1	4,051	4,047
Eligible instruments for Tier 2	127	138
Deductions to Tier 2	(127)	(68)
F - Tier 2	—	70
G - Eligible Own Funds	4,051	4,117

Risk Weighted Assets

As of 31 December 2017, phased-in risk weighted assets totalled €31,740 million, of which €29,844 million (94% of the total) resulted from credit and counterparty risk, €418 million from market risk and €1,477 million from operational risk.

Credit and Counterparty Risk

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

As at 31 December 2017 the 'corporate' risk class was the main contributor to risk weighted assets (55% of the total).

	Risk Weighted Assets for Credit Risk by risk class		
	31 December		
	2016	2017	
	Risk Weighted Assets		Risk Weighting Factor[1]
	(€ million)		
Central Administrations or Central Banks	12	12	0%
Institutions	3,624	3,610	96%
Corporate	19,474	16,339	63%
Retail Portfolio	2,057	1,936	16%
Other	6,859	7,947	52%

	Risk Weighted Assets for Credit Risk by risk class		
	31 December		
	2016	2017	
	Risk Weighted Assets		Risk Weighting Factor[(1)]
	(€ million)		
Total..	32,026	29,844	52%

Note:

(1) Risk Weighted Assets / Position in Original Risk.

Market Risk

Market risk weighted assets are calculated using the standardised approach.

As of 31 December 2017, market risk weighted assets amounted to €418 million, with the main contributors being the interest rate / debt instruments risk (81% of the total) and FX risk (16% of the total).

Change in the year of the Market Risk Weighted Assets

		31 December		
		2016	**2017**	**Change**
			(€ million)	
Debt Instruments	Specific Risk	3	0	(3)
	General Risk	146	335	190
	Non-Delta Risk[(1)]	0	0	0
	CIE[(2)]	0	2	1
Equity Instruments.......................	Specific Risk	1	2	2
	General Risk	67	4	(62)
	Non-Delta Risk[(1)]	13	0	(13)
	CIE[(2)]	0	8	8
Commodity Risk..........................	General Risk	0	0	0
	Non-Delta Risk[(1)]	0	0	0
Foreign Exchange Risk................	General Risk	97	66	(32)
	Non-Delta Risk[(1)]	2	1	(2)
Total...		330	418	89

Notes:

(1) 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.

(2) Collective Investment Entities - Investment Funds.

The change in market risk weighted assets mainly resulted from the increase in the general interest rate risk, in part offset by the decrease in the general equity instruments risk and general FX risk.

Operational Risk

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

From 31 December 2016 to 31 December 2017, operational risk weighted assets increased by €205 million from €1,272 million to €1,477 million.

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

	31 December			
	2016		2017	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
		(€ million)		
NOVO BANCO Group	102	1,272	118	1,477
Corporate financing.........................	0	0	0	0
Trading and sales.............................	(64)	(804)	(33)	(411)
Retail brokerage	1	14	1	11
Commercial banking	119	1,485	107	1,336
Retail banking..................................	40	501	38	478
Payment and settlement...................	0	0	0	0
Agency services...............................	0	3	0	3
Asset management...........................	6	73	5	61

12 Legal, Administrative and Arbitration Proceedings

Save as disclosed below, neither the Issuer nor any other member of the Group, is, or during the 12 months preceding the date of this Prospectus has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have significant effects on the Group's financial position or profitability.

Where the Group is subject to threatened or ongoing proceedings, management determines on the basis of applicable accounting principles and in accordance with the perimeter of assets and liabilities arising from the Resolution Measure and subsequent decisions of the Bank of Portugal the level of provisions to be recorded in its accounts regarding such proceedings. As at 31 December 2017, no provisions have been made at the level of the Issuer with respect to proceedings related to the Resolution Measure.

As a large financial institution, the Group is the subject of actual and threatened litigation and other proceedings in the ordinary course of its banking and financial intermediary business.

According to the Resolution Measure and related decisions of the Bank of Portugal, the Issuer should only be liable in respect of matters or claims arising on or after 3 August 2014, which is the date on which the Issuer was established, or that were otherwise transferred to the Issuer pursuant to the Resolution Measure and related decisions of the Bank of Portugal.

Currently there are more than 800 pending proceedings that seek to challenge the application of the Resolution Measure to BES and the related decisions of the Bank of Portugal, the establishment of the Issuer and the resulting impact on other parties and their rights, including shareholders, members of corporate bodies, senior and subordinated creditors and clients. Should any or all of such proceedings be successful and the Indemnification Mechanism (as defined below) not be available or be insufficient to fully compensate the Group, the resulting costs and/or damages could materially and adversely affect the Group's financial position, results of operations and reputation, even in situations where the Issuer is not a party to such proceedings.

In addition, as regulated entities, the Issuer and the Group are, from time to time, the subject of supervisory and administrative inquiries, inspections and investigations by regulators in the jurisdictions in which they operate. So far as the Issuer is aware, and except as disclosed below, none of the Issuer or other Group entities is, as at the date of this Prospectus, subject to any such inquiries, inspections or investigations that may have a significant effect on the Group's financial position or profitability. See also "*Risk Factors—Regulatory Risks—The Group operates in a highly regulated industry*".

12.1 Proceedings Relating to the Resolution Measure

On 3 August 2014, the Bank of Portugal, acting as resolution authority, applied the Resolution Measure to BES, resulting in a transfer of activities and most assets and liabilities of BES to the Issuer, which was set up as a bridge bank specifically for this purpose. The Bank of Portugal subsequently adopted further decisions, including with respect to the perimeter of the assets and liabilities that were transferred to the Issuer.

The impact of the Resolution Measure includes the status of the assets, liabilities, contingencies or other items transferred to the Issuer or retransferred back to BES, on the date of the Resolution Measure or later, or that should have been or should be deemed transferred or retransferred according to the decisions of the Bank of Portugal. Actual, pending and threatened proceedings against the Bank of Portugal and/or the Resolution Fund are based on allegations that the Resolution Measure was illegal or unconstitutional, by shareholders, subordinated creditors, senior creditors, former members of BES corporate bodies, BES related parties or other affected entities. In the proceedings that have been filed in the administrative courts, the Issuer is only a "counter-interested" party and not directly a party thereto. Moreover, there may be other actual, pending or threatened proceedings of which the Issuer is not currently aware, or to which the Group is neither a party nor a counter-interested party, but which may nevertheless have a significant impact on the Issuer.

The Resolution Measure expressly stated that disputed liabilities or contingencies related to matters arising before 3 August 2014 were not transferred to the Issuer, and such determination was supported and further detailed in subsequent decisions by the Bank of Portugal. Nevertheless, there is a significant number of proceedings against the Bank of Portugal and/or the Issuer seeking to assign liability for such legacy matters to the Issuer.

Furthermore, numerous legal proceedings have been initiated in Portuguese administrative courts against the Bank of Portugal and/or the Resolution Fund that challenge the Resolution Measure and seek that it is declared void by the courts. The Issuer is a counter-interested party ("*contra-interessado*") in several of these proceedings. The claims lodged include demands for relief, including:

- The Bank of Portugal's decisions regarding the Resolution Measure and its subsequent decisions to be declared void;
- the split and the transfer of assets and liabilities between BES and the Issuer to be declared void;
- the liquidation of the Issuer;
- compensation of losses to be repaid;
- annulment of the retransfer of certain bonds retransferred back to BES pursuant to the Decision of 29 December 2015 on Retransfer;
- blocking of bank account funds that remained at BES;
- compensation for losses and damages; and
- the sale of the Issuer and related arrangements, such as the Contingent Capital Agreement and its implementation. See "*—Administrative and Arbitral Proceedings*" below.

12.2 Indemnification Mechanism Relating to the Resolution Measure

Pursuant to the indemnification mechanism established in connection with the Lone Star Sale (the "**Indemnification Mechanism**"), which was preceded by a similar mechanism established by decision of the national resolution authority in the Decisions of 29 December 2015, in accordance with the resolution framework, the Resolution Fund is responsible, upon the fulfilment of certain conditions (including, defending the legal proceedings with the diligence of a prudent defendant), for compensating the Issuer, at any time and with no limitation of amount, for losses arising from non-appealable judicial decisions in the Portuguese courts or any other courts on the validity, implementation, effectiveness or enforcement of the Resolution Measure in any jurisdiction, including, but not limited to, the perimeter of the assets, liabilities, off-balance-sheet items, and assets under management of the Issuer or holding the Issuer responsible for any liability of BES, thereby not respecting the Resolution Measure. While the Indemnification Mechanism may help mitigate economic risks arising from certain litigation relating to the Resolution Measure, there can be no assurance that it will be applied or, if applied, upheld. In addition, even if the Indemnification Mechanism is successfully applied, this may result in an adverse reputational impact on the Issuer and/or the Group or be highly disruptive to the Issuer and a significant distraction for management.

12.3 Legal proceedings relating to liabilities of BES not transferred to the Issuer

According to the Resolution Measure and the Decision of 29 December 2015 on contingencies ("**Decision of 29 December 2015 on Contingencies**"), any liabilities or off-balance sheet items of BES that were, as at 8:00 p.m. (Lisbon time) on 3 August 2014, contingent or unknown (including disputed liabilities in connection with pending litigation and liabilities or contingencies resulting from fraud or the breach of regulatory, criminal or administrative provisions or determinations), regardless of the nature (tax, labour, civil or other) and whether or not the proceedings were recorded in BES' books of account, were not transferred to the Issuer. In particular, the following liabilities of BES were not transferred to the Issuer:

- claims related to preferred shares issued by vehicles created by BES and sold by BES;
- claims, indemnities and expenses related to real estate assets which were transferred to the Issuer;
- indemnities related to breach of contract, sale and purchase of real estate assets and others, signed and executed prior to 8.00 p.m. (Lisbon time) on 3 August 2014;
- indemnities related to life insurance contracts where BES—Companhia de Seguros de Vida, S.A. (currently, GNB Vida) was the insurance company;

- claims and indemnities related to the purported annulment of certain clauses of loan agreements where BES was the lender;
- indemnities and claims resulting from the annulment of operations executed by BES as provider of financial and investment services; and
- liabilities regarding the court proceedings that were listed in the Decision of 29 December 2015 on Contingencies.

Furthermore, on 29 December 2015, the Bank of Portugal determined that liabilities of BES that were in fact transferred to the Issuer but that did not satisfy the foregoing criteria were to be re-transferred from the Issuer to BES with effect from 8.00 p.m. on 3 August 2014.

In addition, the Decision of 29 December 2015 on Contingencies determined that the Board of Directors of BES and Executive Board of Directors of the Issuer should take all actions required to implement and effect the clarifications and re-transfers set out in such decision. In particular, and based on the provisions in Article 145-P(7) and 145-G(2), (3) and (4) of the RGICSF, the Issuer and BES should: (a) adopt the necessary implementation measures for the proper application of the Resolution Measure, as well as of all decisions of the Bank of Portugal that supplement, amend or clarify it including such decision; (b) perform all acts of a procedural or process nature in the proceedings to which they are party so as to properly implement the decision of the Bank of Portugal referred to in (a), including those required to reverse any prior acts they may have performed contrary to those decisions; (c) for the purpose of compliance with the provisions in paragraph (b), apply for immediate attachment of the Decision of 29 December 2015 on Contingencies to any proceedings to which they are party; (d) bring their accounting records in line with the provisions in the Bank of Portugal's decision referred to in (a); and (e) refrain from any conduct that could compromise the Bank of Portugal's decisions referred to in (a).

Several court decisions relating to the challenge of the validity of the Resolution Measure and subsequent decisions of the Bank of Portugal (in Portugal and abroad) have been determined in favour of the Issuer. However, in Portugal, there are a few decisions which are not consistent with the Resolution Measure and the Decisions of 29 December 2015. The Issuer has appealed all such decisions to a superior court and, as of the date of this Prospectus, none of them is final. In Spain, final decisions of the relevant courts have been divided in their recognition of the Resolution Measure and subsequent decisions of the Bank of Portugal (as at the date of this Prospectus, there have been a few unfavourable final decisions in Spain). Any unfavourable decision, in particular in Portugal, may impact other ongoing proceedings, notwithstanding the Indemnification Mechanism discussed above under *"—Indemnification Mechanism Relating to the Resolution Measure*", or have impact on other claims.

Proceedings are pending against the Bank of Portugal in Portugal disputing the transfer of certain assets or liabilities as well as the Resolution Measure itself. A decision disapplying, reversing or invalidating a decision taken with respect to the transfer of a particular asset or liability under the Resolution Measure could result in assets transferred to the Group being retransferred back to BES or being deemed to have never been transferred from BES, or liabilities transferred to or retained by BES being transferred or retransferred to the Group. In the event of any such decision, the Bank of Portugal has the right, pursuant to RGICSF, to decline to execute the court decision on the basis of legitimate cause, as a result of which claimants would be entitled only to compensation paid by the Resolution Fund, with no impact on the Issuer. See "*—Legitimate cause for non-execution of court decisions*" below.

