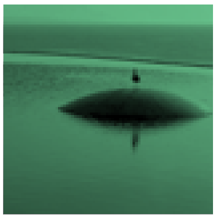
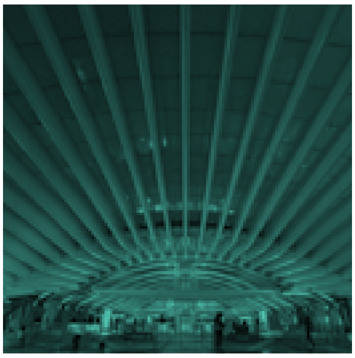
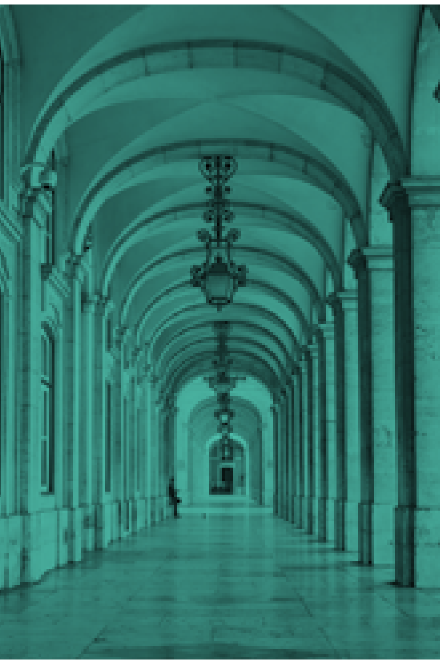
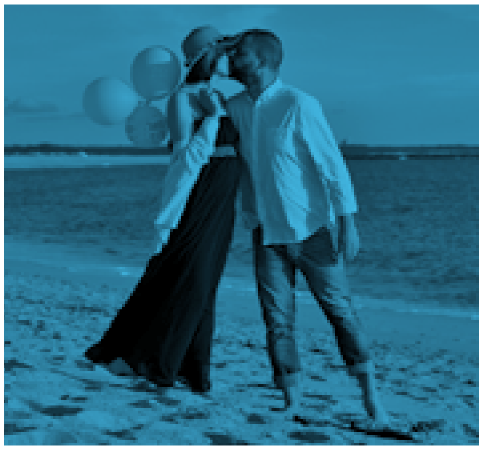
Annual Report 2020





NOVO BANCO

Abbreviations and Acronyms

NB	NOVO BANCO
GNB	NOVO BANCO Group
ECB	European Central Bank
DG Comp	Directorate-General | Competition
CCA	Contingent Capital Agreement
YTD	Year-to-date - change since the start of the year
YoY	Year-on-Year - change on a year earlier
NII	Net Interest Income
LCR	Liquidity Coverage Ratio
€, EUR	euro
€mn	million euro
€bn	billion euro
bps	basis points
pp	percentage points

Additional Notes to this Report

NOVO BANCO discloses its results, since 2018, presenting separately the financial results of “NOVO BANCO Recurrent”, and those of “NOVO BANCO Legacy”. Therefore, all the references in this report must take in consideration this segmentation.

In 3rd quarter 2020, NOVO BANCO classified the Spanish Branch as discontinued operations, in line with the strategy to discontinue the Spanish business. Thus, for comparison purposes, 2019 is presented pro-forma.

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

NOVO BANCO, S.A.
Head Office: Av. da Liberdade, n. 195, 1250-142 Lisbon
Commercial and Tax identification number: 513 204 016
Share Capital: €5 900 000 000.00

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Message from the Chairman of the General and Supervisory Board

BYRON HAYNES

Chairman of the General and Supervisory Board

Dear Stakeholders,

Year 2020 will forever be shaped by the Covid-19 global health pandemic that has changed and impacted all our lives.

NOVO BANCO's focus, despite the unprecedented challenges of COVID-19, has been to remain fully open, servicing and supporting our clients and society at large, while at the same time protecting the health and welfare of our employees. NOVO BANCO's rapid response in strengthening its remote servicing capabilities, supporting clients use of digital and remote channels, maintaining key payment, on-line and ATM network systems and ensuring operational and IT stability and security has ensured that NOVO BANCO's clients could access the Bank's products and services to meet all their daily banking needs. At the same time the Bank has taken care that its employees' health and welfare have been protected and supported throughout this Covid-19 pandemic through such measures as the launch of the Pandemic Plan on People Safety, home office working, access to occupational doctors and regular interaction and dialogue with the health authorities.

Year 2020 has not only been about managing the impact of Covid-19 but also it has been a pivotal year for NOVO BANCO in securing its long-term viability. The Bank has largely met one of the key targets for the year, the completion of the de-risking of the balance sheet through the clean-up of the past legacy issues, including disposal of non-core assets. This de-risking process of the past legacy issues was first launched immediately following the acquisition of 75% of NOVO BANCO by Nani Holdings SGPS S.A. in October 2017, and has been executed throughout this period to year-end 2020 in accordance with the agreed

Restructuring Plans and commitments by the Republic of Portugal to the European Commission, State Aid Director General for Competition ("DGComp").

The Legacy Bank further reduced its balance sheet by €1.4bn during the year through non-core asset disposals and real estate asset sales as well as through the normal year-end impairment and revaluation processes. Given the ongoing public debate around the sale of non-performing loans ("NPLs") and real estate assets by NOVO BANCO and related limitations imposed on the Bank, the deleveraging of such non-productive assets as required by the European Central Bank ("ECB") and under the Restructuring Plans agreed with DGComp have been focused on assets not covered by the Contingent Capital Agreement ("CCA"). In this context, NOVO BANCO has been able to sell c.€626mn of gross NPLs and real estate assets during 2020. NOVO BANCO was able to take advantage of the continued investor appetite for these types of assets in Portugal with the sale of the assets having been executed at levels, which have been capital accretive to the Bank. NOVO BANCO has been able to further reduce the NPL ratio from 11.8% in 2019 to 8.9% in 2020, targeting a further reduction during 2021.

The Recurrent Bank has been impacted by Covid-19 during 2020 realising a loss of €130mn, mainly due to an increase in cost of risk of 46bps compared to 2019. Despite the challenges of managing Covid-19, NOVO BANCO has continued to invest, transform and develop its commercial businesses, including the roll-out of the New Retail Distribution Model from the fourth quarter of 2020 onwards.

During 2020 the Bank has maintained liquidity. The CCA provided the capital support in the clean-up of the past legacy issues. A loan to deposit ratio of 90% and a liquidity coverage ratio of 144% reflects the healthy liquidity position of the Bank at year-end 2020.

Throughout the year 2020, the General and Supervisory Board ("GSB") and the respective GSB committees supervised and supported the Executive Board of Directors ("EBD") in the execution of NOVO BANCO's response to the Covid-19 pandemic as well as the monitoring of the execution of the Bank's strategic goals and financial targets as set out and agreed in the medium-term plan.

At the end of year 2020, Vitor Fernandes, José Bettencourt and Jorge Cardoso left NOVO BANCO following the completion of their respective EBD mandates. On behalf of the GSB, I would like to thank them for their significant individual contributions since 2014 and wish them every success in their future endeavors.

I would also like to take this opportunity, on behalf of the GSB, in welcoming Andres Baltar, a vastly experienced Corporate Banker particularly in the Portuguese and Spanish markets, who joined NOVO BANCO as a member of the EBD at the end of year 2020. The EBD is now comprised of six people, under the leadership of António Ramalho, which reflects NOVO BANCO's recently simplified business and operating models, who are focused on continuing to build and invest in the Bank's commercial franchises and in managing the risk and impact of Covid-19 going forward.

For year 2021, realistic strategic goals and financial targets for NOVO BANCO have been set and agreed, in line with the current market and economic conditions and projections. It is expected that NOVO BANCO will deliver profits in 2021, the first time in NOVO BANCO's history, a very important milestone for all its stakeholders, demonstrating continued future viability.

On behalf of the GSB, I would like to thank our customers and our other stakeholders for their continued trust and loyalty to NOVO BANCO during this challenging year of 2020. Finally, the GSB and myself would like to thank the EBD and the employees of NOVO BANCO for all their hard work, dedication and commitment in managing the impact of Covid-19 and ensuring that NOVO BANCO continued to service its customers and society in general throughout, as well as achieving the key milestones and targets for year 2020.

Message from the Chief Executive Officer

ANTÓNIO RAMALHO

Chief Executive Officer

Dear Stakeholders,

The year 2020 would always have been a crucial year in the life of NOVO BANCO.

This was the year defined in the Bank's capitalisation agreements as the year of conclusion of the restructuring process and legacy winddown. And it should not be forgotten that NOVO BANCO was born with an undeniably heavy legacy.

This was achieved through the fulfilment of all the commitments assumed with the European Union, which implied a 79% reduction of the legacy assets, a 19 percentage points reduction in the NPL ratio, the conclusion of the sale of 15 international structures, and determining an adequate volume of impairments in loans not protected by the contingent capital agreement.

This long process was subject to high scrutiny, both by regulators and other authorities, and by the public opinion, making this year a particularly challenging one in terms of stakeholder management.

But even more so, 2020 was a crucial year in the face of the sudden emergence of the pandemic.

In this unknown environment, NOVO BANCO demonstrated its experience, professionalism, agility, resilience and dedication by responding quickly to the new needs of its clients. We had a decisive role in terms of lending under protocoled lines (more than one billion euros in 6 months), we ensured moratoria to our clients without penalising their future (6.9 billion euros), and we processed the social grants provided under the simplified lay off scheme.

At the same time, we ensured protection to our employees and our clients, promoting various initiatives to support society.

The pandemic did not just have consequences for our health and daily lives: it also impacted, albeit unevenly, the vitality of Portugal's business fabric. All the while, the Bank kept its doors open, created COVID-related impairments in the amount of 268.8 million euros covering 7.7% of stage 2 loans and 56.5% of stage 3 loans, and thus ensured that the conditions were in place to maintain its mission of standing by the Portuguese companies, “the Portugal that does”, helping them to reinvent themselves and to turn great difficulties into opportunities. Without ever neglecting its role of supporting families.

