

NOVO BANCO S.A. ("NB") RESTRUCTURING CREDIT EVENT

AUCTION/SETTLEMENT TIMETABLE – NON-SRO TRANSACTIONS

The DC refers to the statement published on 15 December 2017 entitled "Auction/Settlement Expectations" (the **NB Auction/Settlement Expectations Statement**), attached as an Annex hereto, which this statement should be read in conjunction with. In the NB Auction/Settlement Expectations Statement, the DC identified its auction/settlement expectations in respect of five separate categories of senior and subordinated 2014 Transactions/Updated 2003 Transactions referencing NB in respect of which a Restructuring Credit Event Resolution has occurred.¹ References to any "Category" of transactions in this statement are a reference to the corresponding Category of transactions identified in the NB Auction/Settlement Expectations Statement.

By way of update to market participants, the determination of the value of the Fixed-Term Deposit Account option right² is still in the process of being determined by the third party valuation agent appointed by the DC for this purpose. This valuation will be relevant for the purposes of the settlement of Category 1 transactions (i.e. senior 2014 Transactions for which the Reference Obligation is the NB Senior SRO – ISIN XS0772553037) (the **Senior SRO Transactions**) and may be relevant for purposes of the settlement of those Category 2 transactions for which the Reference Obligation is a senior obligation of NB (other than the NB Senior SRO) which was subject to a Restructuring Credit Event on or about 4 October 2017 (the **Excluded Category 2 Transactions**).

As the valuation of the Fixed-Term Deposit Account option right is not relevant in any event for the purposes of the settlement of any other NB triggered transactions, being the Category 2 to 5 transactions (other than the Excluded Category 2 Transactions) (the **Non-SRO Transactions**), the DC is of the view that settlement of such Non-SRO Transactions should proceed without any further delay. **Accordingly, this statement sets out the proposed timetables of the key deadlines and/or events for the settlement of the Non-SRO Transactions.** The statement works through the proposed settlement timetables of the various Categories of Non-SRO Transactions in the order the DC believes will be of most importance to market participants rather than the order in which the Categories of transactions were dealt with in the NB Auction/Settlement Expectations Statement.

For the avoidance of doubt, at this stage this statement does **not** address the timetables for settlement of the Senior SRO Transactions (Category 1) nor the Excluded Category 2 Transactions: this statement will be updated or a separate statement will be published in due course once the valuation of the Fixed-Term Deposit Account option right has been completed and it is possible to move to settlement of such Category 1 and Category 2 transactions.

This statement refers to a number of transactions settling by reference to the Fallback Settlement Method upon the occurrence of the corresponding No Auction Announcement Date. **Please note that each No Auction Announcement Date is expected to occur on Monday 9 April 2018 in respect of the relevant transactions. Therefore, it will not be possible to settle the relevant 2014 Transactions and/or Updated 2003 Transactions pursuant to any such Fallback Settlement Method until such time.**

Capitalised terms otherwise used but not defined in this statement have the meaning given to them in the NB Auction/Settlement Expectations Statement or the 2016 Credit Derivatives Determinations Committees Rules (January 20, 2016 version, as amended) (including in the 2014 Definitions and the Updated 2003 Definitions, in each case as defined therein)³, as the context so requires.

¹ See [DC Resolutions of 5 October 2017](#)

² See NB Auction/Settlement Expectations Note and [DC Statement of 18 October 2017](#) for further details.

³ Available at: <https://dc.isda.org/dc-rules/>

1. CATEGORY 4 TRANSACTIONS

This Category covers Relevant Senior 2003 Transactions and Relevant Subordinated 2003 Transactions (as each such term is defined in the NB Auction/Settlement Expectations Statement) falling into one of the four "2003 Buckets" identified in Section 4 of the NB Auction/Settlement Expectations Statement.

As noted in the NB Auction/Settlement Expectations Statement, settlement of the Relevant Subordinated 2003 Transactions can be combined with settlement of the Relevant Senior 2003 Transactions on the basis that, so far as the DC is aware, there is no subordinated NB debt in existence and therefore the Deliverable Obligations for both sets of transactions are identical (being senior NB bonds only or no Deliverable Obligations at all, as applicable).

Please note that the below timetables are tentative only and in any event are subject to formal DC approval in due course.

(a) *Settlement Timetable – General*

The following key deadlines and/or events apply to all Category 4 transactions:

- (i) **Tuesday 27 March 2018:** publication of Initial List;⁴
- (ii) **5:00 p.m. London time Thursday 29 March 2018:** deadline for submitting additional potential Deliverable Obligations to the DC Secretary for inclusion on the Supplemental List;⁵
- (iii) **7:00 p.m. London time Thursday 29 March 2018:** publication of Supplemental List;⁶
- (iv) **5:00 p.m. London time Tuesday 3 April 2018:** deadline for challenging obligations on the Supplemental List;⁷
- (v) **5:00 p.m. London time Thursday 5 April 2018:** if applicable, deadline for resolving challenges;⁸
- (vi) **Friday 6 April 2018:** publication of Final List;⁹
- (vii) **Tuesday 10 April 2018:** Exercise Cut-off Date applicable to Seller;¹⁰ and
- (viii) **Friday 13 April 2018:** Exercise Cut-off Date applicable to Buyer.¹¹

⁴ This will be substantially in the same form as the Preliminary List entitled "Auction(s) (deemed or actual) in respect of 2014 Transactions (senior non-SRO and subordinated transactions) and Updated 2003 Transactions (senior and subordinated transactions)" that was published on the DC website on 26 January 2018 and is available [here](#).

⁵ Section 3.3(c) of the DC Rules.

⁶ Section 3.3(c) of the DC Rules.

⁷ Section 3.3(d) of the DC Rules.

⁸ Section 3.3(e) of the DC Rules.

⁹ Section 3.3(e) of the DC Rules requires the Final List to be published "promptly" upon the resolution of all DC Questions concerning whether an obligation on the Supplemental List should be excluded from the Final List. Accordingly, if there are no challenges, the Final List would be expected to be published after 5:00 p.m. London time on Tuesday 3 April 2018 (see Section 1(a)(iv) above). If there are any challenges, the Final List would be expected to be published after 5:00 p.m. London time on Thursday 5 April 2018 (see Section 1(a)(v) above). However, in light of certain operational concerns that have previously been raised by CCPs and certain other market participants where bucketing applies, the DC expects to delay publication of the Final List in any event until Friday 6 April 2018 such that the Buyer and Seller triggering cut-off dates will be determined by reference to Friday 6 April 2018 and therefore the typical Buyer and Seller triggering windows will occur during the same single calendar week to address the aforementioned operational concerns.