In addition, there are several proceedings pending against the Issuer outside of Portugal which could also indirectly result in non-recognition of the Resolution Measure and its effects and/or of related decisions of the Bank of Portugal. These include claims brought against the Issuer in Venezuela (for approximately US$335 million and US$37 million of principal, and a total claimed amount, as of March 2016, of US$871 million and US$96 million, respectively) and an arbitration in the International Chamber of Commerce (a claim of approximately €108 million), the latter two arising from the placement of debt instruments of GES. In order for a foreign judgment or award to be enforceable in Portugal against the Issuer, a decision resulting from such proceedings would need to be recognised in Portugal. While recognition of a foreign judgment in Portugal does not involve a full reconsideration of the merits of the claim, in such circumstances the Issuer could seek to block enforcement on the basis of overriding principles of public order (*princípios de ordem pública internacional do Estado Português*), for example on account of the foreign decision's non-compliance with the resolution powers granted under Portuguese law to the Bank of Portugal. The court itself may and is legally bound to verify the compliance of the requested recognition with such overriding principles of public order. In certain cases, such as those related to Oak Finance, the Issuer could also oppose recognition on the basis that the same matter is the subject of ongoing proceedings in Portugal.

12.4 Legitimate cause for non-execution of court decisions

Should any proceedings in Portuguese administrative courts challenging the Resolution Measure or related decisions taken by the Bank of Portugal be determined adversely to the Bank of Portugal or the Resolution Fund, the Bank of Portugal may invoke a legitimate cause for non-execution of a decision invalidating the Resolution Measure or any related decision, pursuant to the RGICSF and Portuguese Administrative Courts Procedural Code. In such circumstances, proceedings for determination of compensation may be initiated by the Bank of Portugal and the Resolution Fund, as administrative entities, in accordance with the Portuguese Administrative Courts Procedural Code.

12.5 Oak Finance Litigation

Proceedings are currently ongoing in courts in England and Portugal related to financings in the amount of approximately US$835 million provided by Oak Finance to the BES Luxembourg branch (the "**Oak Finance Liability**").

On 22 December 2014, the Bank of Portugal determined that BES's liability, comprising the loan granted by Oak Finance to the BES Luxembourg branch on 30 June 2014, had not been transferred to the Issuer and remained a liability of BES following the application of the Resolution Measure and that BES and the Issuer should adjust their accounts accordingly, on the basis that Oak Finance was acting on behalf of Goldman Sachs International ("**GSI**") with respect to the loan, and GSI held a stake in BES exceeding 2% of its issued share capital in the two-year period preceding 3 August 2014. In February 2015, the Bank of Portugal confirmed the 22 December 2014 decision, a decision it further confirmed in September 2015 and December 2015. See "*—Legal proceedings relating to liabilities of BES not transferred to the Issuer*" above.

In February 2015, GSI and the New Zealand Superannuation Fund (one of the investors in the notes issued by Oak Finance), along with other investors, filed claims against the Issuer seeking recovery of the Oak Finance Liability in the High Court of Justice in London, in the aggregate amount of US$835 million plus interest and costs. In these proceedings, the claimants seek to recover the Oak Finance Liability thereby disregarding (and indirectly challenging) the December 2014 and February 2015 decisions by the Bank of Portugal with respect to that liability. The Supreme Court decided on 4 July 2018 that the Oak Finance Liability remains with BES as a matter of Portuguese law, the Issuer was not subject to the jurisdiction agreement and so determined that the English courts did not have jurisdiction. The Supreme Court also determined that the Portuguese courts are the courts entitled to review the decisions of the Bank of Portugal. Although certain directions post-judgment have been requested from the claimants, they will not impact the Supreme Court's finding in respect of the lack of jurisdiction of the English courts. The claimants' rights would now be assessed in the Portuguese courts with the legal consequences arising therefrom.

GSI and the New Zealand Superannuation Fund, as well as other parties, also commenced proceedings in the Lisbon Administrative Court against the Bank of Portugal (in which BES and the Issuer are counter-interested parties). In these proceedings, the claimants seek a declaration that the Bank of Portugal's decisions regarding the Oak Finance Liability be declared null and void and that as a result the liability be transferred to the Issuer.

Liability for these Oak Finance proceedings is amongst those for which liability was not transferred to the Issuer according to the Resolution Measure and related decisions. Pursuant to the Decision of 29 December 2015 on Contingencies, if the Oak Finance Liability is considered by a judicial decision to have been transferred to the Issuer on 3 August 2014 (because Oak Finance was not acting on behalf of GSI and/or GSI did not hold a 2% or higher stake in BES), this liability nevertheless would have been retransferred to BES on 29 December 2015, because it is a liability similar in nature to the senior bonds that were retransferred on that date. The proceedings are still pending in the Portuguese administrative courts.

12.6 Bond retransfers of 29 December 2015

On 29 December 2015, the Bank of Portugal, as resolution authority and using its legal powers to retransfer certain assets and liabilities, determined that certain senior bonds in the principal amount of approximately €2 billion were retransferred from the Issuer to BES. A number of institutional and non-institutional investors holding the senior bonds retransferred to BES have filed claims against the Bank of Portugal in the Lisbon Administrative Court (the Issuer is counter-interested party) seeking an annulment of the retransfer of the bonds on various grounds, including the non-fulfilment of the prerequisites for the retransfer of credits; misfeasance by the Bank of Portugal; violation of the principle of equal treatment of creditors of equal seniority; violation of the proportionality principle; violation of the equality principle favouring Portuguese nationals and the Portuguese State; and violation of the administrative rules of proceeding. Similar proceedings relating to the retransfer of senior bonds have also been filed against the Bank of Portugal. All of these proceedings are still pending.

12.7 Companhia de Seguros Tranquilidade, S.A. ("Tranquilidade") pending proceedings regarding a pledge agreement

There are two pending proceedings regarding the sale of the shares of Tranquilidade by the Issuer in enforcement of a pledge agreement. The first proceeding was filed in 2015 by Partran SGPS, S.A., the insolvency estate of Espírito Santo Financial Group, S.A., and the insolvency estate of Espírito Santo Portugal, SGPS, S.A. against the Issuer and the purchaser of the shares in Tranquilidade, requesting that a financial pledge over Tranquilidade's shares be declared null and void and that the shares be consequently returned to Partran SGPS, S.A. or, alternatively, indemnification. The second proceeding relates to a 2015 decision to annul the execution of a pledge taken by the insolvency administrator of Partran's SGPS Estate against the Issuer; the Issuer has challenged the decision of the insolvency administrator in courts.

12.8 Regulatory Complaints

Prior to the Resolution Measure, debt securities issued by BES, certain SPVs (EuroAforro, TopRenda, Poupança Plus and EG Premium) and GES were sold to a number of BES clients. These debt securities comprised: (a) the placement of BES debt instruments directly with BES retail clients through Séries Comerciais and Operações sobre Títulos and Gestão Discricionária de Carteiras transactions (the "**directly held BES debt securities**"); (b) the placement of BES debt instruments indirectly (particularly preference shares that, at the time of the Resolution Measure, were backed by BES debt instruments held by special purpose entities) with BES retail clients through Séries Comerciais or Operações Sobre Títulos transactions (the "**indirectly held BES debt securities**", and together with directly held BES debt securities, the "**BES Financial Instruments**"); and (c) the placement of GES debt instruments by the Banco Espirito Santo Group with its retail clients (the "**GES debt securities**").

Following the application of the Resolution Measure, the CMVM received a number of complaints relating to BES Financial Instruments and GES debt securities placed with retail clients, including allegations of misinformation and misselling. According to the Resolution Measure, the Issuer has no responsibility to compensate these investors, regardless of any responsibility of BES.

For commercial reasons, and with the agreement of the Bank of Portugal, the Issuer proposed "commercial solutions" to clients that were direct or indirect holders of BES Financial Instruments and direct holders of the preference shares of SPVs that held BES Financial Instruments (i.e., excluding the SPVs EG Premium and Euro Aforro 10). The commercial solutions varied depending on the relevant financial instruments. Notwithstanding the generally high level of acceptance of the commercial solutions, a number of proceedings have been filed in Portugal by holders of these instruments; amounts sought in these proceedings could result in material additional liabilities for the Group, and adversely affect its business and reputation. As the Resolution Measure and related decisions applied exclusively to BES (including its branches) and not to any of its subsidiaries, legal responsibilities (if any) of a subsidiary relating to the placement of GES debt securities or any other debt instrument by such subsidiary remained legally unaffected by the Resolution Measure. Accordingly, the legal responsibilities (if any) of BES subsidiaries that are now part of the Group remain with the relevant subsidiary, and therefore effectively within the Group.

In addition, the Issuer has received a number of complaints from the CMVM or directly from retail investors who have subscribed for GES debt securities and other debt securities, including preference shares issued by special purpose entities. Complaints generally relate to: (a) claims based on alleged breach of obligations arising under securities laws that have been expressly retained by BES according to the Resolution Measure (misinformation, unsuitability of investments, misselling of financial products, etc.); (b) claims alleging documented statements from BES, including on its letterhead, whereby BES is alleged to have assumed liability for payments under certain financial instruments issued by other entities; and (c) claims alleging breach of rights or legitimate expectations created or acknowledged by the Issuer after the resolution date (3 August 2014) such that the Issuer should purchase or reimburse the clients who subscribed for GES debt securities.

The Portuguese Government, the Bank of Portugal, the CMVM, BES and retail client associations have signed a Memorandum of Understanding relating to a commercial solution to be offered to non-qualified investors who hold commercial paper issued by Rioforte Investments SA and Espirito Santo International SA. A significant majority of holders have adhered to this solution, the results of which are now being assessed in order to proceed with its implementation. The Issuer is neither a party to the Memorandum of Understanding nor a participant in any such discussions. That said, in order to partake in such offer, the relevant holders must withdraw their claims in the existing legal proceedings.

12.9 Administrative and Arbitral Proceedings

12.9.1 Construction Project - Fernando José da Conceição Cavaco Capelo

Fernando José da Conceição Cavaco Capelo filed a claim in the Almada Administrative Court on 19 November 2014, 1st Organic Unit, against the Issuer, BES and 17 other parties, seeking €495.8 million in compensation for the infringement of his alleged copyright over a construction project. The statement of claim alleges that BES, and therefore the Issuer, are among the several entities that allegedly violated his copyright.

12.9.2 Arbitral Proceeding - Asperbras

On 15 April 2014, BES, Luxembourg branch and Asperbras Ltd. ("**Asperbras**") entered into a discount agreement (the "**Asperbras Agreement**") whereby Asperbras requested BES to discount part of the amounts to be paid to Asperbras by the Republic of the Congo pursuant to an agreement for the construction of public hospitals.

The Asperbras Agreement was transferred to the Issuer pursuant to the Resolution Measure. On 31 January 2015, the first credit in the amount of €54 million became due and should have been paid to the Issuer upon Asperbras receiving its instalment payment from the Republic of the Congo under the construction contract. Asperbras refused to provide the credit payment to the Issuer, arguing that the payment should be set-off against other losses, alleging among other reasons, that a fraudulent scheme set up by entities belonging to GES had led Asperbras to invest in GES related entities. Each party initiated arbitration proceedings against the other. The second credit in the amount of €54 million subsequently became due but was not paid to the Issuer and the arbitration proceedings also relates to the second credit.

The arbitration tribunal decided in favour of the Issuer. It found that the disputed agreement was valid, dismissed Asperbras' claims and ordered it to honour the entirety of its payment obligations and to bear the arbitration, legal and other costs. In addition, Asperbras was ordered to pay to the Issuer a penalty of over €20 million for failing to comply with an interim award previously rendered in the course of the arbitration proceedings. In April 2018, Asperbras requested the French courts to annul the final award, the process for which is ongoing.

12.9.3 Proceedings pending in Venezuelan Courts

Two proceedings were filled in the Superior Court of Venezuela in early 2016, by Banco de Desarrollo Económico y Social ("**BANDES**") and by Fondo de Desarrollo Nacional ("**FONDEN**"), against the Issuer and BES regarding the subscription in 2014 by BANDES and FONDEN of debt instruments issued by Espírito Santo International ("**ESI**") in the nominal amount of US$37 million and US$335 million, and total amounts claimed in March 2016 of US$871 million and US$96 million, respectively. These entities are claiming: (i) the nullity of the sale of the debt instruments and the payment by BES and the Issuer (jointly) of the amount of principal, together with costs, interests and inflation rate; or (ii) the payment by BES and the Issuer (on a joint basis) of such amounts as a result of the obligations assumed in the comfort letters allegedly issued by BES for the benefit of FONDEN and BANDES in June 2014. In both proceedings, and despite the opposition of the Issuer, the Superior Court of Venezuela has considered that the Venezuelan courts have jurisdiction to decide on these proceedings. In addition, the claimants have requested the Superior Court of Venezuela to apply a preliminary injunction over certain assets of BES and the Issuer. The Issuer has submitted its opposition in both proceedings on the basis that any liability that could have existed regarding the sale of debt instruments issued by GES entities was not transferred to the Issuer in accordance with the Resolution Measure and the separation of assets and liabilities contained in such decision.