In these circumstances, the trust that our clients keep placing in their relationship with us should be highlighted. This is reflected in the annual growth of credit (+2.2%), with corporate loans rising by 5.1%, as well as in customer funds (+0.5% growth in the deposit base).

It was this relationship that enabled the recurring activity to post a core operating income of 369 million euros (+4%), underpinned by the growth of Commercial Banking Income. Even so, despite the significant increase in net interest income (+11%) and the reduction in costs (-1%), the net result of the recurrent activity was significantly affected by the creation of provisions, foreshadowing potential adverse impacts of the pandemic.

But in 2020 we also laid the foundations for a future for NOVO BANCO in its determination to serve its clients.

We launched a "New Distribution Model", which is one of the strategic pillars of the bank's transformation, and which comprises a set of cross-cutting initiatives bearing on the manner in which the Bank interacts with the client, transforming the branches into a meeting place and a place of relationship-building with the client and the community, and promoting increased process automation and digitisation as well as the constant improvement and expansion of the digital channels’ functionalities.

The approach to digital deserved particular attention, with new solutions launched for individuals and companies recognised by the market and our clients alike, alongside information and training for employees and clients, aligned with best security standards and.

Also in 2020, the sustainability principles underlying NOVO BANCO's activity gained increased importance, with a special focus on the social dimension, health, safety and the mitigation of less favourable economic scenarios. On the environmental front, and within the scope of the “Letter of Commitment for Sustainable Finance in Portugal”, signed in 2019, the Bank reinforced its offer of products with environmental concerns. We also successfully concluded the first edition of the Social Dividend model, a commitment to give back to society that NOVO BANCO assumed before the community and its employees, consisting of four programmes - Equal Gender, Work & Life, the Environment, and Social Responsibility - whose targets, set in 2017, at the time of its creation, were exceeded. In 2021, this model will have a new edition, which will continue to address issues such as gender equality and the reconciliation of professional, personal and family life, and minimising the environmental impact from the Bank's activity.

The Bank's sustainability model, together with the social and environmental measures implemented, are an integral part of NOVO BANCO's strategy and business, contributing to reinforce the trust that the different stakeholders place in the Bank. It is with this vision that we will continue to be part of and foster a sustainable society.

The objectives set for 2021 also involved an adjustment in the executive team that I have the honour of leading. And in this respect, I would like to draw attention to the work done by Mr. Vitor Fernandes, Mr. Jose Bettencourt, and Mr. Jorge Cardoso, and to their dedication to this project and the results obtained, and also take the opportunity to thank Mr. Andres Baltar for his smooth integration into an executive team strongly committed to the Bank's success. The reduction of the Executive Committee to 6 members further contributed to the simplification of processes.

I would like to thank each and every one of our employees for their commitment and dedication in this unprecedented year.

A word to the regulators, which in the case of Novo Banco also involve EU regulators, and an emphasis on the exacting professionalism that has enabled us to achieve many objectives which some thought impossible.

Finally, I would like to thank our clients for their loyalty and their preference, making us their partners in good times and in adversity.

To the other stakeholders and society in general, I would like to assure them that they can continue to count on NOVO BANCO's experience and professionalism in supporting the economy.

Novo Banco is today turning a page that will allow it to focus on creating value for its clients and shareholders, and in doing so contribute to the development of the Portuguese economy.

We have been and will always be open!

Management Report
2020

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Who We Are 1.0

Title: Quemd espera sempre alcança
Author: Marta Vieira Pereira

1.1 Novo Banco Group

NOVO BANCO, S.A. ("NOVO BANCO" or "Bank") together with the subsidiaries and equity holdings that make up the NOVO BANCO Group ("Group" or "GNB") is mainly active in the Portuguese banking sector, but also in asset management, and also has equity stakes in companies operating in venture capital, real estate, renting and corporate services.

NOVO BANCO was born in 2014 upon the resolution of Banco Espírito Santo S.A. From the outset, NOVO BANCO has shown its resilience, overcoming the huge challenges resulting from its status as a transitional bank and from the new commitments imposed by the European Commission for the sale, in October 2017, of 75% of the Resolution Fund's holdings to Lone Star, through Nani Holdings S.G.P.S., S.A..

Chronology

2014

AUGUST
Incorporation of Novo Banco upon the Resolution applied to Banco Espírito Santo by the Bank of Portugal.

2015

DECEMBER
Restructuring Plan agreed with DG COMP EC) involving the separation between core and non-core assets.

TRANSITION

2016

2017

MARCH
Announcement of sale of 75% of Novo Banco's share capital to Lone Star

OCTOBER
Completion of sale process of 75% of Novo Banco's share capital to Nani Holdings (Lone Star Group) with subsequent injection of €750mn (Oct) and €250mn (Dec) by the bank's main shareholder.

2018

JUNE
Issuance of €400mn Tier 2 Subordinated Debt combined with a securities exchange offer.

2019

2020

Closure of 33% of the Branch Network. Divestment process included BESV, BICV, New York, London and Venezuela Branches along with non-strategic assets, such as GNB Vida, GNB Seguros and Novo Activos Financieros España and non-productive assets, such as the portfolios Nata I and II, Viriato, Sertorius and Carter

RESTRUCTURING

POST-2020
With a proven track record of reducing costs and increasing commercial efficiency, NOVO BANCO prepares to embark on a new phase where it asserts itself as a leading commercial bank in SMEs, with a strong presence in the Corporate segment and a relationship of proximity with the client.

REBIRTH

In 2020 the Group continued to deploy the strategy defined for 2019-2021, focusing its actions on:

i. optimising its core activity, by striving for improved and increasingly efficient processes, and for the deleveraging of its Legacy assets;

ii. consolidating its digital transformation by incorporating the most advanced technological developments and pre-empting the new client interaction trends; and

iii. continuing to build up factors of differentiation, notably products and services specifically designed for Business and Small companies.

A team of professionals committed...

PEOPLE

4 582
GNB employees

€288.5k
investment in training and development

45
training hours per employee[1]

...to supporting families, and driving Portuguese companies to innovate, reinvent, export...

BUSINESS

1.4
million clients

96.3%
satisfied and very satisfied clients – Retail

98.1%
satisfied and very satisfied clients – Medium Enterprises

359
branches

...and to turning great difficulties into great opportunities...

FINANCIAL RESOURCES

€25.2bn
Loans granted

€26.1bn
Deposits

31%
Reduction in Legacy activity assets (vs 2019)

... using an omnichanel approach based on agile methodology...

TECHNOLOGY & EXPERIENCE

14
multidisciplinary agile teams working on digital transformation

600
thousand active clients in the digital channels

41%
of total sales are digital (vs 25% in 2019)

... to give back to community the support it has received.

SOCIETY

8
initiatives/solutions addressing social issues

24
paintings loaned in 2020, increasing to 75 the works on permanent exhibition in 33 Museums around the country

4 562
people helped through community programmes in 2020

1. NOVO BANCO

1.1.1 Business Model

NOVO BANCO focuses its business model on three main segments – domestic commercial banking - retail, domestic commercial banking - corporate, and asset management. NOVO BANCO seeks to anticipate and respond to the needs of its clients through its offer of innovative, effective and transparent banking products and services, based on high ethical and integrity standards and customer satisfaction assessment tools.

BRANDS:

NOVO BANCO

NOVO BANCO is a universal bank that provides the full spectrum of financial products to individual, corporate and institutional clients, serving the entire national territory, with a strong focus on servicing and supporting the Portuguese business community.

The Bank's differentiation element is its strong relational DNA, which underpins the high quality of the service provided to more than 1.3 million clients and is implemented through a service model sectioned to serve five different client segments:

Retail Banking

- Individual Clients, served by a straightforward and comprehensive digital platform and a national network of 339 branches
- NB360º Individual Clients, served by a dedicated account manager through the digital channels, remotely or at NOVO BANCO's branches.
- usinesses served by a dedicated account manager specialised in supporting small business clients through the national branch network or the digital channels.

Corporate Banking

- Medium-sized Companies served by a corporate account manager at one of the 20 corporate centres across the country.
- Large Companies, served by a corporate account manager at 2 Corporate Centres, in Lisbon and Porto.

NOVO BANCO DOS AÇORES

NBA is the result of a strategic alliance between NOVO BANCO (57.5%) and Santa Casa da Misericórdia de Ponta Delgada (30%), which was joined by the Bensaude Group (10%) and thirteen other Santa Casa da Misericórdia institutions from all the Azores islands (2.5%).

The mission of NBA is to serve its clients (individual, corporate and institutional) and the Azorean regional economy by deepening the links with the Azorean emigrant communities, particularly in the United States, Canada, Bermuda and Brazil. Its strategy leverages on unique competitive advantages such as economic and financial strength, a culture of service to the benefit of the population of the Azores, wide experience of the local markets and a strong tradition of close relationships with the Clients.

As at December 2020, NBA had total assets of €584.4mn, representing a YoY increase of 4.6%.

Detailed information on the activity of NBA available here: www.novobancodosacores.pt

Best - Banco Electrónico de Serviço Total, S.A.

Banco Best offers the full range of products and services of an open architecture universal bank with a strong technology content. The services available at Banco BEST (saving, investment, credit and day-to-day financial management solutions) are designed to let clients take full advantage of the new information technologies through the internet, namely greater speed and efficiency in the treatment of processes and transactions and access to innovative services that facilitate and streamline the clients' relationship with the Bank.

BEST's business strategy is geared towards serving the investment needs of a segment of individual clients who share the need for more diversified and sophisticated financial services. Through its B2B activity, BEST also makes its customised platform available to national and international institutional investors, allowing these entities a comprehensive, agile and effective management of their financial assets.

As at December 2020, BEST had €2.2bn in assets under management, corresponding to a YoY increase of 6.1%.

Detailed information on the activity of BEST available here: www.bancobest.pt

GNB Gestão Ativos

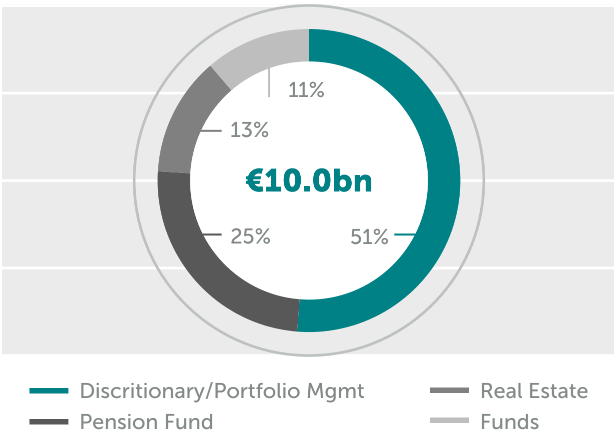
GNB GA develops its asset management business through a product range that covers all types of funds - mutual funds, real estate funds and pension funds - besides providing discretionary and portfolio management services.