¹⁰ Section 1.26(b)(i) of the Updated 2003 Definitions, being two Relevant City Business Days following the date of publication of the Final List.

¹¹ Section 1.26(b)(i) of the Updated 2003 Definitions, being five Relevant City Business Days following the date of publication of the Final List.

Thereafter, the expected settlement timetable for any given Category 4 transaction depends on which bucket that Category 4 transaction falls into.

(b) ***Settlement Timetable – 2003 Bucket 1***

For the reasons set out in the NB Auction/Settlement Expectations Statement, triggered Category 4 transactions falling into 2003 Bucket 1 will settle by reference to a deemed Auction in accordance with the Auction Settlement Terms which the DC will publish in due course and pursuant to which the Auction Final Price will be deemed to be 100% (i.e. such that the Auction Settlement Amount is 0).¹² The settlement timetable for these triggered Category 4 transactions will be as follows:

- (i) **Wednesday 2 May 2018:** Auction Date of deemed Auction; and
- (ii) **Tuesday 8 May 2018:** Auction Settlement Date¹³. Although no Auction Settlement Amount is payable, this date is still relevant for the purposes of premium rebates (or payments).

(c) ***Settlement Timetable – 2003 Bucket 4 (i.e. the Seller Bucket)***

The DC expects to hold an Auction for triggered Category 4 transactions falling into 2003 Bucket 4 and accordingly the settlement timetable will, in accordance with the corresponding Auction Settlement Terms which the DC will publish in due course,¹⁴ be as follows:

- (i) **Wednesday 2 May 2018:** Auction Date; and
- (ii) **Tuesday 8 May 2018:** Auction Settlement Date¹⁵.

If the DC determines not to hold an Auction for 2003 Bucket 4, triggered Category 4 transactions falling into such bucket will be subject to the Fallback Settlement Method and the DC will publish an updated settlement timetable for such triggered transactions.

(d) ***Settlement Timetable – 2003 Buckets 2 and 3***

The DC will not hold an Auction for 2003 Bucket 2 or 2003 Bucket 3 for the reasons set out in the NB Auction/Settlement Expectations Statement. Accordingly, any triggered Category 4 transactions falling into either of these buckets will be subject to the Fallback Settlement Method in accordance with the timetable set out below *unless* an Auction is held for 2003 Bucket 4 (see Section 1(c) above) and Seller validly exercises the Movement Option by delivering a Notice to Exercise Movement Option to Buyer on or prior to the Movement Option Cut-off Date (in which case any such triggered Category 4 transactions will settle through the Auction for 2003 Bucket 4 – see Section 1(c) above).

- (i) **Monday 9 April 2018:** No Auction Announcement Date¹⁶ with respect to these Category 4 transactions;

¹² A DRAFT version of the Auction Settlement Terms entitled "Auction Settlement Terms for the Auction(s) (deemed or actual) in respect of 2014 Transactions (senior non-SRO and subordinated transactions) and Updated 2003 Transactions (senior and subordinated transactions)" that would apply to these Category 4 2003 Bucket 1 transactions was published on the DC website on 26 January 2018 and is available [here](#).

¹³ Schedule 1 of the Auction Settlement Terms.

¹⁴ A DRAFT version of the Auction Settlement Terms entitled "Auction Settlement Terms for the Auction(s) (deemed or actual) in respect of 2014 Transactions (senior non-SRO and subordinated transactions) and Updated 2003 Transactions (senior and subordinated transactions)" that would apply to these Category 4 2003 Bucket 4 transactions was published on the DC website on 26 January 2018 and is available [here](#).

¹⁵ Schedule 1 of the Auction Settlement Terms.

¹⁶ The No Auction Announcement Date will arise pursuant to Section 12.12(b) of the Updated 2003 Definitions, i.e. the date that on which ISDA announces that no Auction Settlement Terms will be published, but Parallel Auction Settlement Terms will be published, for the purposes of these Category 4 2003 Buckets 2 and 3 transactions.

- (ii) **Thursday 19 April 2018: Movement Option Cut-off Date.**¹⁷ Seller may only deliver a Notice to Exercise Movement Option if the relevant Category 4 transaction has been validly triggered by delivery of a Credit Event Notice (see Section 1(a)(viii) above) although note that if Seller wants this Category 4 transaction settled via the Auction for the Seller Bucket, then Seller is able to trigger himself by sending a Credit Event Notice to Buyer on or prior to the Exercise Cut-off Date applicable to Seller (Tuesday 10 April) (see Section 1(a)(vii) above);
- (iii) **Thursday 3 May 2018:** deadline for delivery by Buyer of a Notice of Physical Settlement to Seller (being the date that is the Relevant City Business Day immediately following the Parallel Auction Final Price Determination Date).¹⁸ Buyer may only deliver a Notice of Physical Settlement if the relevant Category 4 transaction has been validly triggered by delivery of a Credit Event Notice (see Section 1(a)(viii) above) and Seller has not validly exercised the Movement Option (see Section 1(d)(ii) above), i.e. the Fallback Settlement Method applies; and
- (iv) **30th Business Day following delivery of a valid Notice of Physical Settlement (see (d)(iii) above):** Physical Settlement Date.

2. CATEGORY 5 TRANSACTIONS

This Category of transactions covers any senior or subordinated Updated 2003 Transaction for which the Reference Obligation is an obligation which has not been redeemed or repaid (and which is not included on the Final List of Deliverable Obligations applicable to the Category 4 transactions). This Category includes any Updated 2003 Transaction referencing NB but specifying an outstanding obligation of Banco Espírito Santo, S.A. (BES) (other than the BES bond with ISIN PTBEQKOM0019)¹⁹ as the Reference Obligation.