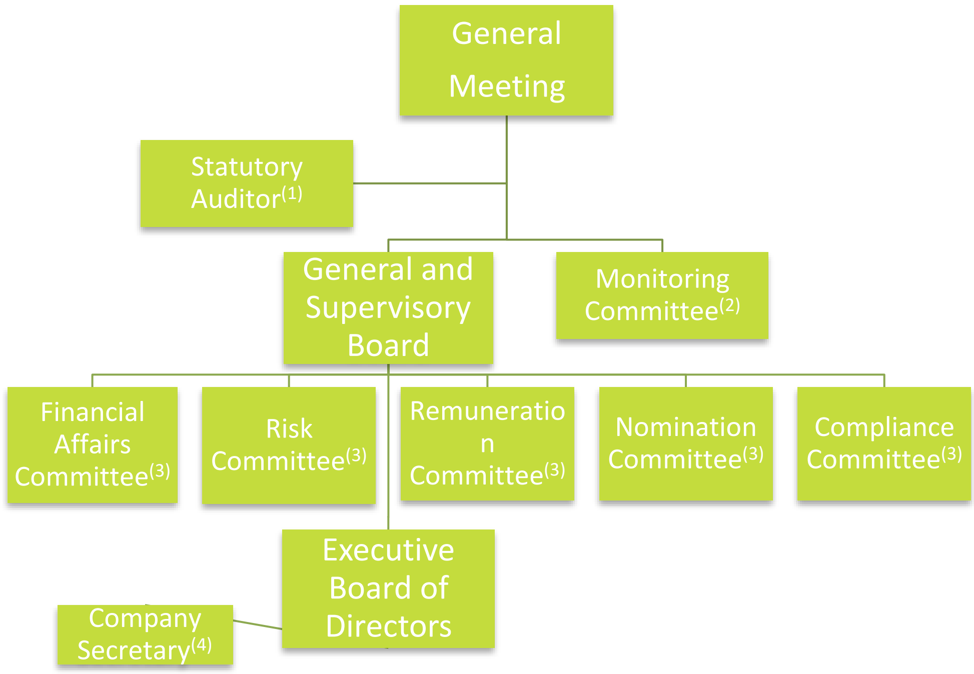
12.9.4 Other proceedings

In the context of the Lone Star Sale, the Contingent Capital Agreement was entered into pursuant to which the Resolution Fund has undertaken to make certain payments in the event certain cumulative conditions are met. See "*Description of the Issuer's Business—Recent Developments—Contingent Capital Agreement*". On 1 September 2017, Banco Comercial Português announced the filing of administrative legal proceedings in order to obtain a judicial review of contingent capitalisation mechanism in the CCA. The Issuer is not a party to such legal proceedings.

At the beginning of May 2018, the Issuer was notified as a counter-interest party in an urgent preliminary injunction (*providência cautelar com decretamento provisório*) filed by a creditor of BES' subordinated debt in order to prevent the Resolution Fund from making the payment of €791.7 million to the Issuer arising from the Contingent Capital Agreement, or any other payment in connection therewith. The request for the urgent award of the injunction has been rejected by Portugal's administrative court of first instance, however the injunction process continues under the terms and deadlines legally foreseen. Other proceedings based on similar grounds of a similar nature may be filed against the Issuer and any decision, even if not final, in favour of such request may have a significant effect on the Group's financial position.

13 Management and Supervisory Corporate Bodies

The following chart presents the structure of the Issuer's management and supervisory corporate bodies:



Notes:

(1) Elected by the General Meeting upon a proposal of the General and Supervisory Board.

(2) The Monitoring Committee is composed of three members. The Monitoring Committee is an advisory body for the purposes of the Contingent Capital Agreement entered into between the Issuer and the Resolution Fund.

(3) The Special Committees are composed of members of the General and Supervisory Board. The General and Supervisory Board sets up, appoints the members and approves the internal rules of the Special Committees.

(4) The General and Supervisory Board is consulted prior to any proposal of the Executive Board of Directors related to the appointment of the Company Secretary and Alternate Secretary.

According to the Articles of the Issuer, the corporate and statutory bodies of the Issuer include (i) the General Meeting; (ii) the General and Supervisory Board; (iii) the Executive Board of Directors; (iv) the Monitoring Committee; and (v) the Statutory Auditor.

The members of the corporate and statutory bodies are appointed for four-year terms of office and can be re-elected once or several times.

In accordance with the Articles, the members of the Board of the General Meeting of Shareholders, of the General and Supervisory Board, the Monitoring Committee and the Statutory Auditor are elected by the General Meeting. The members of the Executive Board of Directors are appointed by the General and Supervisory Board.

13.1 General Meeting

The General Meeting is made up of all Shareholders. The Board of the General Meeting of Shareholders consists of a Chairman, a Vice-Chairman and a Secretary.

As at the date of this Prospectus, the Board of the General Meeting of Shareholders comprises:

Name	Position	Principal activities outside of the group
Nuno Azevedo Neves	Chairman	Partner at DLA Piper
João Costa Quinta	Vice-Chairman	Partner at DLA Piper, Vice-President of Sport Lisboa and Benfica, Member of the Consultative and Strategic Counsel of ACEPI
Ana Isabel Vieira	Secretary	Senior Associate at DLA Piper

13.2 General and Supervisory Board

The General and Supervisory Board is comprised of at least eight members and up to a maximum of twelve members. The General and Supervisory Board is responsible for overseeing all matters related to risk management, compliance and internal audit. The General and Supervisory Board can also elect or remove the members of the Executive Board of Directors, including the appointment of the CEO, and supervise the performance of the Executive Board of Directors. The General and Supervisory Board meets at least once a month.

In its role, the General and Supervisory Board is supported by five Committees: the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee.

As at the date of this Prospectus, the General and Supervisory Board has the following members:

Name	Position	Principal activities outside of the Group
Byron James Macbean Haynes	Chairman	—
Karl-Gerhard Eick	Vice-Chairman	Chairman of the General and Supervisory Board at IKB AG, Chairman of GHC Global Health Care GmbH, Financial and Strategic Consultant
Donald John Quintin	Member	President of Lone Star Europe Acquisitions Limited, member of Lone Star's Executive Management Committee
Kambiz Nourbakhsh	Member	Managing Director for Lone

Name	Position	Principal activities outside of the Group
		Star Europe Acquisitions, LLP
Mark Andrew Coker	Member	Managing Director and European General Counsel for Lone Star, Member of the Supervisory Board of IKB Deutsche Industriebank AG
Benjamin Friedrich Dickgiesser	Member	Managing Director for Hudson Advisors Portugal, Lda, Member of the Supervisory Board of IKB Deutsche Industriebank AG
John Ryan Herbert	Member	Non-Executive Director Caliber Home Lones, Inc, Non-Executive Director of DFC Corp and Non-Executive Director of a London-focused property investment and development company (Quintain Limited)
Robert Alan Sherman	Member	Senior Counsel of Greenberg Traurig, and Senior Advisor of Rasky Partners
Carla Antunes da Silva	Member	Group Strategy Director at Lloyds Banking Group, Non-Executive Director of Social Finance

As discussed above, the five separate General and Supervisory Board Committees were also established together with the General and Supervisory Board. The Financial Affairs (Audit) Committee, Risk Committee, Compliance Committee, Nomination Committee and Remuneration Committee are composed and chaired by members of the General and Supervisory Board and members of the Executive Board of Directors responsible for the subjects that are dealt with by such Committees may also attend.

The General and Supervisory Board and the respective General and Supervisory Board Committees have focused on establishing and operating the new governance structure of the Issuer and supervising and supporting the Executive Board of Directors in the execution of the Issuer's strategic goals and targets.

These Committees are composed and chaired by members of the General and Supervisory Board and can in the meetings also include the presence of the members of the Executive Board of Directors responsible for the subjects that are dealt with by such Committees.

13.2.1 Financial Affairs (Audit) Committee

This Committee is chaired by Karl-Gerhard Eick; Byron Haynes and Kambiz Nourbaksh are also members.

The Committee advises and supports the General and Supervisory Board in monitoring the effectiveness of the Issuer's internal control system, the risk management system and the internal audit system, in each case with regard to the Issuer, its parent undertakings and the Issuer's and the parent undertakings' subsidiaries, in each case only within the Issuer's scope of consolidation for regulatory purposes.

13.2.2 Risk Committee

The Committee advises and supports the General and Supervisory Board in monitoring the Issuer's overall actual and future risk appetite and risk strategy as well as the effectiveness of the internal control system and the risk management system, in each case with regard to the Issuer, its parent undertakings and its and the parent undertakings' subsidiaries, in each case only within the Issuer's scope of consolidation for regulatory purposes.

The Chairman of this Committee is Byron Haynes, the remaining members being Karl-Gerhard Eick, Kambiz Nourbakhsh and Benjamin Dickgiesser.

13.2.1 Compliance Committee

The Compliance Committee is chaired by Robert Sherman, the other two members being John Herbert and Mark Coker.

The Committee has, amongst others, the following tasks with regard to the Issuer, its parent undertakings and its and the parent undertakings' subsidiaries, in each case only within the Issuer's consolidation for regulatory (not accounting) purposes:

a) monitoring of the Executive Board of Directors' measures that ensure the Issuer's, the members' of the Issuer's corporate bodies and the Issuer's employees' compliance with legal requirements, authorities' regulations and requirements and the Issuer's own internal policies, processes, rules and decisions;

b) regularly reviewing the Issuer's business conduct and ethics policy;

c) monitoring the compliance function of the Issuer.

13.2.1 Nomination Committee

The Chairman of the Nomination Committee is John Herbert and the other members are Robert Sherman, Donald Quintin and Mark Coker.

The Committee supports the General and Supervisory Board by identifying candidates to fill positions on the Issuer's Executive Board of Directors, and by preparing election recommendations for the election of members of the General and Supervisory Board, as well as by the regular assessment of the structure, size, composition and performance of the Management Board and of the General and Supervisory Board and the regular assessment of the knowledge, skills and experience of the individual members of the Executive Board of Directors and General and Supervisory Board and the respective body collectively.

13.2.2 Remuneration Committee

This Committee is chaired by Byron Haynes and has Karl-Gerhard Eick and Benjamin Dickgiesser as members.

The Remuneration Committee supports the General and Supervisory Board in the appropriate structuring of the remuneration systems for the members of the Management Board and key function holders and monitors the remuneration systems for all employees, in particular those who have a material influence on the overall risk profile of the Bank and the group as well as for the Management Board members and key function holders.

13.3 Executive Board of Directors

Pursuant to the Issuer's Articles, the Executive Board of Directors must be composed of a minimum of five and a maximum of nine members (each a "**Director**"), among whom shall be appointed, by the General and Supervisory Board, the Chairman and the Vice-Chairman.

The Executive Board of Directors is the corporate management body of the Issuer and it is responsible for defining the general policies and strategic objectives of the Issuer and the Group. Its responsibility also includes establishing the general principles of risk management and control and ensuring that the Group has the necessary skills and resources, according to the management powers set out in the Articles.

The Executive Board of Directors meets on a weekly basis and extraordinarily whenever convened by its Chairman, either on his own initiative or upon the request of two board members.

The following table sets out the members of the Executive Board of Directors, as at the date of this Prospectus, with an indication of name, position and principal activities of the Directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
António Manuel Palma Ramalho	Chairman, Chief Executive Officer (CEO)	Member of the Board of APB- Associação Portuguesa de Bancos
Vítor Manuel Lopes Fernandes	Chief Commercial Officer	Member of the Board of SIBS Forward Payments Solutions, Member of the Board of SIBS SGPS, SA, Member of the Executive Committee of CCILE – Camara de Comércio Luso-Espanhola
Jorge Telmo Maria Freire Cardoso	Chief Financial Officer (CFO)	Member of the Board of Pharol, SGPS, SA, Member of the Board of Enternext, SA
José Eduardo Fragoso Tavares de Bettencourt	Chief Operating Officer	—
Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal and Compliance Officer	—
Rui Miguel Dias Ribeiro Fontes	Chief Risk Officer	—
Luís Miguel Alves Ribeiro (*)	Chief Retail Officer	Member of the Board of NB Açores, Member of the Board of GARVAL - Sociedade de Garantia Mútua, S.A.

Note:

(*) Appointed at the General and Supervisory Board meeting of 28 June 2018, the beginning of functions is pending approval of the ECB.

The business address of all the Directors of the Issuer is the Issuer's registered office at Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

The Issuer monitors the existence of conflicts, between the interests of the Issuer and of those of the above listed persons. As at the date of this Prospectus, the Issuer is not aware of any existing conflicts of interest between the duties to the Issuer of the above listed persons and their private interests and/or other duties.

13.4 Monitoring Committee

The Monitoring Committee is a consulting body for the purposes of the CCA entered into between the Issuer and the Resolution Fund. The Monitoring Committee is comprised of three members, elected by the General Meeting of Shareholders, one of whom is to act as Chairman.

In accordance with the Articles, one member of the Monitoring Committee shall be independent of the parties to the Contingent Capital Agreement and another member shall be a registered chartered accountant. The opinions delivered by the Monitoring Committee are non-binding. The members of the Monitoring Committee are entitled to attend as observers all meetings of the General and Supervisory Board.