In December 2020, the entire share capital of NOVO ACTIVOS FINANCIEROS ESPAÑA, S.A. was sold, as part of the strategy of focusing on the domestic banking business and consequent divestment of non-strategic assets.

As at December 2020, GNB GA had €10.0bn assets under management in Portugal and the Luxembourg.

Detailed information on the activity of GNBGA available here: www.gnbga.pt

GNB GA - AuM



NOVO BANCO...

Partner Bank	a reliable partner and a reference in high quality service
Professional Bank	with an approach that is both highly professional and builds a relationship of trust with all clients
Proximity Bank	with a differentiating, unique and integrated experience of omnichannel relationships.

As at December 2020, NOVO BANCO had a global market share of 11% and total assets of €44.4bn.

- €26.1bn in Customer Deposits, of which 72% from Retail Clients
- €25.2bn in Customer Loans, of which 55% to Corporate Clients

The strategy of permanently enhancing the quality of customer service and of the services provided also entails a large investment in digitisation. In 2020, 41% of sales to retail clients were digital.

1.1.2 Awards

NOVO BANCO elected Best Trade Finance Bank in Portugal

In 2020 NOVO BANCO was once again elected the Best Trade Finance Bank in Portugal, by the Global Finance international magazine.

JAN

GNB Gestão de Ativos's NB Euro Bond won the 2020 Morningstar Portugal Fund Award

The NB Euro Bond Fund, managed by GNB Gestão de Ativos, was the winner in the Best Foreign Fund in Euro Bonds category of the Morningstar Fund Awards 2020.

APR

NOVO BANCO once again elected by Global Finance

In 2020 NOVO BANCO was once again elected the Bank in the provision of Securities Custody Services in Portugal by the Global Finance international magazine.

JUL

NOVO BANCO earns award for "Best Integrated Corporate Banking Site in Western Europe"

NB earned recognition for the quality of its digital solutions for the corporate market, which include Nbnetwork, its Internet Banking service for businesses, with a broad-based functional coverage permitting to carry out a vast range of transactions autonomously and in a simple, intuitive and effective manner.

AUG

NOVO BANCO shortlisted for Finovate Awards 2020

O NOVO BANCO has been shortlisted for the Finovate Awards 2020, with two initiatives: Home Buying and Small Business Finance. Finovate, the promoter of these awards, is the most prestigious firm showcasing technology oriented to the financial sector worldwide.

SEP

NBnetwork innovative solution wins Portugal Digital Awards 2020' prize for "Best Banking Project"

The innovative NBnetwork+ solution, launched by NB for clients in the Small Businesses and Corporate segments, won the "Best Banking Project" award at the 2020 edition of the Portugal Digital Awards.

NOVO BANCO awarded two honourable mentions in the Banking Tech Awards 2020 edition

NOVO BANCO awarded two honourable mentions in the 2020 edition of the Banking Tech Awards. From NOVO BANCO's three shortlisted initiatives, two earned awards: Small Business Finance (in the Best Digital Initiative category) and Onboarding Digital (in the Best Use of IT in Retail Banking category). The prestigious Banking Tech Awards, which are already in their 21st edition, reward the use of information technology in the financial sector worldwide.

DEC

1.1.3 Main Events in 2020

JAN

FEB

NOVO BANCO applies artificial intelligence to the real estate sector

NOVO BANCO closed a partnership with a Portuguese start-up Alfredo AI, aiming to bring the latest artificial intelligence innovations to the real estate sector.

SISAB 2020 - Best Trade Finance Bank in Portugal supports agrifood exports

NOVO BANCO was present in the International Trade Fair for Portuguese Food and Beverages (SISAB), the largest and most important annual fair for the Portuguese agrifood business.

NOVO BANCO Group Activity and Results - 2019

On 28 February, NOVO BANCO GROUP disclosed its 2019 results, a consolidated loss of €1,066.5mn. In the recurrent activity, GNB posted a €177.6mn profit for the year.

MAR

NOVO BANCO launches package of products and services designed to address the COVID-19 context

NB creates "green tollway" financing to support business sectors in the context of COVID-19

NOVO BANCO makes available to its clients and to the Portuguese business community a set of cash management support and financing solutions, a true "green tollway" designed to help companies deal with the economic effects from Covid-19

APR

NOVO BANCO decides to pay all suppliers immediately upon receipt of invoice

Given the context of crisis caused by COVID-19, NOVO BANCO decided that all its suppliers would start being paid immediately upon receipt, checking and posting of invoices by the bank's Purchasing Structures.

NOVO BANCO creates pre-payment line for companies using the Simplified Lay-off Line to pay salaries

NOVO BANCO launches solutions to assist landlords overcome liquidity problems

MAY

NOVO BANCO, S.A. informs about changes in the Board of the General Meeting

NOVO BANCO informs on a change in the composition of the Board of the General Meeting following the resignation of Pedro Moreira de Almeida Queiroz de Barros as the General Meeting's Secretary and the election of Mário Nuno de Almeida Martins to this position.

JUN

NOVO BANCO GROUP ACTIVITY AND RESULTS - 1st quarter 2020

On 5 June, NOVO BANCO GROUP disclosed a consolidated net loss of €179.0mn, a result significantly penalised by the impact of the Covid-19 pandemic in the period, with an increase in the cost of risk and markdowns in the bank's investment portfolio.

JUL

NOVO BANCO Group Activity and Results - 1st half 2020

On 31 July, NOVO BANCO disclosed a consolidated loss of €556.8mn for the 1st half of the year, with activity being constrained not only by the restructuring of the bank's balance sheet but also by the impacts of the Covid-19 pandemic. Even so, the Bank's results from the recurrent activity in the first six months of the year were a net profit of €34mn.

AGO

NOVO BANCO launches new campaign praising the country's production capacity

"This is the Portugal that does. And this is the Bank that helps it do it" - new campaign that reinforces NB's position at the side of Portuguese companies to help them innovate, reinvent and export. The campaign included conferences in various regions of the country, bringing together companies and associations to discuss and share experiences and knowledge.

NOVO BANCO, S.A. Informs on conclusion of sale agreement on the sale of its equity holding in GNB – Companhia de Seguros, S.A.

NOVO BANCO, together with its subsidiaries BEST and GNB-GA, entered an agreement to sell their 25% shareholding in GNB – Companhia de Seguros, S.A., ("GNB Seguros"), a non-life insurance company, for a total consideration of €15.9mn, to Crédit Agricole Assurances, S.A., a company of Crédit Agricole Group, which already held the remaining 75% of the share capital of GNB Seguros.

SEP

Press Release on conclusion of Deloitte audit

OCT

NOVO BANCO launches NB smarter

The first app of a new generation of smarter, more personalised applications that revolutionises the way clients interact with the bank in their everyday life.

NOVO BANCO GROUP ACTIVITY AND RESULTS - 3rd quarter 2020

NOVO BANCO's recurrent activity continued to exhibit a positive trend, the bank posting a net profit of €98.2mn. At consolidated level, the process of restructuring and sale of legacy assets continued, with the NPL ratio dropping to 9.7% and for the first time reaching a single digit figure. The legacy activity was reduced by 24.1% (-€1 078mn) since the start of the year, to €4 482mn.

NOVO BANCO, S.A. informs on appointment of corporate bodies

On 22 October, the General Meeting of NOVO BANCO appointed the members of the GSB for the 2021-2024 mandate, subject to the authorisation of the competent regulatory authorities. The Meeting also approved the composition of the Board of the General Shareholders Meeting, and the appointment of the Statutory Auditor for the 2021-2024 mandate.

NOVO BANCO, S.A. informs about change in composition and appointment of members of the Executive Board of Directors for the new mandate

On 22 October, the members of the Executive Board of Directors Jorge Freire Cardoso, José Eduardo Bettencourt and Vítor Fernandes handed in their resignation from their positions, with effect from 30 November 2020, and, to replace Vítor Fernandes, Andrés Baltar Garcia was appointed by the General and Supervisory Board as a member of the Executive Board of Directors for the current mandate, subject to the authorisation of the relevant regulatory authorities. The bank also informed that the General and Supervisory Board had appointed the members of the Executive for the 2021-2024 period, and subject to the authorisation of the relevant regulatory authorities.

NOV

NOVO BANCO, S.A. – Announcement

On 27 November, NOVO BANCO noted the approval of the legislative proposal no. 61/XIV/2 concerning the Portuguese State Budget for 2021, which aims to withdraw the authorisation for the Resolution Fund to transfer additional funds to NOVO BANCO under the Contingent Capital Agreement ("CCA"). The Bank noted that it had fulfilled and continued to fulfil all its commitments, and that based on three years of Resolution Fund having met its payment obligations, the Bank believed that it would continue to do so. It also noted the statement made by the Portuguese Prime Minister to the President of the ECB where he guaranteed "full compliance with the commitments undertaken in the framework of the sale of NOVO BANCO".

NOVO BANCO, S.A. Informs on appointment of the members of the Monitoring Committee

On 26 November the General Meeting elected the members of the Monitoring Committee provided for in the CCA for the 2021-2024 mandate.

DEC

NOVO BANCO, S.A. Informs on beginning of term of office of a member of the Executive Board of Directors

Upon conclusion of the fit and proper process, on 1 December 2020, Andrés Baltar Garcia took office as member of the Executive Board of Directors of NOVO BANCO, with the position of Chief Commercial Officer - Corporate, for the ongoing mandate (2017-2020)

NOVO BANCO, S.A. informs on sale of entire share capital of NOVO ACTIVOS FINANCIEROS ESPAÑA, S.A.

Through its subsidiary GNB Gestão de Ativos, SA, NOVO BANCO concludes the sale of the entire share capital of NOVO ACTIVOS FINANCIEROS ESPAÑA, S.A., for a total consideration of €12.9mn.