The Category 5 transactions will be subject to the Fallback Settlement Method in accordance with the following timetable. **Please note that this is a tentative timetable and is subject to formal DC approval. As such, no No Auction Announcement Date has occurred or has been formally set as at the date of this statement.**

- (i) **Monday 9 April 2018:** No Auction Announcement Date²⁰ with respect to these Category 5 transactions;
- (ii) **Monday 30 April 2018:** Exercise Cut-off Date (being the date that is 21 calendar days following the No Auction Announcement Date),²¹ on or prior to which the relevant Notifying Party may deliver a Credit Event Notice;
- (iii) **Friday 9 May 2018:** deadline for delivery by Buyer of a Notice of Physical Settlement to Seller (being the date that is 30 calendar days following the No Auction Announcement Date).²² Buyer may only deliver a Notice of Physical Settlement if the relevant Category 5 transaction has been validly triggered by delivery of a Credit Event Notice (see (ii) above); and

¹⁷ Section 12.19 of the Updated 2003 Definitions

¹⁸ Section 3.2(c)(ii)(B)(II)(1) of the Updated 2003 Definitions.

¹⁹ Updated 2003 Transactions specifying the BES bond with ISIN PTBEQKOM0019 as the Reference Obligation are already subject to the Fallback Settlement Method further to the [DC Decision](#) and [DC Statement](#) of 13 November 2017 and the further [DC Statement of 29 November 2017](#).

²⁰ The No Auction Announcement Date will arise pursuant to Section 12.12(a) of the Updated 2003 Definitions, i.e. the date on which ISDA announces that no Auction Settlement Terms or Parallel Auction Settlement Terms will be published for the purposes of these Category 5 transactions.

²¹ Section 1.26(b)(ii) of the Updated 2003 Definitions

²² Section 3.2(c)(ii)(B)(I)(1) of the Updated 2003 Definitions.

- (iv) **30th Business Day following delivery of a valid Notice of Physical Settlement (see (iii) above):** Physical Settlement Date.

3. CATEGORY 3 TRANSACTIONS

This category covers subordinated 2014 Transactions falling into one of the four "2014 Subordinated Buckets" identified in Section 3 of the NB Auction/Settlement Expectations Statement.

Please note that the below timetables are tentative only and in any event are subject to formal DC approval in due course.

On the basis that the Deliverable Obligations applicable to Category 3 transactions are identical to the Deliverable Obligations applicable to Category 4 transactions, save as modified below the settlement timetable for a Category 3 transaction falling into a particular "2014 Subordinated Bucket" will be identical to the settlement timetable (as set out in Section 1 above) for a Category 4 transaction falling into the corresponding "2003 Bucket" identified in Section 4 of the NB Auction/Settlement Expectations Statement.

(a) ***Settlement Timetable – General***

The following key deadlines and/or events apply to all Category 3 transactions.

The general settlement timetable applicable to all Category 3 transactions will be identical to that applicable to the general settlement timetable applicable to all Category 4 transactions up to but excluding the publication of the Final List, and thereafter shall be as follows:

- (i) **Friday 13 April 2018:** publication of Final List;²³
- (ii) **Tuesday 17 April 2018:** Exercise Cut-off Date applicable to Seller;²⁴ and
- (iii) **Friday 20 April 2018:** Exercise Cut-off Date applicable to Buyer.²⁵

Thereafter, the expected settlement timetable depends on which bucket the Category 3 transaction falls into.

(b) ***Settlement Timetable – 2014 Subordinated Bucket 1***

As for Category 4 transactions – 2003 Bucket 1 (see Section 1(b) above).

(c) ***Settlement Timetable – 2014 Subordinated Bucket 4 (i.e. the Seller Bucket)***

As for Category 4 transactions – 2003 Bucket 4 (see Section 1(c) above).

(d) ***Settlement Timetable – 2014 Subordinated Buckets 2 and 3***

²³ The ISDA Credit Market Infrastructure Group has raised operational concerns in relation to having the typical triggering windows for Updated 2003 Transactions (i.e. Category 4 transactions) overlapping with the typical triggering windows for 2014 Transactions (i.e. Category 3 transactions). The DC is of the view that it would not be desirable for market participants to be triggering their 2014 Transactions and Updated 2003 Transactions simultaneously if this would cause operational issues and subsequent confusion in the market. Accordingly, the DC expects to delay the publication of the Final List for the purpose of the 2014 Transactions (Category 3 transactions) pursuant to Section 3.3(f) of the DC Rules such that it is treated solely for this purpose as having been published on 13 April 2018. In such a way, the expiration of the relevant triggering windows for Category 3 transactions will be of the usual duration but will be determined by reference to 13 April 2018 (rather than 6 April 2018 which applies for the purposes of determining the expiration of the relevant triggering windows for Category 4 transactions) and therefore will not overlap with the typical triggering windows for Updated 2003 Transactions.

²⁴ Section 1.41(a)(i) of the 2014 Definitions, being two Relevant City Business Days following the date of publication of the Final List.

²⁵ Section 1.41(a)(i) of the 2014 Definitions, being five Relevant City Business Days following the date of publication of the Final List.

As for Category 4 transactions – 2003 Buckets 2 and 3 (see Section 1(d) above), save that:

- (i) **Monday 9 April 2018:** No Auction Announcement Date²⁶ with respect to these Category 3 transactions;
- (ii) **Monday 23 April 2018:** Movement Option Cut-off Date.²⁷ Seller may only deliver a Notice to Exercise Movement Option if the relevant Category 3 transaction has been validly triggered by delivery of a Credit Event Notice (see Section 3(a)(iii) above) although note that if Seller wants this Category 3 transaction settled via the Auction for the Seller Bucket, then Seller is able to trigger himself by sending a Credit Event Notice to Buyer on or prior to the Exercise Cut-off Date applicable to Seller (Tuesday 17 April) (see Section 3(a)(ii) above)
- (iii) **Thursday 3 May 2018:** NOPS Cut-off Date (being the deadline for delivery by Buyer of a Notice of Physical Settlement to Seller, which will be the date that is the Parallel Notice of Physical Settlement Date).²⁸ Buyer may only deliver a Notice of Physical Settlement if the relevant Category 3 transaction has been validly triggered by delivery of a Credit Event Notice (see Section 3(a)(iii) above) and Seller has not validly exercised the Movement Option (see Section 3(d)(ii) above), i.e. the Fallback Settlement Method applies; and
- (iv) **30th Business Day following the NOPS Cut-off Date (see Section 3(d)(iii) above):** Physical Settlement Date (assuming Buyer delivered a valid Notice of Physical Settlement to Seller on or prior to the NOPS Cut-off Date).