As at the date of this Prospectus, the Monitoring Committee comprises:

Name	**Position**	**Principal activities outside of the Group**
José Rodrigues de Jesus*	Chairman	Single Auditor of Calfor – Indústrias Metálicas, SA, of Edemi Gardens – Promoção Imobiliária, SA, of Arsopi – Holding SPGS, SA, of Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, SA, of Imoágueda,SA, of Camilo dos Santos Mota, SA and of Oliveira Dias, SA. Statutory auditor of Arlindo Soares de Pinho, Lda.
José Bracinha Vieira	Member	-
Miguel Athayde Marques**	Member	Professor of Business Administration at Católica-Lisbon School of Business & Economics, UCP, Vice-Rector and Member of the Board of Trustees of UCP, Vice-Chairman of the Board of Galp Energia, SA, Member of the Board of Brisa-CR, SA

*Chartered Accountant
**Independent Member

13.5 Statutory Auditor

The term of office of the Statutory Auditor, PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., represented by José Manuel Henriques Bernardo or Aurélio Adriano Rangel Amado, ended on 31 December 2017. A new Statutory Auditor, Ernst & Young Audit & Associados – SROC, S.A., represented by António Filipe Dias da Fonseca Brás and João Carlos Miguel Alves, as deputy, was elected for the mandate 2018 - 2020.

14 Competition

The Group faces intense competition in all of its areas of operation (including, among others, corporate and retail banking, specialised credit and asset management). The Group's competitors in the markets in which it is active are principally commercial and investment banks and include both domestic and foreign competitors.

Structural changes in the Portuguese economy in the past three decades have significantly increased competition in the Portuguese banking sector. Mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market share, a process which may continue. Competition has further increased with the emergence of non-traditional distribution channels such as internet and telephone banking.

As of the date of this Prospectus, the Portuguese banking sector is well-developed and modern and offers advanced financial products. Portugal has one the most advanced inter-banking networks in the world. ATMs and bank branches are easily found all over Portugal. Electronic banking is widespread, and Internet banking is offered by all major banks.

As at June 2017, the Portuguese banking system comprised 154 institutions, of which 62 are banks, 88 mutual agricultural credit banks and four savings banks. In 2017, the number of banking employees stood at 0.9% of the total active labour force. In 2017, there were 4,407 branches (a decrease of 7.0% year-on-year), corresponding to around 2,340 inhabitants or ten employees per branch. ATMs stood at 14,527 units (709 inhabitants per ATM), and point-of-sale terminals reached 271,684 available for use with 14 million active debit and six million credit cards[11].

The five major financial groups operating in Portugal are the following: Caixa Geral de Depósitos, the Millennium BCP Group, the Santander Totta Group, the Group and the BPI Group, representing approximately 79.0% of all assets in the Portuguese banking system as at 31 December 2017, according to the Portuguese Bank Association (*Associação Portuguesa de Bancos*). Portuguese banks face intense competition in all business areas, including retail and corporate banking, specialised credit and asset management. The Group's competitors in the market are mainly commercial banks. See also "*Risk Factors—Risks related to the Issuer's Business—The Group faces significant competition in the markets in which it operates*".

15 Supervision and Regulatory Environment

The Issuer is subject to EU regulation, to the Portuguese Companies Code which comprises commercial laws applicable to joint-stock companies (*sociedades anónimas*) and, in particular, the RGICSF, to the Portuguese Securities Code and to other related legislation. Such regulations relate to, amongst others, liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

[11] (Source: Bank of Portugal, Portuguese Banking Association).

Membership of the EU subjects Portugal to compliance with European legislation which may either be in the form of regulations, which are directly enforceable in any member state, or directives addressed to the member states, which may require the enactment of implementing legislation or which, as established by the Court of Justice of the European Union in several decisions, may be deemed to be directly enforceable in a member state in the event that they are clear, precise and unconditional. In addition, the European Commission and the Council of Ministers issue non-binding recommendations to member states. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

Generally, the Group's activity is under the supervision of the Bank of Portugal, as a credit institution; of the CMVM, as a financial intermediary and in relation to its asset management activities, and of the Portuguese Insurance and Pension Funds Supervisory Authority, as a tied insurance intermediary.

15.1 European Central Bank

In order to ensure financial stability and lay foundations for sustained economic growth, the EU Member States have created a banking union. This union provides that, the ECB is responsible for the prudential supervision of significant credit institutions operating in the European Union. Behavioural supervision of these credit institutions remains with their respective national regulators.

Single Supervisory Mechanism

Council Regulation (EU) No 1024/2013 of 15 October 2013 established the SSM for Eurozone banks and other credit institutions. The SSM maintains an important distinction between significant and other entities, which are subject to different supervisory regimes. The ECB carries out the prudential supervision of significant entities and the Issuer has been included in the list of significant supervised entities published by the ECB, as last updated on 1 January 2018. The ECB has been granted certain supervisory powers which include:

- the authority to grant and revoke authorisations regarding credit institutions;
- with respect to credit institutions incorporated in a participating Member State establishing a branch or providing cross border services in Member States that are not part of the Eurozone, to carry out the tasks of the competent authority of the home Member State;
- the power to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- the power to ensure compliance with requirements relating to own funds, securitisation, large exposure limits, liquidity, leverage, as well as reporting and public disclosure of information on those matters;
- the power to ensure compliance with respect to corporate governance, including fit and proper requirements for the persons responsible for the management of credit institutions, risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings-based models);
- the power to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests, which may lead to the imposition of specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- the power to supervise credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the Member States; and

- the power to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The SSM framework Regulation (EU) No 468/2014 of the ECB of 16 April 2014 sets out the framework for cooperation within the SSM between the ECB and the relevant national authorities, while Regulation (EU) No 1163/2014 of the ECB of 22 October 2014 lays down the calculation methodology and the collection procedure regarding the annual supervisory fees which are borne by the supervised credit institutions.

The ECB directly supervises significant banks, including the Issuer, whereas each national competent authority ("**NCA**", as is the case of Bank of Portugal in Portugal) is in charge of supervising other banks within its jurisdiction. The ECB has the right to impose pecuniary sanctions and set binding regulatory standards. Notably, the relevant entities are subject to continuous evaluation of their capital adequacy by the SSM and can be requested to operate with higher than minimum regulatory capital and/or liquidity ratios.

As regards the monitoring of financial institutions, the NCAs, in addition to supporting the ECB in day-to-day supervision of significant banks and supervising directly other banks, is responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision of credit institutions with the abovementioned supervisory powers.

In order to foster consistency and efficiency of supervisory practices across the Eurozone, the EBA is continuing to develop the EBA rulebook, a single supervisory set of rules applicable to the Eurozone Member States (the "**EBA Rulebook**").

CRD IV (as defined below) contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports, in order to enhance regulatory harmonisation in Europe through the EBA Rulebook. A series of regulations concerning regulatory or implementing technical standards have been published.

Single Resolution Mechanism

The European Commission established the Single Resolution Mechanism, which came into effect on 1 January 2016 and establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund. The Single Resolution Mechanism is responsible for coordinating the application of resolution tools within the Eurozone and, since 1 January 2016 has been responsible for the resolution of credit institutions. Resolution is funded through the Single Resolution Fund and not by any national resolution fund, such as the Resolution Fund. However, in Portugal the Resolution Fund remains responsible for funding decisions, taken by the Bank of Portugal as the national resolution authority, that occurred until 31 December 2015, including those relating to the Resolution Measure applied to BES and related decisions of the Bank of Portugal and the resolutions regarding Banif – Banco Internacional do Funchal, S.A., as well as for funding resolution decisions of certain financial institutions that fall outside the scope of the Single Resolution Fund.

15.2 Bank of Portugal

The Bank of Portugal is part of the European System of Central Banks, which was created in connection with the European Monetary Union ("**EMU**"). The EMU implements a single monetary policy, the main features of which are a single currency—the euro—and the creation of the ECB and the ESCB. According to the EU Treaty, the primary objective of the ESCB is to maintain price stability through monetary policy.

The Bank of Portugal is committed to providing for the stability of the domestic financial system and for this purpose performs the function of lender of last resort (as set forth in Law 5/98, 31 January 1998, as amended). This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal, as mentioned below.

According to the RGICSF, and subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, the Bank of Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur and possesses the ability to take extraordinary measures of reorganisation. See "*—European Central Bank—Single Supervisory Mechanism*" for more information on the role the Bank of Portugal plays as Portugal's NCA.

The Bank of Portugal has established and/or is responsible for supervising and monitoring, subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. Subject to the same terms, it monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems within the scope of its participation in the ESCB.

Bank Recovery and Resolution Directive

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms the BRRD was transposed into Portuguese law by Law no. 23-A/2015, of 26 March 2015. The provisions of the BRRD aim to harmonise the resolution procedures of, among other things, credit institutions of European Union Member States and provide the authorities of such Member States with tools that aim to prevent insolvency or, when insolvency occurs, to mitigate its adverse effects, by maintaining the systemically key functions of said institutions.

The BRRD implemented into Portuguese law provides among others for the following:

(i) **Preparation and planning stage**: Preparation for adopting measures of recovery and resolution, including (a) drawing up and submitting recovery plans by credit institutions to the Competent Authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (b) drawing up of a resolution plan for each credit institution or group;

(ii) **Early intervention stage**: If an institution breaches the applicable legal requirements governing its activity or is likely to breach them in the near future, the competent authority is conferred with the power to:

    (a) require that the board of directors of the credit institution draws up an action plan, with a specific timeline,

    (b) require that the chair of the general meeting of the credit institution convenes a general meeting of its shareholders or, in case the chair of the general meeting does not comply, promptly convene itself a general meeting of the shareholders of the credit institution,

(c) require that one or more members of the board of directors or the supervisory board be removed or replaced if they are considered unsuitable in light of the applicable provisions to perform their duties,

(d) require that the credit institution draws up and submits for consultation a plan for debt restructuring with its creditors according to the recovery plan,

(e) require changes in the legal or business structures of the credit institutions, and

(f) collect (including through on-site inspections) all necessary information for the update of the resolution plan and the preparation of the potential resolution of the credit institution and the valuation of its assets and liabilities for resolution purposes.

In case of significant deterioration of the financial condition of an institution due to significant infringements of the law, regulatory acts or the constitutional documents of the institution or in case the competent authority believes that significant administrative irregularities have taken place, that the current shareholders and board of directors of the institution are unable to ensure its prudent management or its financial recovery or that there are other reasons to suspect irregularities that put into serious risk the interests of depositors and creditors, and provided that the above early intervention measures listed in paragraph (ii) above are not sufficient to reverse the deterioration of the institution, the competent authority may require the removal of the board of directors of the institution. When the competent authority considers the removal of the management body as insufficient for addressing any of the above-mentioned situations, one or more temporary directors may be appointed to the institution.

(iii) **Resolution measures**: The resolution authority shall implement a resolution measure only if it considers that all of the following conditions are met:

(a) the competent authority or the resolution authority considers that the institution is failing or is likely to fail;

(b) having regard to timing and other relevant circumstances, no alternative private sector measures or supervisory action, including early intervention measures or the exercise of the powers to write-down or convert own funds instruments, would prevent the failure of the institution within a reasonable timeframe;

(c) a resolution action is necessary for public interest reasons, as it is required for the achievement of and is proportionate to one or more of the resolution objectives established by law; and

(d) winding up the institution under normal insolvency proceedings would not meet those resolution objectives more effectively.

The resolution tools that may be implemented by the resolution authority, either individually or in conjunction, are the following:

(i) **Sale of business tool**: transfer to a purchaser, by virtue of a decision of the resolution authority, of shares or other instruments of ownership or of some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution, without the consent of the shareholders of the institution under resolution or of any third party other than the acquirer.

(ii) **Bridge institution tool**: establishment of a bridge institution by the resolution authority, to which shares or other instruments of ownership or some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution are transferred without the consent of the shareholders of the institution under resolution or of any third party.

(iii) **Asset separation tool (to be used only in conjunction with another resolution measure)**: transfer, by virtue of a decision of the resolution authority, of rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of an institution under resolution or of a bridge institution to one or more asset management vehicles, without the consent of the shareholders of the institutions under resolution or of any third party other than the bridge institution. The asset management vehicles are legal persons fully or partially owned by the relevant resolution fund.

(iv) **Bail-in tool**: write-down or conversion by the resolution authority of any obligations of an institution under resolution, except for the following obligations, as defined under the applicable law:

(a) covered deposits;

(b) secured obligations;

(c) obligations arising from holding of clients' assets or money;

(d) obligations to credit institutions and investment firms, excluding the members of the group, with an original maturity of less than seven days;

(e) obligations with a remaining maturity of less than seven days towards payment and securities settlement systems, to other administrators or to other participants, arising from participation in said systems;

(f) obligations towards (i) employees, except for the variable component of their remuneration which is not regulated by a collective agreement, (ii) commercial or trade creditors, connected to the provision of goods and services to the institution which are critical for its daily operation, (iii) tax authorities and social security authorities, provided that these obligations are privileged according to the applicable law, and (iv) deposit guarantee schemes arising from contributions due to those schemes; and

(g) obligations towards a beneficiary in the context of a fiduciary relationship, provided that such beneficiary is protected under the application insolvency or civil law.

In exceptional circumstances, when the bail-in tool is implemented, the resolution authority may exclude or partially exclude certain liabilities from the application of the write-down or conversion powers. This exception shall apply in case it is strictly necessary and proportionate and shall fall under the specific requirements provided by law.

Further to the above resolution measures, the resolution authority shall exercise the write-down or conversion powers in respect of own funds instruments of the institution, either independently from the resolution measures implemented by the resolution authority or in combination with those resolution measures, under the circumstances provided under the applicable law, when for example it is established that the conditions for resolution are met or when the resolution authority establishes that if said power is not exercised, the institution will cease to be viable.