NOVO BANCO, S.A. informs on Sale and Purchase Agreement for a portfolio of NPLs

Conclusion of a competitive bid process for the sale of a portfolio of non-performing loans and related assets (together known as Project Carter) with a gross book value of €79mn. The sale price was approximately €37mn.

1.2 Organisation

1.2.1 Governance Model

NOVO BANCO's management relies on a governance model that is unique for systemic banks within the Portuguese financial sector. In line with international best practices in management, and under the new shareholder structure, since 18 October 2017 the Bank has a General and Supervisory Board (GSB) and an Executive Board of Directors (EBD).

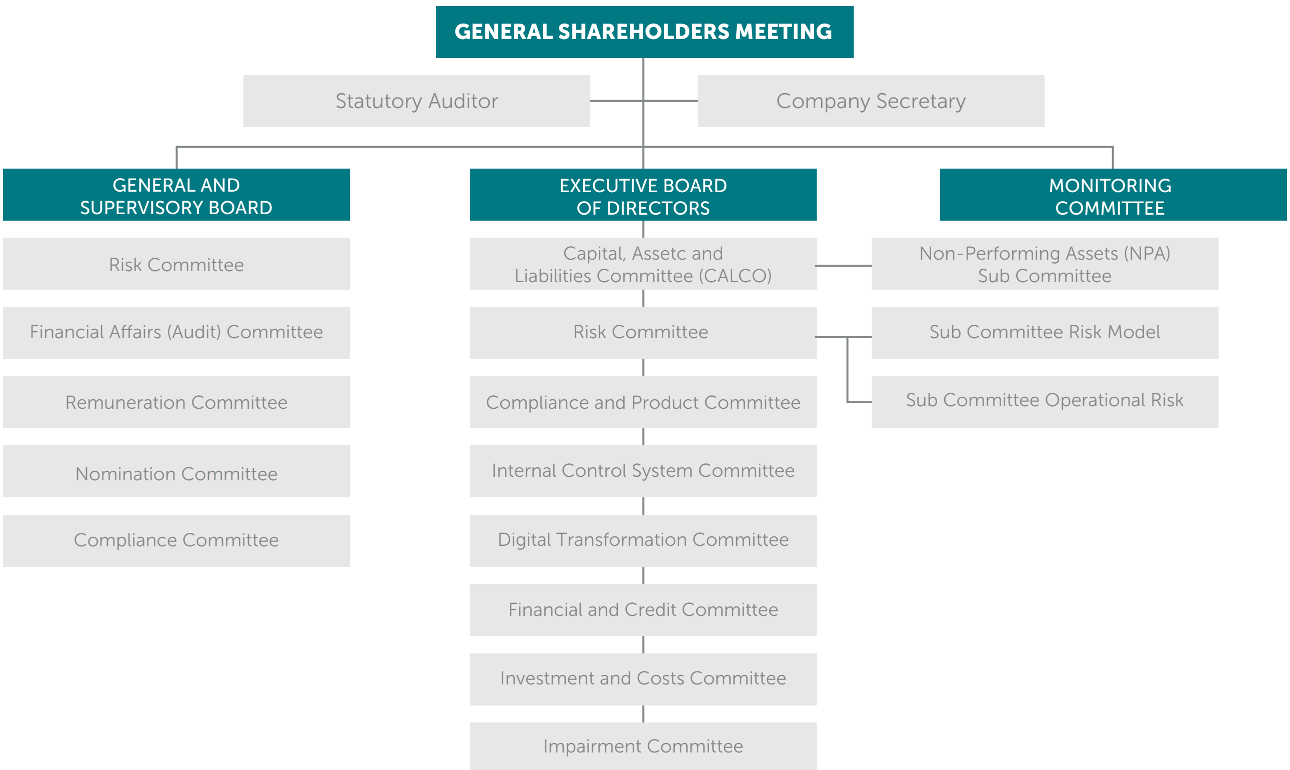
The GSB is responsible for regularly monitoring, advising and supervising the management of the Bank and of the Group companies, as well as for supervising the EBD with regard to compliance with the relevant regulatory requirements of banking activity. The GSB meets on a monthly basis, and its Chairman maintains regular communication and dialogue with the CEO. In its activity, the GSB is supported by committees to which it delegates some of its powers: the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee. These committees are chaired by independent members of the GSB and its composition complies with the applicable legislation regarding the majority of independent members (when required).

The GSB has the responsibilities and powers provided for by law, by the Articles of Association and by its internal regulations, including the supervision of all matters related to risk management, compliance and internal audit, as well as granting prior approval on relevant matters for NOVO BANCO, which are detailed in the Articles of Association.

The Executive Board of Directors is responsible for the management of the Bank, for the definition of the general policies and strategic objectives, and for ensuring the running of the business in compliance with the rules and good banking practices.

The governance model was designed to ensure monitoring of the Bank's activity and achievement of its strategic objectives:

Organograma do Modelo de Governo do NOVO BANCO



Further information is provided in the Corporate Governance Report, namely points 6.2.3 General Supervisory Board and 6.2.4 Executive Board of Directors.

1.2.2 Organisational structure

The composition of the corporate and statutory bodies, at the signature date of this Report, is as follows:

BOARD OF THE GENERAL MEETING

Chairman:	Fernando Augusto de Sousa Ferreira Pinto
Vice-Chairwoman:	Magdalena Ivanova Ilieva
Secretary:	Mário Nuno de Almeida Martins Adegas

MONITORING COMMITTEE

Chairman:	José Bracinha Vieira
Member:	Carlos Miguel de Paula Martins Roballo
Member:	Pedro Miguel Marques e Pereira

GENERAL AND SUPERVISORY BOARD (GSB)

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

STATUTORY AUDITOR

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

EXECUTIVE BOARD OF DIRECTORS (EBD)

Chairman:	António Manuel Palma Ramalho *Chief Executive Officer*
Member:	Mark George Bourke *Chief Financial Officer*
Member:	Rui Miguel Dias Ribeiro Fontes *Chief Risk Officer*
Member:	Luísa Marta Santos Soares da Silva Amaro de Matos *Chief Legal & Compliance Officer*
Member:	Luís Miguel Alves Ribeiro *Chief Commercial Officer (Retail)*
Member:	Andrés Baltar Garcia *Chief Commercial Officer (Corporate)*

COMPANY SECRETARY

Mário Nuno de Almeida Martins Adegas
Ana Rita Amaral Tabuada Fidalgo Brás (Alternate Secretary)

Pursuant to resolution of the General Meeting held on 22 October 2020, all the members of the GSB (including a new member William Henry Newton) and, pursuant to the resolution of GSB of the same date, all the members of the EBD were appointed for the new mandate (2021-2024) subject to the corresponding fit and proper authorisations which, at the date of this report, are still pending. Accordingly, the remaining members of NOVO BANCO corporate bodies are already in functions under the new mandate.

1.2.3 Human Capital

NOVO BANCO seeks to follow the best fair-process practices in decision-making, focusing not only on results but also on sustainability and involving the employees in the process of seeking results. The bank thus endeavours to be aware of the needs and difficulties experienced by employees throughout their life cycle and to meet their expectations, so as to contribute to their full development and allow them to fully unlock their potential.

One of the main tools to analyse the organisational climate and the employees' involvement is the NB Experience questionnaire, used by the first time in late 2018. Successive half-yearly updates, through the PULSE rapid surveys, allow a continuous assessment and evolution of employee confidence levels, with the last survey in October 2020 seeing a participation rate of 79%.