4. CATEGORY 2 TRANSACTIONS (OTHER THAN EXCLUDED CATEGORY 2 TRANSACTIONS)

In the NB Auction/Settlement Expectations Statement, this category of transactions is further split into two sub-categories.

(a) *Sub-category A*

The first sub-category covers (i) senior 2014 Transactions for which the Reference Obligation is not the NB Senior SRO but is a senior obligation of NB which has not yet been redeemed and is not on the Final List of Deliverable Obligations applicable to Category 4 transactions (see Section 1 above) and (ii) the Excluded Category 2 Transactions. Ignoring the Excluded Category 2 Transactions which, as noted above, are currently not within the scope of this statement, the sub-category A transactions will be subject to the Fallback Settlement Method in accordance with the following timetable. **Please note that this is a tentative timetable and is subject to formal DC approval. As such, no No Auction Announcement Date has occurred or has been formally set as at the date of this statement.**

- (i) **Monday 9 April 2018:** No Auction Announcement Date²⁹ with respect to sub-category A transactions (other than Excluded Category 2 Transactions);

²⁶ The No Auction Announcement Date will arise pursuant to Section 6.11(b) of the 2014 Definitions, i.e. the date that on which ISDA announces that no Auction Settlement Terms will be published, but Parallel Auction Settlement Terms will be published, for the purposes of these Category 3 transactions.

²⁷ Section 6.17 of the 2014 Definitions.

²⁸ Section 8.10(b)(ii)(B)(I) of the 2014 Definitions.

²⁹ The No Auction Announcement Date will arise pursuant to Section 6.11(a) of the 2014 Definitions, i.e. the date that on which ISDA announces that no Auction Settlement Terms or Parallel Auction Settlement Terms will be published for the purposes of these sub-category A transactions.

- (ii) **Monday 23 April 2018:** Exercise Cut-off Date (being the date that is 14 calendar days following the No Auction Announcement Date)³⁰, on or prior to which the relevant Notifying Party may deliver a Credit Event Notice;
- (iii) **Wednesday 9 May 2018:** NOPS Cut-off Date (being the deadline for delivery by Buyer of a Notice of Physical Settlement to Seller, which will be the date that is 30 calendar days following the No Auction Announcement Date).³¹ Buyer may only deliver a Notice of Physical Settlement if the relevant sub-category A transaction has been validly triggered by delivery of a Credit Event Notice (see Section 4(a)(ii) above); and
- (iv) **30th Business Day following the NOPS Cut-off Date (see Section 4(a)(iii) above):** Physical Settlement Date (assuming Buyer delivered a valid Notice of Physical Settlement to Seller on or prior to the NOPS Cut-off Date).³²

(b) ***Sub-category B***

The second sub-category covers senior 2014 Transactions for which (i) the Reference Obligation is not the NB senior SRO but which is (A) any of the NB senior bonds on the Final List of Deliverable Obligations applicable to Category 4 transactions or (B) any senior obligation of NB which has already been redeemed, repaid and/or otherwise has expired or no longer exists (other than pursuant to a Restructuring Credit Event on or about 4 October 2017) or (ii) no "Reference Obligation" is specified³³.

As noted in the NB Auction/Settlement Expectations Statement, all sub-category B transactions will be treated in the same manner as the Category 3 transactions because the Deliverable Obligations are the same for each such category of transaction. Accordingly, please see Section 3 above for the settlement timetable for this sub-category of transactions.

³⁰ Section 1.41(a)(ii) of the 2014 Definitions.

³¹ Section 8.10(b)(ii)(A)(II) of the 2014 Definitions.

³² Section 8.17 of the 2014 Definitions.

³³ This limb (ii) would include any senior 2014 Transactions which specified an obligation that is not an obligation of NB as the Reference Obligation for the reasons specified in the NB Auction/Settlement Expectations Statement.

Annex

NB Auction/Settlement Expectations Statement

NOVO BANCO S.A. ("NB") RESTRUCTURING CREDIT EVENT

AUCTION/SETTLEMENT EXPECTATIONS

The DC wishes to provide additional information to market participants on the auction/settlement expectations in respect of both 2014 Transactions (senior and subordinated transactions) and Updated 2003 Transactions (senior and subordinated transactions) referencing NB, in each case in respect of which a Restructuring Credit Event Resolution has occurred.¹

IMPORTANT INFORMATION

- (A) Auction/Settlement Timing: The DC is yet to resolve the timelines in relation to any auction and/or related settlement of the 2014 Transactions and Updated 2003 Transactions. However, the DC is cognisant of the potential operational and resourcing concerns in relation to having auction/settlement related deadlines and/or events (e.g. Auction Settlement Dates, No Auction Announcement Dates, triggering windows, Notice of Physical Settlement cut-off dates, Movement Option cut-off dates etc.) open on or during the period leading up to the CDS coupon payment date of 20 December 2017 as well around the Christmas and New Year holidays. In addition, the market value of the Fixed-Term Deposit Account option right needs to be determined once the DC has determined the appropriate methodology to do that.² Accordingly, the DC expects to resolve in due course to amend the relevant auction/settlement timetables such that key deadlines and/or events do not clash with the aforementioned events or periods. In practice, this means that the relevant timetables will be amended such that key deadlines and/or events will be moved into the New Year.
- (B) This note has been prepared on the basis that the only obligations that will be taken into account for settlement purposes of the relevant 2014 Transactions and Updated 2003 Transactions are those listed on the relevant Preliminary Lists that have been published with this note,³ which the DC believes is a representative sample of the obligations of the Reference Entity that would constitute Deliverable Obligations for the purposes of such trades. The information set out in this note is therefore subject to change, particularly if any obligations are added to, or removed from, these lists (see [Submission of Potential Deliverable Obligations and Challenges note](#) for further information on this process). Specifically, if any market participants have reason to believe that other obligations should be included on the relevant Final List of Deliverable Obligations, they should submit any such obligations (with the required documentation) by sending an email with all information required by the DC Rules to the following email address: DeliverableObligations@isda.org.
- (C) In particular, the DC is aware of a credit linked note due 2021 guaranteed by NB (ISIN XS0723597398) for which the DC has been unable to obtain the corresponding underlying documentation despite numerous efforts to do so. Market participants should note that if such credit linked notes were to constitute Deliverable Obligations of NB for purposes of 2014 Transactions and/or Updated 2003 Transactions then this would significantly change the auction/settlement analysis and outcomes set out in this note.