The application of the resolution measures shall ensure that the shareholders of the institution bear losses first, followed by creditors of the institution in accordance with the order of priority of their claims under normal insolvency proceedings. Additionally, creditors of the same class should be treated in an equitable manner and covered deposits should be fully protected. In any case, no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings in accordance with the "no creditor worse off" principle.

To ensure the effective application of the resolution tools, the resolution authority may use financing arrangements, notably for the following purposes:

(i) to guarantee the assets or the liabilities of the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(ii) to grant loans to the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(iii) to purchase assets of the institution under resolution;

(iv) to make contributions to a bridge institution and an asset management vehicle;

(v) to pay compensation to shareholders, creditors of the institution under resolution or the Deposit Guarantee Fund;

(vi) to make a contribution to the institution under resolution in lieu of the write down or conversion of liabilities of certain creditors, when the bail-in tool is applied and the resolution authority decides to exclude certain creditors from the scope of bail-in.

In addition to the resolution tools (such as the general bail-in tool), the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments such as the Notes at the point of non-viability and before any other resolution action is taken ("non-viability loss absorption)". Any shares issued to holders of Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity or its group other than, where the relevant entity is an institution, for the purposes of remedying a serious disturbance in the economy of a Member State of the EEA and to preserve financial stability.

15.3 Capital and Capital Ratios

In the wake of the financial crisis and due to insufficiencies in existing regulatory capital structures, as well as the lack of adequate capital reserves in systemically important financial institutions, the issue of capital requirements has been subject to numerous national and international initiatives. In December 2010, the Basel Committee published two recommendations to reform the global regulatory framework applicable to credit institutions ("Basel III: A global regulatory framework for more resilient credit institutions and banking systems", and "Basel III: International framework for liquidity risk measurement, standards and monitoring", both of which have been subsequently updated). These recommendations, known as "Basel III", revised certain aspects of the recommendations contained in Basel II which introduced new rules on capital and liquidity. In the EU, these recommendations were implemented through new banking regulations adopted on 26 June 2013: a) Directive 2013/36/EU of the European Parliament and of the European Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**"), which has been transposed into Portuguese law by Decree-Law No 157/2014 of 24 October 2014, and b) Regulation (EU) no. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the "**CRD IV Regulation**" or "**CRR**" and, together with the CRD IV Directive, "**CRD IV**"), which is legally binding and directly applicable in all EU Member States. Implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

On 23 November 2016, the European Commission published legislative proposals for amendments to the CRR ("**CRR II**"), the CRD IV Directive ("**CRD V**"), the BRRD ("**BRRD II**") and the Single Resolution Mechanism (collectively, the "**Proposals**"). Amendments to the BRRD to introduce a new asset class of "non-preferred" senior debt entered into force on 28 December 2017 and must be transposed into national law by 29 December 2018. Implementing domestic legislation has not yet been enacted in Portugal and no legislative proposals have been published or submitted for public discussion. The Proposals cover multiple areas, including the Pillar 2 framework, a binding minimum leverage ratio requirement, a binding net stable funding ratio requirement, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, the Basel Committee's new standardised approach for measuring counterparty credit risk exposures, the Basel Committee's Fundamental Review of the Trading Book, the MREL framework and the integration of the TLAC standard into EU legislation.

The Proposals are to be considered by the European Parliament and the Council of the European Union (although the Council of the EU published its general approach to the Proposals in May 2018) and therefore remain subject to change. The final package of new legislation may not include all elements of the Proposals and new or amended elements may be introduced through the course of the legislative process. Most of the elements in the banking package have not yet been decided on.

In addition, on 7 December 2017, the Basel Committee and the GHOS presented reforms to the Basel III regulatory framework also known as "Basel IV". The final Basel III reforms include several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for undue variation in capital requirements for banks across the globe. The measures comprise revisions to the standardised approach for credit risk, internal ratings-based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework and a revised output floor. The proposals contained in the Basel III reforms are intended to be applied from 2022 with a transitional period for the output floor until 2027, although these timelines remain unclear until such rules are translated into draft European and Portuguese legislation.

Capital requirements

CRD IV imposes capital requirements on banks such as the Issuer. These requirements apply to the Issuer on both an individual and consolidated basis.

Under CRD IV, the types of capital (which are subject to deductions) comprise Common Equity Tier 1 ("**CET1**"), AT1 together with CET1 items, "**Tier 1**"), and Tier 2 Capital ("**Tier 2**", such as the Notes). Total Own Funds is Tier 1 and Tier 2 ("**Total Own Funds**").

Subject to any applicable transitional periods, the CRD IV minimum Total Own Funds requirement is 8% of the total risk-weighted assets, while at least 6% and 4.5% of the minimum Total Own Funds shall be composed by Tier 1 and CET1, respectively. Accordingly, the maximum eligible capital that can be covered through Tier 2 instruments is 2%. The above may be subject to additional capital requirements as a result of the SREP and is subject to capital conservation and other buffers, as indicated below and which, where applicable, need to be covered by CET1 amounts.

CRD IV requires credit institutions to hold additional CET1 capital buffers as fixed by the relevant supervisory authorities. The buffers which are applicable to the Issuer are:

- A "conservation buffer" of 2.5% that is being phased in until 2019. The applicable buffer was 1.25% in 2017 and is 1.875% in 2018.
- A "countercyclical capital buffer" which varies by jurisdiction. The buffer being phased in and, when fully phased-in, is expected to range between 0% and 2.5% in each jurisdiction. The buffer applicable to an institution depends on the jurisdictions to which it has exposures. The buffer set by the Bank of Portugal is currently 0%.
- A "systemic risk buffer" of at least 1% set at the discretion of national authorities of EU Member States to be applied to institutions at consolidated or individual level, or even at the level of exposures in certain countries at which a banking group operates. Currently no systemic risk buffer has been set by the Bank of Portugal.
- Additional buffers are applied to other systemically important institutions ("**O-SIIs**"), such as the Issuer. For global systemically important institutions, the additional buffer ranges between 1% and 3.5%, whereas for O-SIIs it could reach 2%. The Bank of Portugal, through Regulatory Notice 4/2015 on 29 December 2015, imposed O-SII capital buffers. On 29 July 2016, the Bank of Portugal specified that a phase-in regime would apply for this buffer. In case of the Issuer, the applicable buffer shall be 0.125% from 1 January 2018 until 31 December 2018, 0.25% from 1 January 2019 until 31 December 2019, 0.375% from 1 January 2020 until 31 December 2020 and 0.50% from 1 January 2021 onwards.
- According to Council Regulation (EU) No 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to Novo Banco in 27 March 2017 that the Group should comply with an own funds requirement of 4% to be held in excess of the minimum own funds requirement, to be made up entirely of CET 1 capital. Novo Banco is currently waiting for the ECB to communicate an updated SREP requirement.

As at 31 December 2017, the Issuer had a phased-in CET1 ratio and Tier 1 ratio of 12.8% (12.0% fully loaded) and a phased-in Total Own Funds ratio of 13.0% (12.4% fully loaded). As at such date, the Issuer was required to hold CET1, Tier 1 and Total Own Funds of 9.75%, 11.25% and 13.25%, respectively. In 2018, considering the phase-in of the capital conservation buffer and the O-SIIs buffer, the Issuer is required to hold CET1, Tier 1 and Total Own Funds of 10.5%, 12.0% and 14.0 % respectively.

Local capital requirements

In addition, members of the Group, which are subject to local supervision in their respective countries of incorporation may, on an individual and on a consolidated basis, be required to comply with applicable local Regulatory Capital Requirements. It is therefore possible that individual entities within the Group or sub-groups require additional own funds, even though the own funds of the Group on a consolidated basis are sufficient.

Liquidity Requirements

With respect to liquidity requirements, CRD IV changed requirements related to liquidity, including the provision for near and medium/long-term liquidity and financing requirements referred to as the liquidity coverage requirement (the "**liquidity coverage requirement**").

The liquidity coverage requirement seeks to ensure that institutions maintain levels of liquidity buffers which are adequate to face possible imbalances between liquidity inflows and outflows under stressed conditions, and does so by defining an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30-day stress scenario. Under the CRD IV framework, the liquidity coverage requirement was phased in gradually, starting at 60% in 2015 and increased to 100% in 2018. As at 31 December 2017, the Group had a liquidity coverage ratio (LCR) of 124% (107% as at 31 December 2016).

The Proposals also provide for a binding NSFR which requires that institutions maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities over a one-year period. As at 31 December 2017, the Group had an NSFR of 108% (99% as at 31 December 2016), as determined by internal calculations made based on the Proposals. Moreover, the Bank of Portugal establishes minimum provisioning requirements regarding loans, NPLs, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies.

Leverage ratio

With respect to leverage requirements, CRD IV also introduced a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoiding excess leverage through a simpler calculation. This ratio is calculated by dividing the total Tier 1 Capital by the total exposure measure of all assets and off-balance sheet items not deducted when determining the Tier 1 Capital, and is expressed as a percentage, as defined in CRD IV. The Proposals include the future introduction of a binding leverage ratio for credit institutions. The leverage ratio is currently set at 3% for monitoring purposes.

As at 31 December 2017, the Group had a phased-in leverage ratio of 8.2% (7.7% under the full implementation of the CRR).

Risk Weighted Assets

RWAs are a metric used to reflect components of risk in an asset, including credit, market and operational risk (also known as Pillar 1 risks). Risk weighted assets are used to calculate key capital adequacy ratios, including the CET1 ratio, the Tier 1 ratio and the Total Own Funds ratio. Under the CRD IV framework and the CRR, credit institutions in Portugal may calculate the risk weighting of their assets, insofar as credit risk is concerned, according to a standardised approach or an IRB approach which risk weights assets considering their own internal risk-management models, in the latter case subject to authorisation by the banking supervisor. The Issuer is licensed to use the IRB approach in the calculation of credit risk of risk weighted assets for the majority of its assets subject to that risk. In the calculation of risk weighted assets for market and operational risks the Issuer uses the standardised approaches stipulated in the CRR.

The Proposals and Basel IV may lead to material changes in the method of calculating risk weighted assets.

15.4 Supervisory Review and Evaluation Process

In December 2014, the EBA published its final guidelines on the procedures and methodologies that will form its SREP assessments. The Issuer is subject to an annual SREP assessment by the SSM to determine the adequacy of its capital, to identify risks that are not covered by its own funds requirements and to identify the need for Pillar 2 capital requirements. The SREP assessments include capital assessment, business model analysis, assessment of internal governance and control, liquidity assessment and broader stress testing. The purpose of these SREP assessments is to evaluate whether institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of risks, to which they are or might be exposed, including those revealed by stress testing. Where the results of a SREP assessment identify areas of risks which are not adequately covered by the Pillar 1 capital requirements or the combined buffer requirement, competent authorities can determine the appropriate level of the institution's own funds requirement under CRD IV and assess whether additional own funds shall be required.

Own Funds and Large Exposures

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds are determined by the Bank of Portugal.

Under Portuguese law, a large exposure corresponds to risks incurred by a credit institution to a customer or group of connected customers with a value equal to or exceeding 10% of its own funds. A credit institution may not have exposure to a customer or group of connected customers exceeding 25% of its own funds. In terms of exposure to the economic group of which a credit institution forms part this limit is not applicable to the exposure assumed by an institution to entities included within the scope of the supervision of the Bank of Portugal on a consolidated basis and which all have their head offices located in Portugal. With prior authorisation of the Bank of Portugal, this exemption may be extended to other entities that have the same characteristics as those described above but whose head office is located in a third country.

Similarly, the Bank of Portugal Notice no. 9/2014, as amended, provides for the exemption of the application of the limit of 25% to a credit institution's own funds for exposures to certain assets, including certain assets constituting credits over central governments, central banks (as minimum reserve requirements expressed in the relevant central bank's currency) or the risks over well established stock exchanges (whenever the risks in question have a duration which is no longer than the following business day).

Minimum Reserve Requirements

Credit institutions are required to maintain mandatory deposits with national central banks in order to comply with minimum reserve requirements that correspond to 1% of deposits and issued debt securities with a maturity of less than two years, excluding responsibilities from the credit institutions towards the ECB, national central banks and other institutions subject to minimum cash reserves requirements. According to the ECB Regulation (EC) no. 1358/2011, of 14 December 2011 (ECB/2003/9) that changes the ECB Regulation (EC) no. 1745/2003, of 12 September 2003 (ECB/2003/9), minimum cash requirements kept as deposits with the Bank of Portugal earn interest at main refinancing operations rate, which currently is set at 0%.

The failure of a bank to maintain adequate liquidity may result in (i) an increase in the cash amount required (of up to three times the original amount) or (ii) payment of interest on the amount of deposits not made up to double the rediscount rate or up to five percentage points over the market rate.

Deposit Guarantee Fund

The Deposit Guarantee Fund was established in 1992 and started operating in December 1994 and has administrative and financial autonomy. Credit institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU providing for the establishment of deposit guarantee schemes and the harmonisation of such deposit guarantee systems throughout the EU (the "**recast DGSD**"), which was implemented into Portugal through Law no. 23-A/2015, of 26 March, that amended the RGICSF.