4 582
EMPLOYEES

45 years
AVERAGE AGE

18 years
AVERAGE LENGTH OF SERVICE

53%
WOMEN

47%
MEN

31%
FROM **27%** IN 2019
THE PERCENTAGE OF WOMEN
IN HEADS OF DEPARTMENT INCREASED

43.4%
FROM **41.5%** IN 2019
NUMBER OF WOMEN SENIOR
EXECUTIVES INCREASED

Our Strategy 2.0

Title: Gare do Oriente
Author: Marta Vieira Pereira

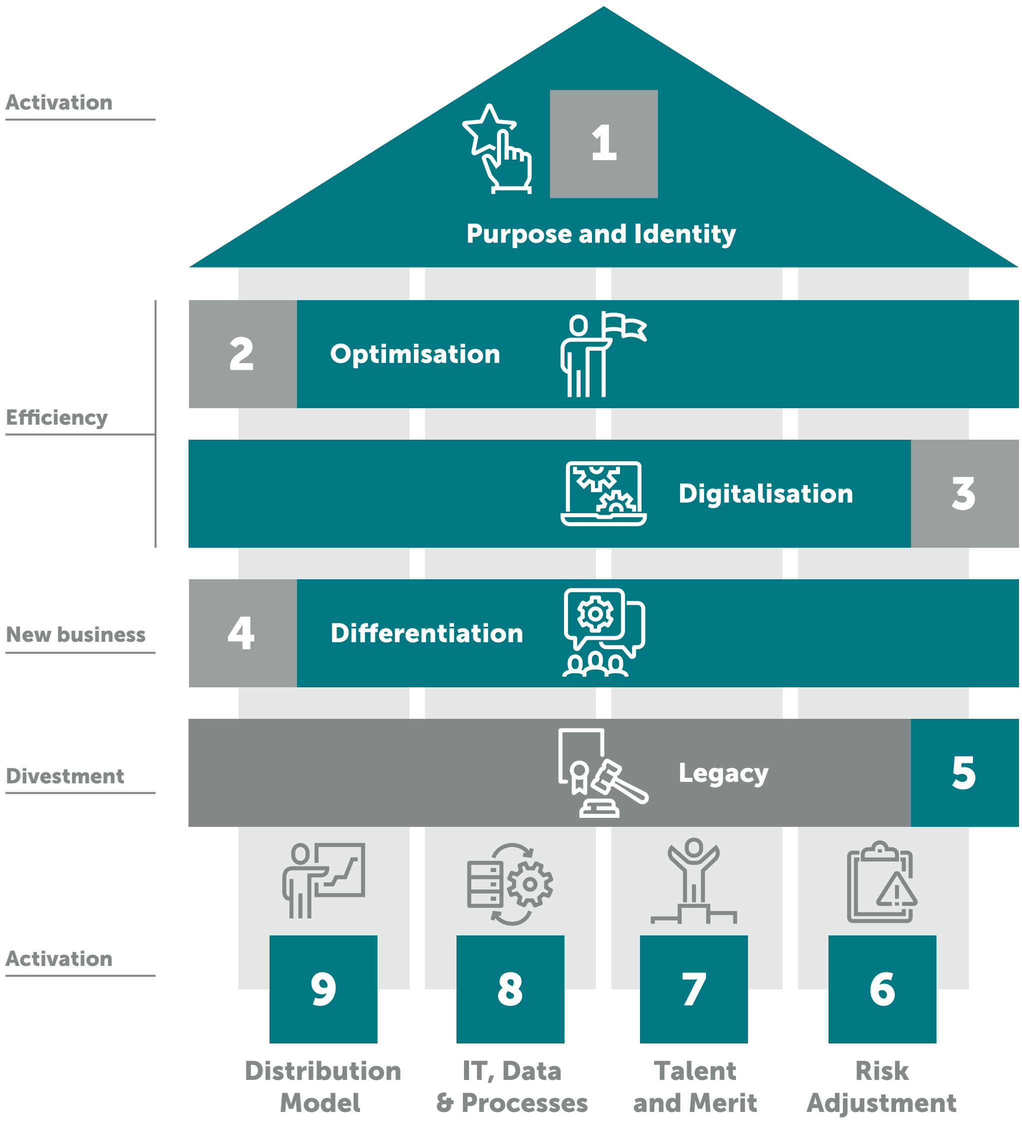
2.1 Overview

The 2019-2021 strategic plan is based on four strategic pillars that drive the Bank in the transition to a growth strategy, namely in terms of adjusting risk processes, fostering talent and merit, optimising IT, data and processes, and revolutionising the distribution model. These four strategic pillars are implemented within a framework of operational circles: optimisation, digitisation and differentiation.

The 2019-2021 strategic plan has been built to enable NOVO BANCO to make the leap from a bank in resolution to a transformation bank. In 2020, the framework of the strategic plan progressed on two main fronts: reinforced focus on rebuilding its Purpose and Identity and closing the final phase of divestment of the Legacy assets.

NOVO BANCO is committed to be a positive contributor to the ecosystem of which it is part, continuously monitoring the impact of its behaviour on society, and continuing to demonstrate authenticity, transparency, integrity and consistency.

The circles and pillars of NOVO BANCO's Strategic Plan serve as the basis for the 9 priorities underlying the bank's growth strategy.



1. Purpose and Identity

NOVO BANCO steers its activity by sustainability principles and with the resolve to give back to the community the support it has received from it. With the aim of managing the business in a responsible manner, the Bank has been implementing a culture that involves permanent monitoring of its impact on the surrounding ecosystem, training and raising the awareness of its employees, business partners and clients, and promoting the values of authenticity, transparency, integrity and consistency.

In order to support the local economies and its clients, NOVO BANCO launched the NB Marketplace - a free-of-charge platform that, in the context of the pandemic, allowed clients in the Small Business segment to open a new sales channel, and individual clients to buy from local suppliers without having to leave their homes.

At the same time, and from the onset of the pandemic, NOVO BANCO strengthened its reference position as a proximity and present Bank, developing initiatives to discuss the challenges that each sector and region are facing in the current context, and to support, promote and give voice to Portuguese companies and entrepreneurs that persevere and reinvent themselves. Highlights:

- The 3 editions of the "NOVO BANCO Summit - Our champions" - webinars on the Agrofood, Tourism and Manufacturing sectors held in the 1st half of 2020;
- The 5 editions of the "Portugal that Does Roadshows" carried out by NOVO BANCO about the business activity;

More information on the sustainability strategy is provided in the Sustainability Report.

2. Optimisation

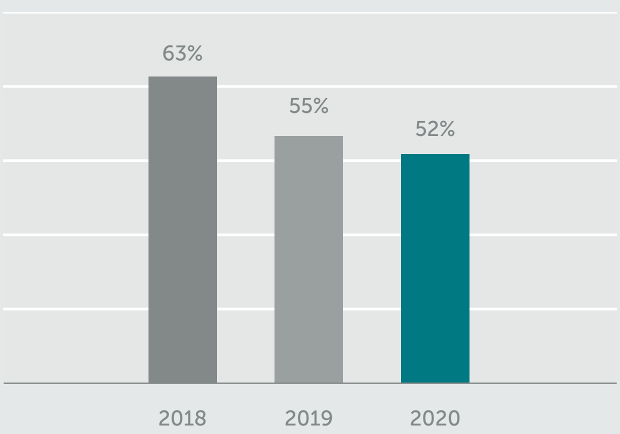
To increase operational profitability and gain competitive advantage, NOVO BANCO has been developing and implementing a set of measures that reduce costs and streamline the bank's processes and restructuring.

In 2020, the Bank developed a set of actions, with a strong impact on Commercial Network efficiency and the customer experience, which allowed to:

- Streamline and dematerialise 28 processes, in a teleworking environment, including credit approval processes;
- Create and improve critical business processes, namely in the credit and remote transactional areas, which included a new process to obtain loan moratoria through NBnetwork or the Centres and Branches, a protocoled credit origination process through NBnetwork, and the Acceptance of the Qualified Electronic Signature (QES).

The divestment/liquidation of subsidiaries and international activity to focus on domestic activity along with ongoing recalibration of operating model and structure and through the implementation of innovative initiatives and processes, the Bank has been optimising the cost structure, reaching in 2020 a Cost to Income ratio 11 pp lower than in 2018.

Efficiency:
Cost Income Ratio / Consolidated %



3. Digitalisation

NOVO BANCO strives for a higher level of digitalisation to increase efficiency and meet the clients' expectations. This means a transition to a more efficient business model, driven by an integrated intelligent service, combined with a differentiating and innovative experience.

Digital transformation requires an organisational transformation. NOVO BANCO therefore continued to implement some key pillars to prepare the organisation: a customer-centric strategy (+150 clients interviewed), an agile organisation (+200 people and 14 agile teams), a specific governance model (+25 Board-led meetings in 2020), an adjusted working environment (+1000 sqm agile already) and a deep technological transformation.

Know more here:

Objectives of the Digital Transformation Strategy

- To be the Best Bank for Clients in Portugal
- To transition towards a highly efficient operational model
- To develop new business models bringing in new revenue sources

Workstreams implemented, providing solutions aligned with the highest standards, and best service and satisfaction levels...

...with repercussions in terms of activation and digital sales

DIGITAL ACTIVATION	RETALHO - MOBILE	DIGITAL SALES	COVERAGE
50% (+4% active digital clients vs 2019)	**35%** (+9% YoY active mobile Clients)	**41%** (+16 p.p. vs 2019)	**71%** functional coverage of sales (products available online)
600 thousand Active Digital Clients	**388 thousand** Mobile Clients	**+36%** units sold digitally vs 2019	

Pillars of the Digital Transformation Strategy

New Customer Journeys	Digital Channels Renovation	Leveraged on Data Science

HIGHLIGHTS:

Home purchase digital omnichannel experience	Online Account Opening	Stronger relationship through mobile/phygital
Digital Financial Advisor for Small Businesses	Mass personalisation to leverage relationship	Support to the central areas (risk, compliance, AML)

4. Differentiation

NOVO BANCO develops differentiated proposals and new business lines that diversify revenue sources and distinguish the Bank from its competitors, increasing the Group's differentiation.

In 2020 the Bank launched, for its Corporate clients, NBnetwork+, a solution that supports companies in their daily financial management, allowing them to aggregate all the company's accounts in one place with an integrated view of the consolidated balance, to manage payments and to ensure financial control through the vision and categorisation of executed and planned transactions.

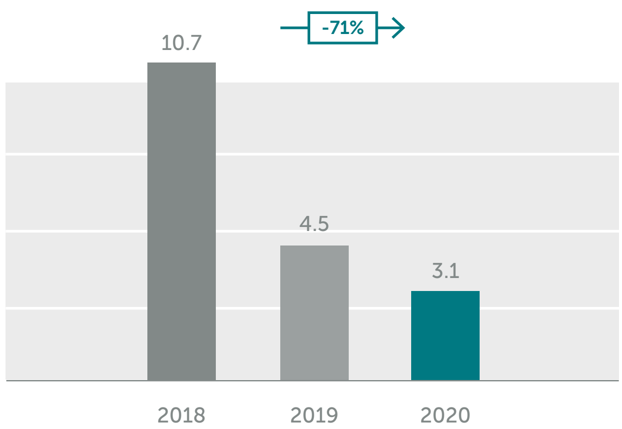
For its Individual clients, NOVO BANCO launched in 2020 a new offer of service-accounts that seeks to respond to the daily needs of the various segments, making it possible to open an account totally remotely, by video call or digital mobile key. And as sustainability is central to the Bank's activity, its accounts offer also seeks to reduce the environmental impact and support social, environmental and cultural solidarity causes.

5. Legacy

NOVO BANCO has concluded the clean-up of its Legacy balance sheet, preparing the next cycle of focus on its core business.

In December 2020, Legacy's net assets totalled €3.1bn, representing a decrease of 71% vs. 2018. Mostly through asset revaluations and disposal processes, the share of Legacy assets in NOVO BANCO's balance sheet decreased from 22% in 2018 to 7% in 2020.

Legacy Total Assets Evolution
Net; €bn



6. Risk Adjustment

Holistic, specialised, resilient and efficient risk management and control is a key pillar of NOVO BANCO Group's Strategy and Culture, supporting the decision-making processes at the various levels, from top management to the first lines of defence.