¹ See [DC Resolutions of 5 October 2017](#)

² See [DC Statement of 18 October 2017](#)

³ Preliminary List dated 14 December 2017 entitled "Deemed Auction in respect of 2014 Transactions (senior transactions only)"
Preliminary List dated 14 December 2017 entitled "Auction(s) (deemed or actual) in respect of 2014 Transactions (subordinated transactions only)"
Preliminary List dated 14 December 2017 entitled "Auction(s) (deemed or actual) in respect of Updated 2003 Transactions (senior and subordinated transactions)"

- (D) This note refers to a number of trades settling by reference to the Fallback Settlement Method upon the occurrence of the corresponding No Auction Announcement Date. **Please note that no No Auction Announcement Date has yet occurred in respect of any trades, other than Updated 2003 Transactions referencing NB and specifying the bond with ISIN PTBEQKOM0019 as the Reference Obligation.⁴ Therefore, other than in respect of such Updated 2003 Transactions, it is currently not possible to settle any 2014 Transactions or any other Updated 2003 Transactions pursuant to any such Fallback Settlement Method.**
- (E) This note reflects the current expectations of the DC but is not binding on the DC.

1. EXECUTIVE SUMMARY

The auction/settlement expectations for triggered 2014 Transactions (senior and subordinated transactions) and Updated 2003 Transactions (senior and subordinated transactions) can be split into the categories set out below. This note contains a detailed analysis of the various auction/settlement permutations⁵, but the DC thought it would be helpful to include the following high level summary:

CATEGORY 1: senior 2014 Transactions for which the Reference Obligation is the Standard Reference Obligation for NB for the Senior Level (ISIN XS0772553037)

- The DC expects all of these trades to settle based on Asset Package Delivery of the Standard Reference Obligation. This will be effected by reference to a deemed Auction as described in further detail in Section 2 below.

CATEGORY 2: senior 2014 Transactions for which (a) the Reference Obligation is an obligation other than the Standard Reference Obligation for NB for the Senior Level (ISIN XS0772553037) or (b) no Reference Obligation is specified

- These trades will **not** be covered by the above deemed Auction applicable to Category 1 senior 2014 Transactions.
- For senior 2014 Transactions for which the Reference Obligation is either (i) a senior obligation of NB which has not yet been redeemed or (ii) a senior obligation of NB which was subject to a Restructuring Credit Event, there will be a No Auction Announcement Date in respect of such trades and so they will be subject to the Fallback Settlement Method (and, in the case of (ii) above, may be settled based on Asset Package Delivery of the specified Reference Obligation). Please note the No Auction Announcement Date has not been designated yet and so these trades are currently not capable of being settled pursuant to the Fallback Settlement Method.
- For all other senior 2014 Transactions in this Category, these trades will be treated in the same manner as Category 3 subordinated 2014 Transactions as described below because the Deliverable Obligations are the same for each such category of transaction.

⁴ Further to the [DC Decision](#) and [DC Statement](#) of 13 November 2017, a No Auction Announcement Date has already occurred in respect of Updated 2003 Transactions referencing NB and specifying the bond with ISIN PTBEQKOM0019 as the Reference Obligation.

⁵ Amongst other reasons the various auction/settlement permutations arise in light of the fact that: (i) the Restructuring Credit Event is an M(M)R Restructuring and so bucketing applies to Buyer-triggered trades; (ii) Asset Package Delivery may apply in respect of the Reference Obligation under certain 2014 Transactions; (iii) the event/circumstances that triggered the Restructuring Credit Event wiped out a significant proportion of NB's (shorter-dated) senior debt obligations that may otherwise have constituted good Deliverable Obligations; and (v) NB does not have any existing subordinated debt.

CATEGORY 3: subordinated 2014 Transactions

- Based on the DC's understanding that NB does not have any existing subordinated debt, the Reference Obligation in respect of subordinated 2014 Transactions must be a subordinated obligation which has already been redeemed, repaid and/or otherwise has expired and no longer exists or which is not an obligation of NB. In either case, the Reference Obligation cannot be used to settle the subordinated 2014 Transactions.
- Accordingly, these trades can be settled by reference to/delivery of senior NB bonds only.
- The shortest dated maturity of any outstanding senior NB bonds that are currently available for inclusion on the Final List is 2035. This means that any Auction actually held will only apply to Seller-exercised trades. Buyer-exercised trades will settle on the basis of a deemed Auction generating an Auction Final Price of 100%. This is based on the assumption that there are no subordinated 2014 Transactions in existence with a Scheduled Termination Date in 2035 or later.

CATEGORY 4: senior and subordinated Updated 2003 Transactions for which (a) the Reference Obligation is any obligation on the Final List for Updated 2003 Transactions, (b) the Reference Obligation is the senior bond of NB with ISIN XS0772553037 or any other obligation which has already been redeemed, repaid and/or otherwise has expired and no longer exists, or (c) no Reference Obligation has been specified.

- These trades can be settled by reference to/delivery of senior NB bonds only. In relation to subordinated Updated 2003 Transactions, this is because so far as the DC is aware there is no subordinated NB debt in existence.
- The shortest dated maturity of any outstanding senior NB bonds that are available for inclusion on the Final List is 2035. This means that any Auction held will only apply to Seller-exercised trades. Buyer-exercised trades will settle on the basis of an Auction Final Price of 100%. This is based on the assumption that there are no Updated 2003 Transactions in existence with a Scheduled Termination Date in 2035 or later.

CATEGORY 5: senior and subordinated Updated 2003 Transactions for which the Reference Obligation is an obligation which has not been redeemed or repaid (and which is not included on the Final List for Updated 2003 Transactions)

- Based on the DC's understanding that NB does not have any existing subordinated debt, the DC assumes that any such outstanding Reference Obligation is an obligation of Banco Espírito Santo, S.A. (BES). Unlike the position under the subordinated 2014 Transactions, a BES obligation that is the Reference Obligation may potentially be used to settle an Updated 2003 Transaction even though it is not an obligation of NB.
- Accordingly, there will be a No Auction Announcement Date in respect of these trades and the Fallback Settlement Method will thereafter apply.
- Please note that the No Auction Announcement Date has not yet occurred, other than in respect of Updated 2003 Transactions referencing NB and specifying the bond with ISIN PTBEQKOM0019 (which is an obligation of BES) as the Reference Obligation.⁶ Therefore, other than in respect of the aforementioned trades, it is not yet possible to settle this category of Updated 2003 Transactions pursuant to the Fallback Settlement Method.