The annual contributions to the Deposit Guarantee Fund are calculated by the application of a contribution tax on the monthly average of the deposits balance accepted in the previous year. The annual contribution rate is determined annually by the Bank of Portugal. The rate plus a multiplicative factor determined in accordance with the solvency situation of each institution (the higher an institution's average solvency ratio, the lower its contribution). The factor is defined in Notice 11/94 of the Bank of Portugal, as amended. The basic contribution tax set for 2018 was 0.0003%.

The Bank of Portugal may determine that the payment of up to 75% of the annual contributions may be partly replaced by an irrevocable undertaking to make full or partial payment upon request from the fund at any moment, guaranteed where necessary by securities having a low credit risk and high liquidity. The Bank of Portugal issued Instruction 21/2017 which established the annual contribution rate (0.0003% for all territory) and the minimum contribution (€235.00) for 2018, and it also established that in 2018 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings.

Without prejudice to the foregoing, account may in the future need to be taken of EBA's guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10), dated 22 September 2015 and last amended on 13 June 2016.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to €100,000 per depositor, subject to certain statutory exceptions, as mentioned below. The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the deposit guarantee scheme, such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds, pension fund management companies, and central or local administration bodies, among others, in their own name and for their own account, with exception of those made by (i) pension funds whose associates are small and medium enterprises and (ii) local authorities with an annual budget equal to or less than €500,000.

Also excluded from the guarantee scheme are certain deposits relating to anti-money laundering criminal convictions or where its holder has not been properly identified in accordance with the anti-money laundering and prevention of terrorism law. Finally, deposits of persons and entities that, in the two years before the date on which deposits become unavailable, or a resolution has been adopted, held, directly or indirectly, 2% or more of the share capital of the credit institution or have been members of its corporate bodies are also excluded, unless it is clearly established that they did not cause the financial difficulties of the credit institution, through act or omission, and did not contribute through act or omission to the worsening of the situation.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending used takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is set by the ECB.

Investment in Non-Financial Companies

The Legal Framework of Credit Institutions and Financial Companies (article 101) also provides that no credit institution may directly or indirectly own more than 25% of voting rights in any single non-financial company for a period longer than three years (five years for shareholdings held through venture capital companies and holding companies). These limitations are not applicable to holdings in other credit institutions, financial companies and ancillary services companies.

Conduct Supervision

The Bank of Portugal has supervisory powers relating to the conduct of credit institutions. These powers are supported by supervision, decision-making and sanction powers relating to the rules on the conduct of business, customer relationships, professional secrecy, conflicts of interest and competition, to which credit institutions are subject. The conduct supervision rules on customer relationships consist of information obligations, rules relating to the management of customer complaints, a requirement to adopt a code of conduct and rules relating to the publicity of credit institutions.

Granting Credit to Members of the Corporate Bodies

In general, credit institutions are not authorised to grant credit in any way, including the granting of guarantees, to members of their board of directors or board of auditors or people and entities related to them, or to companies or other legal entities directly or indirectly controlled by them.

This limitation does not apply to (i) operations with a social nature or purpose or those deriving from personnel policy; (ii) credit granted as a result of the use of credit cards associated with deposit accounts, in conditions similar to the ones applicable to other customers with a similar profile and risk or (iii) the credit granting operations of certain entities within the supervisory ambit of the relevant credit institution.

The members of the board of directors or supervisory body of a credit institution cannot participate in the analysis and decision-making process relating to operations where they may have a conflict of interest.

Breach of Rules under the Bank of Portugal's Supervision

Breaches of rules under the Bank of Portugal's supervision constitute misdemeanours and may result in the Bank of Portugal imposing fines of up to approximately €5 million. Ancillary sanctions may also be imposed, such as, among others, disgorgement of the proceeds obtained through the offence, public censure, prohibition against exercising management functions in credit institutions and the suspension of voting rights of the shareholders of credit institutions.

Other Controls

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

15.5 CMVM Supervision

The regulation and supervision of the securities markets and financial intermediation activities in Portugal are carried out by the central government, acting through the Ministry of Finance and the CMVM.

The CMVM is the regulatory entity in charge of the supervision and regulation of the securities markets and financial intermediation services. This includes the supervision of a wide range of activities and entities that fall under the scope of a number of EU Directives and Regulations, including Directive 2014/65/EU of 15 May 2014 (MiFID II) and Regulation (EU) No. 600/2014 of 15 May 2014 (MiFIR).

The CMVM is an autonomous administrative entity overseen by the Ministry of Finance, and by law and regulations not subject to direct intervention by the Ministry of Finance. Its directors are appointed by the Minister of Finance for a 6-year, non-renewable term. In particular, the responsibilities of the CMVM include the supervision of certain conduct of business rules relating to financial intermediation activities and markets in financial instruments and the prudential supervision of certain entities.

For this purpose, the CMVM may issue regulations on matters within the scope of its powers of supervision, including the conduct of business rules for providers of investment services, the recognition of markets for financial instruments and the establishment of rules for the operation of such markets as well as rules on public offers and prospectus requirements. The CMVM has also the responsibility to evaluate claims presented by investors, regarding the misconduct of financial intermediaries, and may determine compensations to an investor or group of investors.

The CMVM may, within the course of its supervision activities, carry out inspections, issue information requests, conduct hearings, require the collaboration of other persons or entities, including police authorities, disclose information, including in substitution of supervised entities, conduct investigations and organise a registration system, carry out enforcement actions and impose administrative sanctions.

The Group is subject to the CMVM's supervision as a financial intermediary, in relation to its asset management activities and as an issuer of securities admitted to trading on a regulated market.

The Ministry of Finance may establish policies relating to markets in financial instruments, investor protection, financial intermediation activities and generally any matters regulated by the Portuguese Securities Code. The Ministry of Finance also oversees the CMVM and coordinates the supervision and regulation relating to financial instruments when powers have been delegated to more than one public entity. When a disturbance in the markets in financial instruments puts the national economy at serious risk, the Ministry of Finance may, by means of a joint Ministerial Order by the Prime Minister and the Minister of Finance, impose necessary measures. These may include the temporary suspension of: (i) the regulated markets and certain categories of transactions or activities of their management entities; (ii) multilateral trading facilities; (iii) settlement systems; (iv) clearing houses or central counterparties; and (v) central securities depositaries.

Supervisory Rules Applicable to the Issuer as a Financial Intermediary

The Issuer and some of its Portuguese subsidiaries are authorised as financial intermediaries. They are subject to the supervision by the CMVM in relation to their performance of financial intermediation and asset management activities.

The conduct of business rules applicable to financial intermediaries are laid out in the Portuguese Securities Code, CMVM regulations and legislation applicable to specific financial intermediation activities.

Conduct of Business Rules

For the provision of regulated activities, financial intermediaries such as the Issuer must comply with conduct of business rules set out in the Legal Framework of Credit Institutions and Financial Companies and the Portuguese Securities Code, as well as those which may be established by CMVM regulation or special legislation.

As a general principle, financial intermediaries must conduct their activity in a manner which protects the legal interests of their customers and the efficiency of the market. In their dealings with other market parties, financial intermediaries must observe the dictates of good faith, in accordance with high standards of diligence, loyalty and transparency.

The main conduct of business rules applicable to financial intermediaries carrying out financial intermediation activities relate to: (i) "know your customer" obligations and suitability requirements; (ii) the financial intermediaries' human, material and technical resources; (iii) complaint procedures; (iv) segregation of customers' assets; (v) recordkeeping and reporting; (vi) conflicts of interest policy; and (vii) information duties.

CMVM's Powers

As stated above, the CMVM supervises the activities and participants in the financial markets in Portugal. The CMVM has the power to issue binding regulations, take appropriate enforcement measures in respect of these regulations and the Portuguese Securities Code, and to sanction such breaches.

In the exercise of its powers, the CMVM has the right, without limitation, to request non-public information, including information otherwise subject to professional confidentiality obligations, hold hearings, undertake investigations and summon people to cooperate with such investigations, and to provide information to the market on behalf of supervised entities.

The CMVM also operates an information disclosure system which can be used by parties subject to disclosure rules as a cheap and efficient means of complying with information rules.

Breach of Rules under the CMVM's Supervision

A breach of the rules laid out in the Portuguese Securities Code may constitute a crime or misdemeanour.

Crimes

Market manipulation and the abuse of privileged information are punishable with prison sentences of up to eight and five years, respectively, and with ancillary administrative sanctions that include the prohibition against exercising any intermediation activity, prohibition against participating in the management of a publicly traded company or financial intermediary, the publication of the crime and the disgorgement of any proceeds of the illegal activity.

Misdemeanours

Different levels of misdemeanour are punishable by different penalties. Very serious misdemeanours, such as the disclosure of untrue or misleading information to the market or undertaking an offer without the disclosure of an approved prospectus, are punishable by a fine of up to €5.0 million or 10% of the turnover according to the latest consolidated or individual accounts approved by the relevant management body (whichever is higher). Serious misdemeanours, such as the failure to disclose publicly traded companies' shareholder agreements or the breach of the obligation to launch a mandatory public offer, are punishable by fines of up to €2.5 million, and less serious misdemeanours are punishable by fines of up to €500,000.

Portuguese Insurance and Pension Funds Supervisory Authority

The Issuer is also subject to the supervision of the ASF (Portuguese Insurance and Pension Funds Supervisory Authority) insofar as it is registered as a tied insurance mediator type 1, for both Life and Non-Life segments. Novo Banco dos Açores, S.A. is also subject to ASF's supervision as it is registered as a tied insurance mediator type 1, for both Life and Non-Life segments. ASF is the supervisory authority of the Issuer's insurance undertaking subsidiary, GNB Vida.

ASF is the national authority responsible for the regulation and supervision of insurance, reinsurance, pension funds and their management companies and also insurance mediation activity, both from a prudential and a market conduct perspective.

Supervision of Insurance and Reinsurance activity

Law no. 147/2015, of 9 September 2015, as amended approved the current Legal Framework for Access and Development of the Insurance and Reinsurance Activity, which came into force in 1 January 2016 and implemented Directive 2009/138/EC of the European Parliament and of the Council, of 25 November 2009 (Solvency II Directive) (the "**Insurance Legal Framework**").

The Insurance Legal Framework contains, *inter alia*, the main rules applying to:

- The authorisation process for the incorporation of insurance and reinsurance undertakings;
- Capital and solvency requirements which such undertakings are subject to;
- Governance structure and risk assessment;
- Disclosure of information;
- Market conduct;
- Development of cross border activities (through the incorporation of a branch or on free provision of services basis);
- Group supervision;

- Recovery and liquidation measures and procedures;
- Insurance related misdemeanour and criminal infractions.

Financial and Solvency Requirements of Insurance Undertakings

Portuguese insurance and reinsurance undertakings are subject to the Insurance Legal Framework, approved by Law no. 147/2015, of 9 September, which revoked Decree-Law 94-B/98, of 17 April 1998. According to the Solvency II Directive, Directive 2009/138/EC, of 25 November, as amended, regime insurance and reinsurance undertakings shall, among other obligations set forth therein:

- Establish and calculate technical provisions corresponding to the liabilities arising from insurance contracts and operations of such undertakings in accordance with certain actuarial and statistical methodologies and rules;
- Comply with specific rules for the valuation of assets and liabilities;
- Ensure the availability of eligible own funds to cover the following risk-sensitive requirements: (i) the Solvency Capital Requirement ("**SCR**"), which reflects a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due based on a prospective calculation and ensures an accurate and timely intervention by supervisory authorities; and (ii) the Minimum Capital Requirement ("**MCR**"), i.e., the minimum level of security below which the amount of financial resources should not fall.
- Adopt the prudent management principle with regard to their investments.

GNB Vida is the only entity of the Group subject to such requirements.

The adaptation of insurance and reinsurance undertakings to the new capital and solvency requirements in the Insurance Legal Framework is subject to a phasing-in period.

Insurance distribution

The Directive on insurance distribution ((EU) 2016/97) (commonly known as the Insurance Distribution Directive or IDD) is designed to improve EU regulation in the insurance market. It will repeal and replace the Insurance Mediation Directive (2002/92/EC). The IDD came into force on 22 February 2016. Originally, it had to be transposed by 23 February 2018 but its transposition and application have been delayed. Member States now have until 1 July 2018 to transpose the IDD and have to apply it to relevant firms by 1 October 2018 at the latest. Portugal has yet to implement IDD.

The IDD applies to any natural or legal person established in the EU, including the Issuer and members of the Group with respect to the distribution of insurance and reinsurance products. The objective of the IDD is to ensure a level playing field among all participants involved in the sale of insurance products, to make it easier for firms to trade cross-border, and to strengthen policyholder protection. The IDD will introduce a number of new rules to the insurance sector, including additional conduct of business standard for firms involved in the distribution of insurance-based investment products (such as life insurance products).

15.6 Anti-money Laundering

The Group is subject to extensive regulation on anti-money laundering and terrorism financing due to the performance of the Group entities' activities as a credit institution, financial intermediary and insurance company, broker and relating to asset management. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences.