The programmes defined aim to ensure the alignment of risk management and control by continuously factoring in the new industry challenges, customer demands, new technological competitors, and the emerging risks, in compliance with the risk appetite rules defined by the Executive Board of Directors, as follows:

RISK MANAGEMENT PROGRAMME RESULTS

Financial and non-Financial Risks

- Permanent adaptation of Risk Policies to incorporate changes in the regulatory framework and innovation in business models and to continuously reinforce effective risk control
- Regular revision of risk models to incorporate new scenarios and the necessary regulatory adjustments
- Continuous strengthening of the risk control culture in the 1st and 2nd lines of defence

Credit Risk

- Definition of the risk appetite in line with the Bank's strategy and its timely and conservative adjustment to the risks underlying macroeconomic conditions, particularly with regard to the industry sectors and professional activities more affected by the pandemic and the economic deterioration
- Compliance with the risk appetite metrics defined for the different credit portfolios

Market Risk

- Once implementation is consolidated, control and maintenance of, and compliance with, a conservative risk appetite in the Bank's trading activity and of an investment portfolio policy designed for liquidity management and net interest income generation
- Strengthening of the mechanisms for monitoring risk appetite metrics as well as the implementation of mitigation measures to deal with the impacts of the pandemic crisis on the financial markets;

Liquidity Risk

- Continuous monitoring and control of liquidity risk, using indicators that permit prompt assessment of the liquidity position
- Compliance with regulatory limits and the liquidity risk appetite

Operational Risk

- Reinforcement of the operational risk culture, namely in risk identification and control processes by the first lines of defence
- Strengthening/improving the management and control of risks with greater exposure, such as cyber risk, and continuous effort of adaptation to regulatory and strategic challenges (such as digitisation)

7. Talent and Merit

NOVO BANCO implements a comprehensive talent and merit strategy, establishing and communicating sound governance policies to attract and retain talent, enable employees to realise their potential and offer a better employee experience from recruitment to retirement.

The 2019-2021 talent and merit plan, built upon employee's feedback, is structured in 3 journeys: Look & Join, Live & Grow, Transition & Depart, and its aim is to ensure a deep evolution in human capital management.

The main achievements aimed to respond to six challenges: 1. Attracting and retaining talent; 2. Employee development; 3. Gender equality, equal opportunities and respect for diversity; 4. Conciliation of professional, personal and family life; 5. Social responsibility; and 6. Health, well-being and safety at work

Attracting and retaining talent

With the objective of rejuvenating the teams by attracting and retaining young talent using intervention models suited to the new generation, the Trainee programme "Talent Attracts Talent" and the "Tech Academy" have contributed to increase the share of employees under 30 (from 3.5% in 2018 to 6% in 2020).

Employee development

Through function-adjusted training, with a special emphasis on regulatory / legal contents and a mobility and meritocracy model involving a regular promotion and progress process where the criteria for appointment to new positions are focused on employee performance.

Gender equality, equal opportunities and respect for diversity

Through the objectives defined in the Social Dividend Model, NOVO BANCO promotes diversity and gender equality as an integral part of its human capital management. One of the programmes developed with this aim in mind is the NB Equal Gender, comprising a set of indicators to monitor the Bank's performance in this area and push it towards greater gender equality and fairness, having contributed to increase the share of women in senior management from 41.5% in 2019 to 43.4% in 2020.

Health, well-being and safety at work

The pandemic significantly magnified the challenge of "Looking after health, well-being and safety at work". Besides resorting to telework whenever the functions in question allowed it and there were conditions for that,, the Bank developed a package of benefits to address employees' households financial needs, when such existed, including bringing forward the payment of 50% of the Christmas bonus, loans with special conditions, computer equipment and training, family coaching sessions and psychological support (psychology, psychiatry and nutrition consultations), and the "My Side B" programme focusing on 8 dimensions (Health, Food, Physical Exercise, Emotional Management, Family and Home, Interpersonal Relations, Personal Image, Culture and Leisure).

8. IT, Data & Processes

NOVO BANCO continues to streamline processes and systems and to implement new ways of working, so as to become a leaner bank and thus improve the customer experience, maximise operational efficiency and reduce the cost of service.

In 2020, the new data and AI platform went live, enabling the agile development of predictive models, the real-time provision of insights for our clients, as well as the cross-fertilisation and mining of very high volume and frequency data sources.

In 2020 the Bank stepped up the introduction of new efficiency tools such as robotics, having launched a programme to achieve a broad-based implementation of these tools in its various areas and processes by 2022. A Robotic Officer and Robotics Champions were also appointed in all departments. In 2000, 10 new processes were robotised.

9. Distribution Model

NOVO BANCO's new distribution model emerges from the need to innovate and thus meet the expectations of clients, who are increasingly demanding and digital, but also value the proximity and relationship with their account manager.

This new model will help build a more personalised, simple and convenient relationship between the client and the bank, based on intelligent tools that will give client a unique, global and cohesive experience in their relationship and contact with the Bank throughout the different processes and through the different channels.

To execute the new distribution model, NOVO BANCO has designed a 3-year investment plan that includes the renewal of the physical network, technological infrastructures in the branch network, the creation of an omnichannel experience, new sales channels under partnerships, redefinition of roles in the organisation, communication and engagement with the community, and customer migration and activation. These innovations will allow the client to:

- Schedule a meeting from a digital device or self-check-in, and be serviced in the space/medium they deem most appropriate
- Make self-service deposits of banknotes, coins and cheques 24/7 in the new Branch Model
- Have the support of a specialist immediately upon starting a search and simulation on the website, and finalizing the process with a remote or face-to-face account manager

2020 was above all a year dedicated to designing and testing pilot solutions, which have meanwhile been implemented under more than 45 initiatives launched and worked on by multidisciplinary teams. Three full-service branches and one master branch were remodelled in an innovative and functional layout focused on the relationship with the client, featuring a distinctive self-service cash management service, employee mobility and digital communication. This remodelling took into account sustainability principles, focusing, among others, on the reduction of paper consumption as well as on the suppliers and construction materials used. Also, in the area of omnicanality, new face-to-face and remote contact services were tried out, as well as new approaches to contacting clients and building customer loyalty.

2021 will be the year of industrialisation of the processes tried out in 2020 with a view to transforming NOVO BANCO.

2.2 DGCOMP[2] Objectives

2020 targets fully achieved[3]

The letter of commitment agreed between the Portuguese State and the European Commission in connection to the authorisation of state aid in the context of the sale process of 75% shareholding in NOVO BANCO established 33 commitments to be fulfilled by the Bank until the end of the restructuring period (currently defined as 31 December 2021). These commitments are divided into three categories, and compliance therewith is closely monitored and confirmed every six months by an international audit company chosen by the European Commission (the Monitoring Trustee).

Structural Commitments

Namely the divestment commitments in various geographies and businesses and the reduction of the Bank's non-core assets, which included divestment of the insurance business - GNB Seguros -, concluded this year.

Behavioural Commitments

Namely the establishment of ROE (Return on Equity) based pricing tools subject to defined minimum limits, restrictions on acquisitions, dividend distribution ban, ban on the exercise of voting rights by the minority shareholder (the Resolution Fund) and caps (of 10x the Bank's average salary) on the remuneration of any employee or member of the Bank's corporate bodies[4].

Viability Commitments

Interim targets and 2021 targets, notably Full Time equivalent (FTE) reduction targets, branch reduction targets, and Cost-to-Income targets, and the reinforcement of risk management policies, already carried out.

Given the pandemic context and its impact on the banking sector and consequent need for closer monitoring, in 2020 the DGCOMP asked the Monitoring Trustee to perform a specific quarterly monitoring of the Bank with a particular focus on its financial performance.

Although deeply marked by the adverse effects of the pandemic context, the year 2020 stood out, for the second consecutive time, by the fulfilment of all the commitments[5] assumed by the Portuguese State before the European Commission.

In 2020, NOVO BANCO continued to pursue its goal of reduction the legacy assets, an essential factor to achieve the Bank's viability in 2021, and in line with the 2019-2022 strategic plan. At the same time, and in accordance with the defined strategy, the Bank maintained its focus on reducing costs, while continuing to provide a service of excellence to its corporate and individual clients, through a strong commitment to digital and information technology.

The implementation of the strategic plan and achievement of the DGCOMP targets allowed, as expected, a very positive evolution in the performance of NOVO BANCO's recurrent banking activity.

2. Directorate-General Competition – European Commission
3. Pending the Monitoring Trustee's certification due in May 2021;
4. In view of the fulfilment of the commitments for 2019, this latter restriction ceased to be effective in July 2020. However, the Bank opted to maintain this cap, keeping its remuneration policy unchanged.
5. Pending the Monitoring Trustee's certification due in May 2021;

Our Performance 3.0

Title: Depois da Chuva
Author: Marta Vieira Pereira

3.1 Economic Context

2020 was inexorably marked by the Covid-19 pandemic, which infected 83.9 million people and caused 1,8 million deaths globally. Economic activity was severely affected by the containment and mitigation measures adopted in most countries - which included periods of mandatory lockdown and restrictions on production in several industry sectors -, as well as by fears of contagion and of unknown impacts on the economy (e.g. unemployment), postponing household consumption decisions. The high level of uncertainty in turn penalised companies' productive investment. In this context, international trade flows fell by 6.5% in 2020, with a 17,6% YoY downfall in May.

The world economy contracted by 3.5% in the year, with GDP falling by 4.9% in the advanced economies and by 2,4% in the emerging economies. In the US, GDP retreated by 3.5% in 2020. The US unemployment rate rose to a peak of 14,8% of the labour force in April, subsequently subsiding to 6.7% at the end of the year, above the 3.5% seen in January. In the Eurozone, where restrictions to activity were more prolonged and severe, the economy shrank by 6.6%. Unemployment rose from 7.4% to 8.3% of the labour force, being assuaged by the employment and income protection public policies implemented in the various countries. The number of hours worked, however, actually slumped by close to 15% YoY in 2Q20, with the first period of confinement.

In Portugal, which registered 414,000 cases and 6,900 deaths from Covid-19 in 2020, GDP fell by 7.6% in the year. This is broadly the cumulative contraction suffered by the Portuguese GDP between 2009 and 2013, during the sovereign debt crisis. Although Covid-19's reach was by nature widespread and global, its economic impacts across countries, industry sectors, and groups within each economy were asymmetrical, spawning increased inequality. In the Eurozone the peripheral economies were more affected than the core economies. This is because they were more exposed to the tourism and hospitality services industries, which were particularly penalised by the pandemic, and also due to their weaker budgetary capacity to allay the effects of the crisis.