⁶ See [EMEA DC Statement of 13 November 2017](#)

2. AUCTION/SETTLEMENT EXPECTATIONS FOR 2014 TRANSACTIONS (SENIOR TRANSACTIONS ONLY)

CATEGORY 1: The auction/settlement expectations set out in the table below only apply in relation to 2014 Transactions referencing NB and for which the relevant Reference Obligation is the senior bond of NB with ISIN XS0772553037 (being the Standard Reference Obligation for NB for the Senior Level) (the Relevant Senior 2014 Transactions).

The table below should be read in conjunction with the Preliminary List dated 14 December 2017 entitled "Deemed Auction in respect of 2014 Transactions (senior transactions only)" and references below to a Bond number is a reference to the Potential Deliverable Obligation identified by such number in such Preliminary List.

Range of Scheduled Termination Dates	Deliverable Obligations	Auction/Settlement Expectations?
All Buyer-exercised <u>and</u> all Seller-exercised Relevant Senior 2014 Transactions irrespective of their Scheduled Termination Dates	Bond 1 only	<p>Asset Package Delivery applies to Bond 1 as it is the Reference Obligation under these triggered Relevant Senior 2014 Transactions.</p> <p>Further to the DC Statement of 18 October 2017, the DC is of the view that the Asset Package in relation to Bond 1 consists of (i) 82.00% of the nominal amount of Bond 1 plus any accrued interest (being the cash proceeds received by holders of Bond 1 pursuant to NB's tender offer/early redemption call right) plus (ii) the option right of beneficial holders to deposit such redemption proceeds (excluding any accrued interest) into the Fixed-Term Deposit Accounts offered by NB, the market value of which will in due course be determined once the DC has determined the appropriate methodology.</p> <p>As the Asset Package will ultimately comprise a cash amount, running an actual Auction in the normal course will not be necessary as the Auction Final Price will already be known, i.e. that cash amount expressed as a percentage of the nominal amount of Bond 1.</p> <p>Accordingly, the DC's current expectation is that once the value of the Fixed-Term Deposit Account option right has been determined, settlement of any such triggered Relevant Senior 2014 Transactions would be effected by reference to a deemed Auction in accordance with the form of Auction Settlement Terms which the DC will publish in due course and pursuant to which the above Auction Final Price would be deemed to have been determined. The form of the Auction Settlement Terms will also contain other terms relevant to the settlement of these triggered Relevant Senior 2014 Transactions (e.g. the Auction Settlement Date).</p>

IMPORTANT NOTES

- The Preliminary List for the Relevant Senior 2014 Transactions only includes Bond 1 as a Deliverable Obligation (being the Reference Obligation and therefore the only obligation to which Asset Package Delivery would apply for purposes of such trades). Although all of the bonds included on the Preliminary List for the Relevant Subordinated 2014 Transactions (see Section 3 below) would also constitute good Deliverable Obligations in respect of the Relevant Senior 2014 Transactions, these have not been included on the Preliminary List for the Relevant Senior 2014 Transactions on the basis that the DC understands the value of the Asset Package will in practice be significantly less than the price at which such other bonds currently trade in the market. If any market participant has reason to believe that other obligations should be included on the Final List of Deliverable Obligations for the Relevant Senior 2014 Transactions, they should submit any such obligations (with the required documentation) by sending an email with all information required by the DC Rules to the following email address: DeliverableObligations@isda.org.

CATEGORY 2: The auction/settlement expectations set out below only apply in relation to senior 2014 Transactions referencing NB and for which (A) the relevant Reference Obligation is an obligation other than the Standard Reference Obligation for NB for the Senior Level or (B) no Reference Obligation is specified.

1. Any senior 2014 Transactions referencing NB for which the Reference Obligation is not the Standard Reference Obligation for NB for the Senior Level but is either (a) a senior obligation of NB which has not yet been redeemed, or (b) a senior obligation of NB which was subject to a Restructuring Credit Event, will **not** be subject to the above deemed Auction. Instead any such trades will be subject to the Fallback Settlement Method (and, in the case of (b) above, may be settled based on delivery of any Asset Package relating to the relevant Reference Obligation) when, in due course, the DC resolves (and the DC Secretary announces) that no Transaction Auction Settlement Terms nor Parallel Auction Settlement Terms will be published in respect of such transactions (i.e. a No Auction Announcement Date occurs pursuant to Section 6.11(a) of the 2014 Definitions). For the avoidance of doubt, no such No Auction Announcement Date has yet occurred.
2. Any other senior 2014 Transactions referencing NB in this Category (**No Ref Ob Senior 2014 Transactions**) will also **not** be subject to the above deemed Auction. In the case of any such trade for which the Reference Obligation is not an obligation of NB, the specified Reference Obligation cannot be used to settle such trade because there is an express provision in the 2014 Definitions that if an obligation is not an obligation of the Reference Entity then it does not constitute a valid Reference Obligation other than for the purposes of determining the seniority level of the trade and testing "Not Subordinated" (and so, for the avoidance of doubt, it would not constitute a good Deliverable Obligation) unless this provision has been expressly overridden in the related Confirmation⁷. Instead, any No Ref Ob Senior 2014 Transactions will be treated in the same manner as the Relevant Subordinated 2014 Transactions described in Section 3 below because the Deliverable Obligations are the same for each such category of transaction.

⁷ The DC assumes that for any such senior 2014 Transactions referencing NB, this provision would not have been expressly overridden.

3. AUCTION/SETTLEMENT EXPECTATIONS FOR 2014 TRANSACTIONS (SUBORDINATED TRANSACTIONS ONLY)

CATEGORY 3: The auction/settlement expectations set out in the table below only apply in relation to subordinated 2014 Transactions referencing NB (the Relevant Subordinated 2014 Transactions).

The table below should be read in conjunction with the Preliminary List dated 14 December 2017 entitled "Auction(s) (deemed or actual) in respect of 2014 Transactions (subordinated transactions only)" and references below to a Bond number is a reference to the Potential Deliverable Obligation identified by such number in such Preliminary List.