Under Law 83/2017, of 18 August 2017, which implemented Directives 2015/849/EC of 20 May 2015 and 2016/2258/EC of 6 December 2016 ("**Law 83/2017**"), focus has been placed on the prevention of the use of the financial system and specially designated activities and professions for the purposes of money laundering and terrorist financing. Law 83/2017 comprises the following compliance duties: (i) duty of identification of the customer and of its representative; (ii) a general obligation of due diligence, according to which entities subject to it are required to take adequate measures to understand the ownership and control structure of the client ("know your customer"), obtain information about the purpose and nature of its business, as well as the source and destination of funds moved in the context of that business; (iii) duty to refuse to execute any operation, or begin any business relation or any specific transaction whenever the client information duty has not been fully complied with; (iv) duty to keep records of the documentation and information provided; (v) duty to examine with special caution and care any conduct, activity or operation which, according to the professional experience of the financial institution, bear elements that are liable to raise suspicion on its relation with a money-laundering operation; (vi) entities subject to Law 83/2017 shall refrain from executing any operation whenever they are aware or suspect it is related with money-laundering; (vii) cooperation duty, under which entities subject to Law 83/2017 are required to cooperate with the General Attorney of the Portuguese State (*Procurador Geral da República*) and the Financial Information Unit (*Unidade de Informação Financeira*), as so requested; (viii) duty of professional secrecy, which determines that the fact that information requested by the competent authorities has been so given is not disclosed to the client; (ix) control duty, which requires that such entities shall implement adequate internal procedures so as to ensure compliance with anti-money duties; and (x) duty to provide adequate anti-money laundering training to its employees and managers.

In addition to the aforementioned duties, according to the applicable reporting obligations, entities subject to Law 83/2017 have a reporting duty, under which the General Attorney of the Portuguese State and the Financial Information Unit shall be promptly informed, on their own initiative, when an operation likely to constitute a money laundering or terrorism financing offense that is being or has been committed or attempted comes to its knowledge or raises a suspicion. Moreover, a special reporting duty is applicable to transactions which present a special risk of money laundering or terrorist financing when they are related to a specific country or jurisdiction subject to additional counter-measures decided by the Council of the European Union. In such cases, the competent supervisory authorities may determine the obligation of immediately reporting those transactions to the General Attorney of the Portuguese State and the Financial Information Unit, when they amount to €5,000 or more.

Applicable measures and sanctions for breach of rules on anti-money laundering prevention include the application of fines ranging between €50,000 and €5,000,000 and, in the case of credit institutions, of up to 10% of the total annual turnover (according to the latest accounts approved by the management body) if such amount is higher than €5.0 million and, always depending on the seriousness of the infraction and the degree of fault involved, ancillary penalties, including the interdiction from exercising the activity in question for a period of up to three years, prohibition from holding management, direction, leadership or supervisory roles in the entities subject to Law 83/2017, and the publication of the penalty.

Notice 9/2012 and Notice 5/2013, both of the Bank of Portugal, set forth the information requirements regarding risk management of money laundering and terrorist financing to be periodically reported to the Bank of Portugal under the framework of Law 83/2017.

Notice 9/2012 determines that a specific report regarding the internal control system to prevent money laundering and terrorist financing (the RPB report) should be submitted annually to the Bank of Portugal by credit institutions, financial companies and payment institutions with its headquarters in the Portuguese territory, as well as by their branches located within Portuguese territory.

Regulation 10/2005-R ("**Regulation 10/2005-R**") of ASF lays down anti-money laundering rules applicable to insurance intermediaries carrying out activity in the life insurance branch. Consequently, companies within group´s providing services within the life insurance branch shall comply with the comprehensive set of compliance requirements established by Regulation 10/2005-R.

Overall, the fact that a very significant portion of the Portuguese legal framework on anti-money laundering is a result of the implementation of EU legal frameworks, mitigates regulatory differences across various EU Member States where Group operates or may operate in the future. However, more significant differences may apply, entailing the applicable compliance costs, in respect of non-EU jurisdictions.

15.7 Data protection and CNPD framework/regulations

The Issuer and the Group is subject to the General Data Protection Regulation (GDPR), approved by the Regulation (EU) 2016/679 of 27 April, which is directly effective in all Member States without the need for the implementation of additional national legislation, as from 25 May 2018. Under the GDPR, the processing of personal data should be processed lawfully and in transparent manner in relation to the data subject.

Failure to comply or inadequate compliance with data privacy obligations may result in several types of liabilities, ranging: from tort liability before to the data subject or to administrative significant fines.

15.8 Evolution of the Regulatory Environment

As part of the EU's internal market programme, the EC and the European Council have proposed and adopted a number of regulations, directives and recommendations relating to the provision of banking and financial services. These include existing and proposed legislation concerning capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, shareholders' rights, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. Such legislation promotes greater competition in the provision of financial services, including areas in which the Issuer operates, such as securities brokerage, dealing and underwriting, and the provision of investment advice.

MiFID II

MiFID II, which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation ((EU) No 600/2014); and (iii) secondary legislation in the form of Delegated Acts made thereunder. Portugal has yet to implement MiFID II although the draft legislation is in the final stages of the approval process and implementation is expected to take place soon.

MiFID II, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use 'passports' to conduct MiFID investment services in other EU Member States.

MiFID II is more wide ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

PRIIPs Regulation

Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") relates to consumer protection and aims to establish a common standard for key information documents for packaged retail and insurance-based investment products (PRIIPs) and became applicable in EU member states on 1 January 2018. The EU Commission adopted amended regulatory technical standards (RTS) on key information documents (KIDs) during the first half of 2017 and like the regulation itself, the delegated regulation has applied since 1 January 2018.

Bridge Bank

Without prejudice to the limits and rules governing financial institutions, as a bridge bank, the Issuer was subject to certain limitations arising out of the bridge bank legal regime as well as the duties and obligations set out in the Resolution Measure. On 18 October 2017 the Issuer ceased to be a bridge following the Lone Star Sale. The earlier European Commission commitments were superseded by the Commitments in October 2017 (State aid no. SA.49275 (2017/N)). For further details, see "*Description of the Issuer's Business—European Commission Commitments*".

TAXATION

Prospective purchasers of Notes are advised to consult their tax advisers as to the tax consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of receipts of interest and sale or redemption of Notes.

The following descriptions are general summaries of certain taxation matters based on applicable law and practice currently in effect in Portugal. Nothing in this section constitutes tax, legal or financial advice, and the summaries contained herein are of a general nature and do not cover all aspects of taxation in the relevant jurisdictions that may be relevant to any particular Holder of Notes. Prospective investors in the Notes should consult their professional advisers on the tax implications for them of an investment in the Notes.

Portugal

This chapter summarises the Portuguese tax rules applicable to the acquisition, ownership and disposal of the Notes, in force as at the date of this Prospectus. This chapter does not analyse the tax implications that may indirectly arise from the decision to invest in the Notes, such as those relating to the tax framework of financing obtained to support such investment or those pertaining to the counterparties of the potential investors, regarding any transaction involving the Notes.

This chapter is a general summary of the relevant features of the Portuguese tax system. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular Holder, including tax considerations that arise from rules of general application or that are generally assumed to be known to any Holder. It also does not contain in-depth information about all special and exceptional regimes, which may entail tax consequences at variance with those described herewith.

The tax treatment of each type of potential investor described in each section applies exclusively to that type of potential investor. No analogy regarding the tax implications applicable to other type of potential investors should be drawn. Potential investors should seek individual advice about the implications of the acquisition, ownership and disposal of Notes, in light of their specific circumstances.

This chapter does not include any reference to the tax framework applicable in countries other than Portugal. The rules of a Convention to prevent Double Taxation ("**Convention**") may have a bearing on Portuguese tax implications. Furthermore, the domestic provisions of other countries may exacerbate or alleviate such implications.

The meaning of the terminology adopted in respect of every technical feature, including the qualification of the securities issued as "Notes", the classification of taxable events, the arrangements for taxation and potential tax benefits, among others, is the one in force in Portugal as at the date of this Prospectus. No other interpretations or meanings, potentially employed in other countries, are considered.

The tax framework described in this chapter is subject to any changes in law and practices (and the interpretation and application thereof) at any moment. Although according to the Portuguese Constitution legislative amendments which increase taxation cannot have retroactive or retrospective effect, there is no general prohibition of amendments with such effect.

General tax regime

Where no specific tax regime is applicable, e.g. the special debt securities tax regime further described below, the tax regime summarised in this section should generally apply.

Portuguese tax resident individuals (income obtained outside the scope of business or professional activities)

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Economic benefits derived from interest, amortisation, reimbursement premiums and other instances of remuneration arising from the Notes (including, upon a transfer of the Notes, the interest accrued since the last date on which interest was paid), are generally classified as "investment income" for Portuguese tax purposes.

Such investment income arising to the Holders is liable for Personal Income Tax (*Imposto sobre o Rendimento das Pessoas Singulares* or "**IRS**"). IRS is generally withheld, at a 28 per cent rate, when the income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable). This represents a final withholding, releasing the Holder from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRS.

Alternatively, the Holders may opt for declaring such income in their tax returns, together with the remaining items of income derived. In that event, income arising from the ownership of Notes shall be liable for tax at the rate resulting from the application of the relevant progressive tax brackets for the year in question, currently up to 48 per cent., plus a solidarity tax (*taxa adicional de solidariedade*) of up to 5 per cent. on income exceeding €250,000 (2.5 per cent. on income below €250,000, but exceeding €80,000). The progressive taxation under the IRS rules may then go up to 53 per cent., being the tax withheld deemed as a payment on account of the final tax due.

Investment income paid or made available (*colocado à disposição*) to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed in which case general rules apply.

Capital gains and capital losses arising from the disposal of Notes for consideration

The annual positive balance between capital gains and capital losses arising from the disposal of Notes (and other assets set forth in law) for consideration, deducted of the costs necessary and effectively incurred in the acquisition and disposal, is taxed at a special 28 per cent. IRS rate. Alternatively, Holders of the Notes may opt to include the capital gains and losses in their taxable income, together with the remaining items of income derived. In that event, the capital gains shall be liable for tax at the rate resulting from the application of the relevant progressive tax brackets for the year in question, currently up to 48 per cent., plus a solidarity tax (*taxa adicional de solidariedade*) of up to 5 per cent. on income exceeding €250,000 (2.5 per cent. on income below €250,000, but exceeding €80,000). The progressive taxation under the IRS rules may then go up to 53 per cent.

Losses arising from disposals for consideration in favour of counterparties subject to a clearly more favourable tax regime in the country, territory or region where such counterparty is a tax resident, listed in the Ministerial Order no. 150/2004 of 13th February, as amended from time to time ("**Blacklisted Jurisdictions**") are disregarded for purposes of assessing the positive or negative balance referred to in the previous paragraph.

If the gains are obtained in the context of a professional or entrepreneurial activity any capital gains and losses on the transfer of Notes for a consideration should be included in the computation of corporate and professional income and are taxable according to the rules as set forth in the PIT Code for income of business and professional nature.

Where the Portuguese resident individual chooses to include the capital gains or losses in their taxable income subject to the marginal PIT rates, any capital losses which were not offset against capital gains in the relevant tax period may be carried forward for five years and offset future capital gains.

Gratuitous acquisition of Notes

The gratuitous acquisition (per death or in life) of Notes by Portuguese tax resident individuals is liable for Stamp Tax at a 10 per cent. rate. Spouses or couples under the civil partnership regime, ancestors and descendants avail of an exemption from Stamp Tax on such acquisitions.

Non-Portuguese tax resident individuals without a permanent establishment in Portugal to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Investment income arising to the Holders from the Notes is liable for IRS. IRS is withheld, at a 28 per cent rate, when the investment income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable), unless in certain circumstances the transfer is made between two IRS taxpayers and the income is not imputable to an entrepreneurial or professional activity. This represents a final withholding, releasing the Holders from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRS.

The above rate may be reduced pursuant to a Convention in force between Portugal and the country where the owner of the Notes is a resident for tax purposes, provided that both substantial and formal conditions on which the application of such benefit depends are duly observed. In broad terms, according to Portuguese tax law the formalities consist in the certification of a specific official form (*Modelo 21-RFI*) by the local tax authorities of the country of residence of the owner of the Notes or a non-certified specific official form (*Modelo 21-RFI*) supplemented with a document issued by such tax authorities that attests both the tax residency of the beneficiary entity and that this entity is subject to tax in accordance with the Convention.

If the Holder is subject to a clearly more favourable tax regime in a Blacklisted Jurisdiction, the applicable withholding tax rate is 35 per cent. Similarly, the withholding tax rate is increased to 35 per cent. in case of payments made to accounts opened in the name of one or more accountholders on behalf of undisclosed third parties, unless the beneficial owner of such income is identified, in which case the general rules apply.

In any event, please refer to the section below entitled "*—Special debt securities tax regime*" in order to assess whether a tax exemption is available.

Capital gains and capital losses arising from the disposal of Notes for consideration

Capital gains arising from the disposal of Notes for consideration should be exempt from taxation as long as they qualify as "securities" (*valores mobiliários*), unless the alienator is resident for tax purposes in a jurisdiction listed in a Blacklisted Jurisdiction. Furthermore, capital gains arising from the disposal of Notes for consideration by an alienator resident for tax purposes in a country with which there is a Convention in force with Portugal may be excluded from taxation, depending on the specific provisions of the Convention. In case the taxable event cannot be prevented, the annual positive balance between capital gains and capital losses arising from the disposal of Notes (and other assets set forth in the law) for consideration, deducted of the costs necessary and effectively incurred in such disposal, is taxed at a special 28 per cent. IRS rate. Losses arising from disposals for consideration in favour of counterparties subject to a clearly more favourable tax regime in the country, territory or region where it is a tax resident, listed in a Blacklisted Jurisdiction are disregarded for purposes of assessing the positive or negative balance referred above.