The sharper effects of the pandemic on the Portuguese economy were felt in 2Q20, upon the first lockdown, with GDP retreating by 13.9% QoQ and 16.3% YoY. Activity partially recouped in the second half of the year, with 13.3% growth in 3Q20 and 0.2% growth in 4Q20, in spite of a second wave of the pandemic forcing new restrictions. The tourism accommodation sector was particularly penalised, with the number of guests and overnight stays at one point falling as low as by 95% YoY, or 99% in the case of non-resident overnight stays. At the end of the year the sector's activity was still 76% lower than in the same period in 2019. With trade and restaurants also severely hit, turnover from services contracted by around 15% in the year. Industrial production retreated by 7% in 2020, after hitting a low of nearly 30% YoY. Industrial activity was quicker to take off in 2Q20, as seen in the recovery of exports of goods and in particular of agrifood goods. Even so, exports of goods and services as a whole fell 18.6% in real terms in 2020, contributing to a decline in the external account surplus, from 0.8% to close to 0% of GDP. This despite a significant (and forced) increase in household savings, to 10.8% of disposable income by 3Q20, and a sharp contraction in imports.

The adverse effects of the pandemic were mitigated by several stabilisation measures, including, among others, employment and income protection schemes (such as simplified layoff and support for the gradual resumption of business activity), State guarantees for loans taken by companies of up to €13bn (or 6,8% of GDP), mainly operated by the banking sector, and the deferral of taxes and social contributions (for an estimated €7.9bn, or 37% of GDP). A moratoria scheme for loans to companies and individuals affected by the pandemic was approved, which reached 21,5% of total loans. And certain regulatory and macro-prudential requirements imposed on the banking sector were temporarily relaxed.

Together, these measures definitely limited the negative impacts of Covid-19 on the labour and housing markets. The average unemployment rate rose from 6.5% to 6.8% of the labour force, even if at some point the number of hours worked in industry and services fell by as low as 25% to 30% YoY. Home prices also proved resilient, decelerating from 10.3% to 7.1% YoY between 1Q20 and 3Q20. In this context, the banking sector's NPL ratio prolonged in 2020 the downward trend of recent years, falling from 6.2% to 5.3% between the end of 2019 and 3Q20. The budgetary support measures and the activity downturn pushed up the budget and public debt deficits to around 7.3% and 136% of GDP respectively.

Overall, the pandemic significantly accelerated some existing structural trends. Chief among these are the digitisation of economic activity, namely featuring significant growth in online trade and entertainment, as well as in electronic payments. The disruption of productive activity during the first wave of the pandemic led to adjustments in value chains, so as to mitigate their risks, to the benefit of locally or regionally based chains. Health restrictions forced a reorganisation and flexibilisation of labour in companies, including - where possible - a generalisation of teleworking. Families and companies became more selective in their spending, with the former favouring the acquisition of food and certain durable goods, associated with staying and working at home for longer periods. Sustainability gained more visibility, both in terms of consumer requirements and in terms of corporate practices and communication, leading to an increase in the relative weight of ESG investment in the financial markets.

On top of Covid-19, economic activity and financial markets were also marked in 2020 by some political uncertainty factors. With Brexit implementation completed at the end of January, negotiations between the EU and the UK on their future trade relationship dragged on until the end of the year, with the threat of a hard Brexit after the transition period conditioning investment decisions. The agreement reached in December avoided the imposition of tariffs and quotas, but introduced frictions in the free movement of people, goods and services between the two economies. Financial services were not part of the agreement and will be subject to separate discussions in 2021. The pound lost 5.6% against the euro in the full year. Other factors of political uncertainty included the lingering of trade tensions between the US and China, despite the "Phase One" agreement in January, and the US Presidential and Congressional elections in November, after several months of political and social instability in the country. These factors fuelled some volatility in the financial markets.

In response to the deterioration of activity caused by the pandemic, the main central banks intensified the expansionary stance of monetary policy in 2020. In the US, the Federal Reserve lowered the fed funds target rate from 1.5%-1.75% to 0%-0.25% and expanded its balance sheet from $4.2tn to $7.4tn, through the creation of several liquidity injection programmes. The Fed also announced in August a major change to its monetary policy framework, aiming for average inflation of 2% over time, in a suggestion of greater tolerance to possible inflation overshooting. In the Eurozone, the ECB maintained the key rates unchanged (refinancing rate at 0% and deposit facility rate at -0.5%), but significantly increased its purchases of debt securities, creating new programmes (PEPP, PELTRO), reinforcing those already in place (PSPP), and easing restrictions on the purchase of debt from the peripheral economies. The ECB balance sheet expanded from €4.7tn to close to €7tn in the year. The strong monetary stimuli averted liquidity constraints during the Covid-19 crisis by maintaining favourable financing conditions, particularly in the peripheral economies most affected by the pandemic.

This stance of the Central Banks was made possible by the persistence of low levels of inflation. Although following a rising trend from a low of 0.1% in May, year-on-year inflation in the US fell from 2.5% to 1.4% in 2020. In the Eurozone year-on-year inflation slid from 1.4% to -0.3% in 2020, entering negative ground as from August. In addition to falling economic activity and cuts to indirect taxes, the decline in oil prices (by an annual average of -32.5% for Brent) also pressured down inflation.

Fiscal policy also took on a strongly expansionary stance in the main economies. In the US, the Federal deficit rose in 2020 from 6.3% to 18.7% of GDP, not only through the effect of dwindling activity but also reflecting the two stimulus packages approved by Congress in March and December, totalling $2tn and $900mn, respectively. In the Eurozone, where fiscal support included employment protection measures, tax cuts or deferrals, subsidies to companies, and, at another level, State guarantees to loans, the combined public deficit surged from 0.6% to 10.1% of GDP. The EU approved a Recovery Fund (Next Generation EU) with an estimated allocation of €750bn, in part funded by common debt issues, including more than €312bn in outright grants.

The retrenchment of inflation and inflationary expectations, combined with the ECB's expansionary stance, pushed the 3-month Euribor from an annual high of -0.16% in April down to -0.545% at the end of the year. Following a period of high volatility between March and June, the yield on the 10-year Bund went on a downward slide, to close the year at -0.569%. The spread on the 10-year PGB remained tight, closing the year at 60 bps (vs. 63 bps at the start of the year and 134 bps at the end of 1Q20). Portuguese debt benefited from a relatively favourable external perception of the Portuguese economy, from the ECB's purchase of Portuguese debt, and from the optimism generated around the announcement of the European Recovery Fund.

This context of ample liquidity, aggressive fiscal stimuli, and, in the context of a more digital economy, the attractiveness of the technology industry, drove a strong rally in the stock market, from its lows in March. The S&P 500 and Euro Stoxx 600 climbed by 67.9% and 42.7% respectively, after hitting those lows. In the full year, the S&P 500 gained 16.3%, while the Euro Stoxx 600 fell 4%. The Nasdaq went up by 87.9% since its low in March and by 43.6% in the full year. An environment of risk propensity in financial markets and the more accommodative posture of the Federal Reserve penalised the dollar, which retreated by 7% in real terms. Against the US currency, the euro advanced by 8.8%, to €/US$ 1.222.

3.2 Highlights

During 2020, NOVO BANCO transferred the Spanish Branch to discontinued operations, in line with the decision to discontinue the Spanish business. Thus, for comparison purposes only, 2019 is presented pro-forma.

Highlights

- **NOVO BANCO delivered €189.0mn of adjusted[6] recurrent income before taxes**, generated from a recurrent commercial banking income of €787.8mn (+1.7% YoY) and operating costs of €418.6mn (-0.6% YoY).
- **Completion of balance sheet clean-up, with a YoY reduction of legacy assets of 31.2% or -€1.400mn**, of which loans to customers (net) (-26.3%; -€359mn), real estate (-28.8%; -€235mn) and other assets (-35.1%; -€806mn); A 79% reduction in total legacy assets has been achieved in the 3 years since Dec.17.
- **Reduction of non-performing loans (NPL) ratio to 8.9%**, being 3.2 pp lower YoY and leading to a NPL coverage ratio of 74.1% (Dec.19: 56.5%).
- **Contingent Capital Agreement (CCA)**
  - As a result of the losses in the CCA assets and regulatory capital requirements, NOVO BANCO will request €598.3mn under the Contingent Capital Agreement;
  - The total amount of the requested payments from 2017 to 2019, and to be called in 2020, is €3.57bn. The maximum amount of compensation established in the CCA is €3.89bn.

Continued improvement in recurrent profitability

- **NOVO BANCO increased its recurrent core operating income** (commercial banking income – operating costs) **to €369.1mn (+4.5% YoY)**, as a result of:
  - Higher recurrent commercial banking income (2020: €787.7mn; +1.7% YoY), supported by an improvement in net interest income (+€52.3mn; +11.3% YoY);
  - Lower operating costs (-0.6% YoY), benefiting from the implementation of cost optimization measures along with efficient and automatized processes.
- **The YoY growth of €177.6mn in recurrent impairments and provisions** (Dec.20: €386.0mn, Dec.19: €208.4mn) reflects the impact of the Covid-19 pandemic (€250.7mn). Without this effect, impairments and provisions would total €135.3mn, well below 2019 values;
- **Recurrent loan volumes increased by +2.2% YoY (+€492mn)** building on the momentum of the previous year (2019: +5.6%; +€1,303mn);

6. After adjusting for Covid-19 provisions (€250.7mn) and losses from the Liability Management Exercise (LME; -€24.8mn)

- **Total Customer funds remained unchanged YoY**. Deposits were stable at €26.1bn (+0.5% YoY; +€127mn) reflecting NB customers' continued confidence in NOVO BANCO;
- **NPL ratio of the recurrent activity was 3.2%** (Dec.19: 3.5%), with a coverage ratio of 88.0% (Dec.20: 69.5%).

Completion of the restructuring process

NOVO BANCO Group's results and activity for the financial year of 2020 reflect the deleveraging of legacy assets, discontinuation of the Spanish business, additional imairment of non-performing loans and the impact of the Covid-19 pandemic, resulting in a consolidated net income at -€1,329.3mn (of which legacy accounted for -€1,198.9mn).

In Dec.20, NOVO BANCO legacy assets totalled €3.1bn, representing a substantial YoY reduction of 31.2% or -€1,400mn. The lower exposure of NOVO BANCO to legacy assets is a result of:

- A reduction in non-performing loans (NPL) stock of -€814mn YoY to €2,498mn, leading to a NPL ratio of 8.9% (Dec.19: 12.0%);
- A reduction in the stock of real estate assets of -€235mn YoY to €582mn, thus reducing its exposure as % of total assets to 2.0% (vs Dec.19: 2.5%);
- An independent valuation assessment of the restructuring funds, including appraisals of underlying assets, which resulted in a €300.2mn loss.