Range of Scheduled Termination Dates	Deliverable Obligations	Auction/Settlement Expectations?
Relevant 2014 Subordinated Transactions which (a) have a Scheduled Termination Date between 4 October 2017 – 6 February 2035 (inclusive) and (b) are Buyer-exercised or Seller M(M)R Trades ⁸ ("2014 Subordinated Bucket 1")	None	<p>It will not be possible to hold an actual Auction for these triggered Relevant Subordinated 2014 Transactions as there are no corresponding Deliverable Obligations. Accordingly, in the normal course these triggered trades would be subject to the Fallback Settlement Method.⁹</p> <p>However, given there are no Deliverable Obligations it will also not be possible to settle these triggered trades through the Fallback Settlement Method. Accordingly, the DC is of the view that the simplest and most efficient course of action that would avoid operational difficulties would be to have a deemed Auction in respect of any such triggered Relevant Subordinated 2014 Transactions in accordance with the form of Auction Settlement Terms which the DC expects to publish in due course and pursuant to which the Auction Final Price will be deemed to be 100% (i.e. such that the Auction Settlement Amount is 0). This will produce an economic outcome that is identical to that which would occur if the Fallback Settlement Method were to apply. The form of the Auction Settlement Terms will also contain other terms relevant to the settlement of the triggered Relevant Subordinated 2014 Transactions (e.g. the deemed Auction Settlement Date).</p>
Relevant 2014 Subordinated Transactions which (a) have a Scheduled Termination Date on or after 7 February 2035 and earlier than 23 January 2043 and (b) are Buyer-exercised or Seller M(M)R Trades	Bond 1	<p>The DC expects there to be no trades falling into this bucket of trades and so will not hold an Auction for 2014 Subordinated Bucket 2.</p> <p>Therefore, if any of these trades do exist they will be subject to the Fallback Settlement Method unless an</p>

⁸ N.B. Seller M(M)R Trades are types of trade which provide that bucketing applies even if Seller triggers the relevant CDS. Such term shall be more precisely defined in the relevant Auction Settlement Terms.

⁹ We assume Sellers would not exercise the Movement Option such that any triggered trades falling into this 2014 Subordinated Bucket 1 would settle through the Auction (if any) for the Seller Bucket (i.e. 2014 Subordinated Bucket 4).

Range of Scheduled Termination Dates	Deliverable Obligations	Auction/Settlement Expectations?
("2014 Subordinated Bucket 2")		Auction is held for the Seller Bucket (i.e. 2014 Subordinated Bucket 4) and Seller validly exercises the Movement Option (in which case, any such trade will settle through the Auction for the Seller Bucket).
Relevant 2014 Subordinated Transactions which (a) have a Scheduled Termination Date on or after 23 January 2043 and earlier than 16 April 2046 and (b) are Buyer-exercised or Seller M(M)R Trades ("2014 Subordinated Bucket 3")	Bonds 1 and 2	The DC expects there to be no trades falling into this bucket of trades and so will not hold an Auction for 2014 Subordinated Bucket 3. Therefore, if any of these trades do exist they will be subject to the Fallback Settlement Method unless an Auction is held for the Seller Bucket (i.e. 2014 Subordinated Bucket 4) and Seller validly exercises the Movement Option (in which case, any such trade will settle through the Auction for the Seller Bucket).
Relevant 2014 Subordinated Transactions which (a) have a Scheduled Termination Date that is on or after 16 April 2046 and (b) are Buyer-exercised or Seller M(M)R Trades <u>PLUS</u> All Seller-exercised Relevant 2014 Subordinated Transactions (except for Seller M(M)R Trades) ("2014 Subordinated Bucket 4")	Bonds 1, 2 and 3	Yes, subject to DC determination. If the DC determines not to hold an Auction for this 2014 Subordinated Bucket 4, these trades will be subject to the Fallback Settlement Method.

IMPORTANT NOTES

- The DC understands that NB does not have any existing subordinated debt obligations. As such, the obligation specified as the Reference Obligation in respect of any such Relevant Subordinated 2014 Transactions referencing NB must be either (a) a subordinated obligation which has already been redeemed, repaid and/or otherwise has expired and no longer exists or (b) an existing subordinated obligation of an entity other than NB (and, for present purposes, the DC assumes this would be a subordinated obligation of BES). In either case, the specified Reference Obligation cannot be used to settle the Relevant Subordinated 2014 Transactions because (i) in the case of (a), the obligation does not as a matter of fact exist or (ii) in the case of (b), there is an express provision in the 2014 Definitions that if an obligation is not an obligation of the Reference Entity then it does not constitute a valid Reference Obligation other than for the purposes of determining the seniority level of the trade and testing "Not Subordinated" (and so, for the avoidance of doubt, it would not constitute a good Deliverable Obligation) unless this provision has been expressly overridden in the related Confirmation¹⁰. Accordingly, all Relevant Subordinated 2014 Transactions can only be settled by reference to/delivery of senior NB bonds only.

¹⁰ The DC assumes that for market standard Relevant Subordinated 2014 Transactions referencing NB, this provision would not have been expressly overridden.

2. As noted above in Section 2, any No Ref Ob Senior 2014 Transaction will be treated in the same manner as the Relevant Subordinated 2014 Transactions described in this Section 3 because the Deliverable Obligations are the same for each such category of transaction. Therefore, references to Relevant Subordinated 2014 Transactions in this Section 3 shall be deemed to include all No Ref Ob Senior 2014 Transactions.

4. AUCTION/SETTLEMENT EXPECTATIONS FOR UPDATED 2003 TRANSACTIONS (SENIOR AND SUBORDINATED TRANSACTIONS)

CATEGORY 4: The auction/settlement expectations set out in the table below only apply in relation to:

- (a) Updated 2003 Transactions referencing NB and for which (i) the relevant Reference Obligation is (A) any of the bonds on the Preliminary List dated 14 December 2017 entitled "Auction(s) (deemed or actual) in respect of Updated 2003 Transactions (senior and subordinated transactions)" or (B) the senior bond of NB with ISIN XS0772553037 or any other senior obligation which has already been redeemed, repaid and/or otherwise has expired and no longer exists, or (ii) no Reference Obligation has been specified (the Relevant Senior 2003 Transactions); and
- (b) Updated 2003 Transactions referencing NB and for which the relevant Reference Obligation is (a) the bond with ISIN XS0129239454 (which was a subordinated bond of BES that was redeemed on its final maturity date in 2011 or (b) any other proxy subordinated obligation (of BES or otherwise) which has already been redeemed, repaid and/or otherwise has expired and no longer exists (the Relevant Subordinated 2003 Transactions, and together with the Relevant Senior 2003 Transactions, the Relevant 2003 Transactions).