If resident in a Member State of the EU or of the European Economic Area with which, in the latter case, there is exchange of tax information, the Holders may opt for declaring such income in their tax returns, together with the remaining items of income derived (even if outside the Portuguese territory, in the latter case for purposes of ascertaining the relevant tax bracket). In that event, the capital gains shall be liable for tax at the rate that would result from the application of the relevant progressive tax brackets for the year in question, currently up to 48 per cent., plus a solidarity tax (*taxa adicional de solidariedade*) of up to 5 per cent. on income exceeding €250,000 (2.5 per cent. on income below €250,000, but exceeding €80,000). The progressive taxation under the IRS rules may then go up to 53 per cent.

Gratuitous acquisition of Notes

The gratuitous acquisition (per death or in life) of Notes by non-Portuguese tax resident individuals is not liable for Portuguese Stamp Tax.

Corporate entities resident for tax purposes in Portugal or non-Portuguese tax resident entities with a permanent establishment to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Investment income arising to Holders from the Notes is liable for Corporate Income Tax (*Imposto sobre o Rendimento das Pessoas Colectivas* or "**IRC**"). IRC is withheld, at a 25 per cent. rate, when the investment income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable), except where the Noteholder is either a Portuguese resident financial institution (or a non-resident financial institution having a permanent establishment in the Portuguese territory to which income is imputable) or otherwise benefits from a reduction or a withholding tax exemption as specified by current Portuguese tax law.

This withholding represents an advance payment on account of the final IRC liability. IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of 21 per cent., 17 per cent. on the first €15,000 in the case of small or medium-sized enterprises as defined by law and subject to the *de minimis* rule of the EU. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3 per cent., for a taxable income from €1,500,000.00 to €7,500,000.00, of 5 per cent., for a taxable income from €7,500,000.00 to €35,000,000.00, or of 9 per cent. for a taxable income exceeding €35,000,000.00.

Investment income paid or made available (*colocado à disposição*) to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case general rules apply.

There is no obligation to withhold tax, partially or entirely, on investment income of the issuer made available to taxpayers globally exempt from IRC (for instance: the Portuguese State and other corporate entities subject to administrative law; corporate entities recognised as having public interest and charities; pension funds; retirement savings funds, education savings funds and retirement and education savings funds; and venture capital funds, provided that, with respect to all the above funds, they are organised and operate in accordance with Portuguese law) or which benefit from a total or partial exemption on the investment income made available by the Issuer, assuming that proof of such exemption is presented to the entity responsible for the payment.

Capital gains and capital losses arising from the disposal of Notes for consideration

Capital gains and capital losses are taken into consideration for purposes of computing the taxable profit for IRC purposes. IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of 21 per cent.,17 per cent. on the first €15,000 in the case of small or medium-sized enterprises as defined by law and subject to the *de minimis* rule of the EU. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5 per cent. of the taxable profit may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3 per cent., for a taxable income from €1,500,000.00 to €7,500,000.00, of 5 per cent., for a taxable income from €7,500,000.00 to €35,000,000.00, or of 9 per cent. for a taxable income exceeding €35,000,000.00.

Gratuitous acquisition of Notes

The positive net variation in worth (*variação patrimonial positiva*), not reflected in the profit and loss account of the financial year, arising from the gratuitous transfer of Notes to Portuguese tax resident corporate entities liable for IRC, even if exempt therefrom, or to permanent establishments to which it is imputable, is taken into consideration for purposes of computing the taxable profit for IRC purposes.

IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of 21 per cent., 17 per cent. on the first €15,000 in the case of small or medium-sized enterprises as defined by law and subject to the *de minimis* rule of the EU. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3 per cent., for a taxable income from €1,500,000.00 to €7,500,000.00, of 5 per cent., for a taxable income from €7,500,000.00 to €35,000,000.00, or of 9 per cent. for a taxable income exceeding €35,000,000.00.

Corporate entities not resident for tax purposes in Portugal and without a permanent establishment to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Investment income arising to the Holders from the Notes is liable for IRC. IRC is withheld, at a 25 per cent. rate, when the investment income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable). This represents a final withholding, releasing the Holders from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRC. If the Holder is an entity with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in a Blacklisted Jurisdiction, the withholding tax rate is increased to 35 per cent.

The 25 per cent. withholding tax rate referred above may be reduced pursuant to a Convention in force between Portugal and the country where the owner of the Notes is a resident for tax purposes, provided that both substantial and formal conditions on which the application of such benefit depends are duly observed. In broad terms, according to Portuguese tax law the formalities consist in the certification of the tax residence of the owner of the Notes in specific forms.

Capital gains and capital losses arising from the disposal of Notes for consideration

Capital gains arising from the disposal of Notes for consideration should be exempt from taxation as long as they qualify as "securities" (*valores mobiliários*), unless the alienator is a tax resident, listed in a Blacklisted Jurisdiction, or more than 25 per cent. of the non resident entity's capital is held by a resident person (except if the disposing entity complies with the legally established conditions and requirements). Furthermore, capital gains arising from the disposal of Notes for consideration by an alienator resident for tax purposes in a country with which there is a Convention in force with Portugal may be excluded from taxation, depending on the specific provisions of the Convention.

In case the taxable event cannot be prevented, capital gains and capital losses are taken into consideration for purposes of computing the taxable profit for IRC purposes. The profit will be taxed at a 25 per cent. IRC rate, but a deduction of the costs necessary and effectively incurred in the relevant disposals is available.

Losses arising from disposals for consideration in favour of counterparties with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in a Blacklisted Jurisdiction, are disregarded for purposes of assessing the positive or negative balance referred to in the previous paragraph.

Gratuitous acquisition of Notes

The positive variation in worth (*variação patrimonial positiva*) arising from the gratuitous acquisition of Notes by corporate entities not resident for tax purposes in Portugal and without a permanent establishment to which they are imputable is taxed at a 25 per cent. rate.

Special debt securities tax regime

Overview

Decree-Law no. 193/2005, of 7 November 2005, as amended from time to time, introduced a special tax regime applicable to income arising from debt securities ("**STRIDS**").

Under the STRIDS investment income arising from and capital gains obtained on the disposal of the Notes, as securities integrated in a centralised system managed by Portuguese resident entities such as the Central de Valores Mobiliários, managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e Sistemas Centralizados de Valores Mobiliários, S.A., may be exempt from tax, provided that the following requirements are cumulatively met:

(a) the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and

(b) the beneficial owners are either (i) central banks and government agencies; or (ii) international organisations recognised by the Portuguese state; or (iii) entities resident in a country or jurisdiction with which Portugal has entered into a Convention or a Tax Information Exchange Agreement ("**TIEA**") currently in force; or (iv) other non–resident entities which are not resident in a country, territory or region subject to a clearly more favourable tax regime, as listed in a Blacklisted Jurisdiction. Beneficial owners resident in a Blacklisted Jurisdiction may still qualify if a TIEA between Portugal and such jurisdiction is in force (which is the case of some of the most commonly used offshore jurisdictions).

In order to apply, the STRIDS requires completion of certain procedures and certifications providing evidence of the non-resident status of the beneficial owner of the Notes. Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity entitled to the exemption. As a general rule, the proof of non-residence should be provided to, and received by, the direct register entities prior to the relevant date of payment of any interest (or prior to the redemption date, as applicable), or prior to their transfer, as the case may be.

A general description of the rules and procedures on the evidence required for the exemption to apply at source is set out below with respect to domestic cleared notes such as the Notes.

The beneficial owner of the Notes must provide proof of non-residence in the Portuguese territory substantially in the following terms:

(i) If the beneficial owner of the Notes is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese state, a declaration of tax residence issued by the beneficial owner itself, duly signed and authenticated or evidenced pursuant to paragraph (ii) or (iv) below;

(ii) If the beneficial owner is a credit institution, a financial company, pension fund or an insurance company domiciled in any OECD country or in a country or jurisdiction with which Portugal has entered into a Convention, and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (a) its tax identification; or (b) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the beneficial owner and its domicile; or (c) proof of non-residence, pursuant to the terms of paragraph (iv) below;

(iii) If the beneficial owner of the Notes is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a Convention or TIEA, certification shall be provided by means of any of the following documents: (a) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of its incorporation; or (b) proof of non-residence pursuant to the terms of paragraph (iv) below;

(iv) In any other case, confirmation must be made by way of (a) a certificate of residence or equivalent document issued by the relevant tax authorities; or (b) a document issued by the relevant Portuguese consulate certifying residence abroad; or (c) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules on the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the beneficial owner of the Notes must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up until three months after the date on which the withholding tax would have been applied and will be valid for a three-year period, counting from the date such document is issued. The beneficial owner of the Notes must inform the register entity immediately of any change that may preclude the tax exemption from applying. For the cases mentioned in paragraphs (i) to (iii) above, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

No Portuguese exemption shall apply at source under the STRIDS, if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the STRIDS, whereby the refund claim is to be submitted to the direct or indirect register entity of the Notes within six months from the date the withholding took place.

The refund of withholding tax after the above six-month period is to be claimed to the Portuguese tax authorities within two years from the end of the year in which the tax was withheld. The refund is to be made within three months, after which interest is due.

The form currently applicable for the above purposes were approved by Order (*Despacho*) no. 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, 2nd series, No. 37, of 21 February 2014 and may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Portugal) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and instruments characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding ("grandfathered instruments") unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional instruments that are not distinguishable from previously issued grandfathered instruments are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all instruments, including the grandfathered instruments, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay Additional Amounts as a result of the withholding.

SUBSCRIPTION AND SALE

J.P. Morgan Securities plc and Morgan Stanley & Co. International plc (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 4 July 2018, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount, subject to the provisions of the Subscription Agreement. Subject thereto, the Issuer has also agreed in the Subscription Agreement to pay a fee to the Joint Lead Managers and will reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

The Notes have not been and will not be registered under the Securities Act and are not being offered or sold except to non-U.S Persons in offshore transactions in reliance on Regulation S thereunder. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

The Joint Lead Managers have agreed that, except as permitted by the Subscription Agreement, they will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each dealer to which they sell Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA would not, if it were not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except in accordance with any Italian securities, tax and other applicable laws and regulations:

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Prospectus or any other document relating to the Notes in Italy except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations, including any limitation or requirement imposed by CONSOB or other Italian authority.

General

No action has been taken by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Joint Lead Managers have undertaken that they will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by a resolution of the Executive Board of Directors of the Issuer passed on 20 June 2018 further to the prior consent of the General and Supervisory Board by a resolution passed on 23 May 2018.

Listing

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to be admitted to trading on Euronext Dublin's regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be approximately €6,790.

Indication of yield

Based upon a re-offer price of 100 per cent. of the principal amount of the Notes, the yield of the Notes for the period from (and including) the Issue Date to (but excluding) the Reset Date, is 8.500 per cent. per annum on an annual basis. The yield is calculated at the Issue Date and is not an indication of future yield.

Clearing systems

The Notes have been accepted for settlement and clearing through the CVM, managed and operated by Interbolsa through direct or indirect accounts with Euroclear and Clearstream, Luxembourg. The ISIN of the Notes is PTNOBFOM0017 and the Common Code is 184675374. The address of Interbolsa is Avenida da Boavista, 3433 4100-138 Porto, Portugal.

No significant change

There has been no significant change in the financial or trading position of the Group since 31 March 2018.

There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2017.

Litigation

Save as disclosed above in "*Description of the Issuer's Business—Legal, Administrative and Arbitration Proceedings*" the Group is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Group.

Auditors

The financial statements of the Issuer for the financial periods ended 31 December 2016 and 31 December 2017 have been audited in accordance with IFRS and have been reported on without qualification by PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficias de Contas, Lda., of Palácio Sottomayor, Rua Sousa Martins, 1, 3.º, 1069-316 Lisbon, Portugal (which is a member of the Portuguese

Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas), registered with the CMVM with number 20161485.

As of 21 December 2017, Ernst & Young Audit & Associados – SROC, S.A. has been appointed auditor of the Issuer. Ernst & Young Audit & Associados – SROC, S.A. is a member of Institute of Certified Public Accountants ("**OROC**") and registered with the CMVM with number 20161480.

Listing agent

Maples and Calder is acting solely in its capacity as listing agent for the Issuer in relation to the listing of the Notes on the Official List and is not itself seeking admission of the Notes to the Official List of Euronext Dublin.

Documents available

Physical copies of the following documents will be available from the date hereof and for so long as the Notes remain outstanding at the office of the Irish Listing Agent during normal business hours on any weekday:

(a) the Agency Terms;

(b) the Instrument;

(c) the Memorandum and Articles of Association of the Issuer;

(d) the published annual report and audited accounts of the Group for each of the years ended 31 December 2016 and 31 December 2017;

(e) the Q1 Results; and

(f) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus.

This Prospectus and the accounts incorporated by reference herein will be published on the website of Euronext Dublin (www.ise.ie).

Conflicts of interest

The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Where the Joint Lead Managers or their affiliates have a lending relationship with the Issuer and/or its affiliates they may routinely hedge their credit exposure to those entities consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Joint Lead Managers and/or their respective affiliates will act as dealer managers in connection with the concurrent tender offers and exchange offer.

Language of this Prospectus

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Prospectus.

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