The table below should be read in conjunction with the Preliminary List dated 14 December 2017 entitled "Auction(s) (deemed or actual) in respect of Updated 2003 Transactions (senior and subordinated transactions)" and references below to a Bond number is a reference to the Potential Deliverable Obligation identified by such number in such Preliminary List.

Range of Scheduled Termination Dates	Deliverable Obligations	Auction/Settlement Expectations?
Relevant 2003 Transactions which (a) have a Scheduled Termination Date between 4 October 2017 – 6 February 2035 (inclusive) and (b) are Buyer-exercised or Seller M(M)R Trade ¹¹ ("2003 Bucket 1")	None	<p>It will not be possible to hold an actual Auction for these triggered Relevant 2003 Transactions as there are no corresponding Deliverable Obligations. Accordingly, in the normal course these triggered trades would be subject to the Fallback Settlement Method.¹²</p> <p>However, given there are no Deliverable Obligations it will also not be possible to settle these triggered trades through the Fallback Settlement Method. Accordingly the DC is of the view that the simplest and most efficient course of action that would avoid operational difficulties would be to have a deemed Auction in respect of any such triggered Relevant 2003 Transactions in accordance with the form of Auction Settlement Terms which the DC expects to publish in due course and pursuant to which the Auction Final Price will be deemed to be 100% (i.e. such that the Auction Settlement Amount is 0). This will produce an economic outcome that is identical to that which would occur if the Fallback Settlement Method</p>

¹¹ N.B. Seller M(M)R Trades are types of trade which provide that bucketing applies even if Seller triggers the relevant CDS. Such term shall be more precisely defined in the relevant Auction Settlement Terms.

¹² We assume Sellers would not exercise the Movement Option such that any triggered trades falling into this 2003 Bucket 1 would settle through the Auction (if any) for the Seller Bucket (i.e. 2003 Bucket 4).

Range of Scheduled Termination Dates	Deliverable Obligations	Auction/Settlement Expectations?
		were to apply. The form of the Auction Settlement Terms will also contain other terms relevant to the settlement of the triggered Relevant 2003 Transactions (e.g. the deemed Auction Settlement Date).
Relevant 2003 Transactions which (a) have a Scheduled Termination Date on or after 7 February 2035 and earlier than 23 January 2043 and (b) are Buyer-exercised or Seller M(M)R Trade (" 2003 Bucket 2 ")	Bond 1	The DC expects there to be no trades falling into this bucket of trades and so will not hold an Auction for 2003 Bucket 2. Therefore, if any of these trades do exist they will be subject to the Fallback Settlement Method unless an Auction is held for the Seller Bucket (i.e. 2003 Bucket 4) and Seller validly exercises the Movement Option (in which case, any such trade will settle through the Auction for the Seller Bucket).
Relevant 2003 Transactions which (a) have a Scheduled Termination Date on or after 23 January 2043 and earlier than 16 April 2046 and (b) are Buyer-exercised or Seller M(M)R Trade (" 2003 Bucket 3 ")	Bonds 1 and 2	The DC expects there to be no trades falling into this bucket of trades and so will not hold an Auction for 2003 Bucket 3. Therefore, if any of these trades do exist they will be subject to the Fallback Settlement Method unless an Auction is held for the Seller Bucket (i.e. 2003 Bucket 4) and Seller validly exercises the Movement Option (in which case, any such trade will settle through the Auction for the Seller Bucket).
Relevant 2003 Transactions which (a) have a Scheduled Termination Date that is on or after 16 April 2046 and (b) are Buyer-exercised or Seller M(M)R Trades <u>PLUS</u> All Seller-exercised Relevant 2003 Transactions (except for Seller M(M)R Trades) (" 2003 Bucket 4 ")	Bonds 1, 2 and 3	Yes, subject to DC determination. If the DC determines not to hold an Auction for this 2003 Bucket 4, these trades will be subject to the Fallback Settlement Method.

IMPORTANT NOTES

- The Relevant Subordinated 2003 Transactions have been combined with the Relevant Senior 2003 Transactions on the basis that so far as the DC is aware there is no subordinated NB debt in existence. Accordingly, both the Relevant Subordinated 2003 Transactions and the Relevant Senior 2003 Transactions can be settled by reference to/delivery of senior NB bonds only.

CATEGORY 5: The auction/settlement expectations set out below only apply in relation to senior and subordinated Updated 2003 Transactions for which the Reference Obligation is an obligation which has not been redeemed or repaid (and which is not included on the Final List for Updated 2003 Transactions)

1. Based on the DC's understanding that NB does not have any existing subordinated debt obligations, if any Updated 2003 Transaction referencing NB specifies as the Reference Obligation an obligation that has not been redeemed (and which is not included on the Final List in respect of Updated 2003 Transactions (which currently would only consist of senior NB bonds)), the DC assumes such outstanding obligation is an obligation of BES. Unlike the position under certain No Ref Ob Senior 2014 Transactions (see note 2, Category 2 in Section 2 above) and Relevant Subordinated 2014 Transactions (see Important Note 1 in Section 3 above), a BES obligation that is the Reference Obligation may potentially be used to settle an Updated 2003 Transaction even though it is not an obligation of NB. Accordingly, any such Updated 2003 Transaction (i.e. all Updated 2003 Transactions other than Relevant 2003 Transactions) will **not** be subject to the above auction/settlement outcomes. Instead any such trades will be subject to the Fallback Settlement Method when, in due course, the DC resolves (and the DC Secretary announces) that no Transaction Auction Settlement Terms nor Parallel Auction Settlement Terms will be published in respect of such transactions (i.e. a No Auction Announcement Date occurs pursuant to Section 12.12(a) of the Updated 2003 Definitions).
2. Please note that no such No Auction Announcement Date has yet occurred, other than in respect of Updated 2003 Transactions referencing NB and specifying the BES bond with ISIN PTBEQKOM0019 as the Reference Obligation.¹³

¹³ Further to the [DC Decision](#) and [DC Statement](#) of 13 November 2017, a No Auction Announcement Date has already occurred in respect of Updated 2003 Transactions referencing NB and specifying the bond with ISIN PTBEQKOM0019 as the Reference Obligation.