In light of the execution of the deleveraging plan and reflecting the slowdown of economic activity and market volatility due to the Covid-19 pandemic, the Bank recorded increased credit impairments of €736.1mn in the period. The additional impairments for credit, guarantees and securities risk specifically arising from the Covid-19 pandemic totalled €268.8mn.

NOVO BANCO continues to deliver on its plan, targets and commitments assumed by the Portuguese Government with respect to DGComp.

The Bank has strong liquidity, which leaves it well positioned to continue supporting its retail and corporate customers.

MAIN HIGHLIGHTS - CONSOLIDATED	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20
ACTIVITY (mn€)			
Net Assets	45 296	45 296	44 396
Customer Loans (gross)	27 055	25 396	25 217
Customer Deposits	27 835	25 966	26 093
Equity	4 003	4 003	3 147
SOLVENCY (3)			
Common EquityTier I / Risk Weighted Assets	13.5%	13.5%	11.3%
Tier I / Risk Weighted Assets	13.5%	13.5%	11.3%
Total Capital / Risk Weighted Assets	15.1%	15.1%	13.3%
LIQUIDITY (mn€)			
European Central Bank Funding (2)	4 714	4 714	4 740
Eligible Assets for Repo Operations (ECB and others), net of haircut	15 253	15 253	16 684
(Total Credit - Credit Provision) / Customer Deposits (1)	92%	92%	90%
Liquidity Coverage Ratio (LCR) (3)	143%	143%	144%
Net Stable Funding Ratio (NSFR) (3)	101%	101%	113%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	4.0%	4.0%	2.4%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	11.8%	12.0%	8.9%
Credit Provision / Overdue Loans > 90 days	171.0%	178.6%	262.2%
Credit Provision / Customer Loans (gross)	6.8%	7.1%	6.3%
Cost of Risk	2.32%	2.13%	2.08%
PROFITABILITY			
Net Income for the Period (mn€)	-1 058.8	-1 058.8	-1 329.3
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-2.1%	-2.1%	-2.9%
Banking Income / Average Net Assets (1)	0.9%	0.6%	1.4%
Income before Taxes and Non-controlling interests / Average Equity (1)	-22.3%	-22.3%	-32.0%
EFFICIENCY			
Operating Costs / Banking Income (1)	113.8%	156.1%	69.9%
Staff Costs / Banking Income (1)	63.1%	87.7%	39.7%
EMPLOYEES (No.)			
Total	4 869	4 671	4 582
- Domestic	4 648	4 648	4 560
- International	221	23	22
BRANCH NETWORK (No.)			
Total	387	376	359
- Domestic	375	375	358
- International	12	1	1

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020
(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force
(2) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending
(3) Preliminary

MAIN HIGHLIGHTS - RECURRENT	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20
ACTIVITY (mn€)			
Net Assets	40 814	40 814	41 314
Customer Loans (gross)	24 380	22 835	23 327
Customer Deposits	27 835	25 966	26 093
ASSET QUALITY			
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	3.6%	3.5%	3.2%
Credit Provision / Overdue Loans > 90 days	68.3%	69.5%	88.0%
Credit Provision / Customer Loans (gross)	2.6%	2.6%	3.1%
Cost of Risk	0.91%	0.87%	1.34%
PROFITABILITY			
Net Income for the Period (mn€)	177.6	177.6	-130.4
Income before Taxes and Non-controlling interests / Average Net Assets (1)	0.4%	0.4%	-0.2%
Banking Income / Average Net Assets (1)	2.1%	2.0%	1.7%
Income before Taxes and Non-controlling interests / Average Equity (1)	5.3%	5.3%	-2.7%
EFFICIENCY			
Operating Costs / Banking Income (1)	54.9%	52.3%	58.3%
EMPLOYEES (No.)			
Total	4 869	4 671	4 582
- Domestic	4 648	4 648	4 560
- International	221	23	22
BRANCH NETWORK (No.)			
Total	387	376	359
- Domestic	375	375	358
- International	12	1	1

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020
(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force

MAIN HIGHLIGHTS - LEGACY	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20
ACTIVITY (mn€)			
Net Assets	4 482	4 482	3 082
Customer Loans (gross)	2 675	2 562	1 890
ASSET QUALITY			
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	81.3%	83.1%	76.2%
Credit Provision / Overdue Loans > 90 days	51.7%	51.9%	67.3%
Credit Provision / Customer Loans (gross)	45.2%	46.6%	46.6%
Cost of Risk	15.15%	13.33%	11.26%
PROFITABILITY			
Net Income for the Period (mn€)	-1 236.4	-1 236.4	-1 198.9
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-7.1%	-14.3%	-31.7%
Banking Income / Average Net Assets (1)	-2.5%	-6.2%	-2.6%
Income before Taxes and Non-controlling interests / Average Equity (1)	-70.7%	-142.6%	-230.6%

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020
(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force

3.3 Recurrent and Legacy

As in 2018 and 2019, NOVO BANCO discloses its full year 2020 results presenting separately the financial results of NOVO BANCO Recurrent, which include all the core banking activity, and those of NOVO BANCO Legacy, which includes loans to clients, integrating not only loans included in the CCA, as well as other credits, bonds, real estate and discontinued operations, mostly considered as non-strategic in the commitments imposed by DGCOMP after the resolution, therefore, all the references in this report must take in consideration this segmentation.

NOVO BANCO considers that differentiating between NOVO BANCO Recurrent and NOVO BANCO Legacy will allow customers and other stakeholders to better understand the progress of the Bank's ongoing restructuring.

3.3.1 NOVO BANCO Recurrent

Results

In 2020, NOVO BANCO Recurrent achieved an income before taxes of €189.0mn, adjusted by credit and securities impairments arising from the Covid-19 pandemic (€250.7mn) and results of the Liability Management Exercise (LME; -€24.8mn) performed in 4Q20.funding, the expansion of the loan volume and continued focus on pricing policy.

INCOME STATEMENT	Recurrent				
	até 31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change absolute	Change %
Net Interest Income	491.2	464.7	517.0	52.3	11.3%
Fees and Commissions	320.7	309.5	270.6	-38.9	-12.6%
Commercial Banking Income	**811.9**	**774.3**	**787.7**	**13.4**	**1.7%**
Capital Markets Results	72.2	71.9	-23.1	-95.0	...
Other Operating Results	- 45.5	- 41.5	-46.4	-4.9	-11.8%
Banking Income	**838.6**	**804.7**	**718.2**	**-86.5**	**-10.8%**
Operating Costs	460.8	421.0	418.6	-2.4	-0.6%
Net Operating Income	**377.8**	**383.7**	**299.6**	**-84.1**	**-21.9%**
Restructuring funds - independent valuation	0.0	0.0	0.0	0.0	...
Net Impairments and Provisions	**202.5**	**208.4**	**386.0**	**177.6**	**85.2%**
Credit	222.4	199.1	311.6	112.6	56.5%
Securities	3.5	3.6	41.7	38.2	...
Other Assets and Contingencies	- 23.4	5.7	32.6	26.9	...
Income before Taxes	**175.3**	**175.3**	**-86.4**	**-261.7**	**...**
Corporate Income Tax and Special Tax on Banks	-10.6	-10.6	48.3	58.9	...
Income after Taxes	**185.8**	**185.8**	**-134.7**	**-320.6**	**...**
Non-Controlling Interests	8.2	8.2	-4.4	-12.6	...
Net Income for the period	**177.6**	**177.6**	**-130.4**	**-308.0**	**...**
Income before taxes			**-86.4**		
Covid Impairment			-250.7		
LME			-24.8		
Normalized Income Before Taxes			**189.0**		

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

mn€

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-19			31-Dec-20		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
Interest earning assets	35 237	1.86%	666	35 892	1.75%	640
Customer Loans	23 902	2.23%	543	22 593	2.20%	505
Money Market Placements	1 056	0.01%	0	2 689	-0.07%	- 2
Securities and Other Assets	10 279	1.18%	123	10 610	1.27%	137
Interest earning assets and other	**35 237**	**1.86%**	**666**	**35 252**	**1.79%**	**640**
Interest bearing liabilities and other	**35 237**	**0.48%**	**172**	**35 252**	**0.33%**	**117**
NIM /NII (without stage 3 impairment adjustment)		**1.38%**	**494**		**1.46%**	**523**
Stage 3 impairment			- 3			- 6
NIM / NII		**1.37%**	**491**		**1.44%**	**517**

Net interest income increased by €52.3mn compared to Dec.19, to €517.0mn (+11.3%), reflecting an improved cost of funding, the expansion of loan volumes and a continued focus on pricing policy.

Compared with the previous financial year, there was an increase in the average volumes of loans (excluding the effect of the transfer of the Spanish Branch to discontinued operations). The competitive market conditions, origination of guaranteed credit lines, and the consequent pressure on interest rates on loans to companies resulted in a marginal decrease in average interest rates to 2.20%.

Continued liability management led to a reduction of the average cost of funding from 0.48% to 0.33%. The net interest margin was 1.44%, above the margin achieved in 2019 (1.37%).

Fees and commissions on banking services contributed +€270.6mn, which compares with +€309.5mn in the previous year (-12.6%). The decrease occurred across all products lines, reflecting the impact of Covid-19 on the economy, and client activity.

The Capital markets results were negative at -€23.1mn, of which -€24.8mn was from the Liability Management Exercise performed in 4Q20. Total Group securities portfolio amounts to circa €11.4bn, of which about €6.5bn relates to sovereign debt which is marked to market with changes in fair value booked in reserves. At the end of 2020 the fair value reserve on this portfolio was €364mn, being higher YoY (Dec.19: €331mn).

Other Operating Results of -€46.4mn, including €35mn of contributions to the resolution funds.

Operating costs totalled €418.6mn, a slight decrease of -0.6% YoY, which, notwithstanding the investment in the core business and in digital transformation, reflects continued focus on cost optimization.

Core operating income (commercial banking income net of operating costs) reached €369.1mn, +4.5% compared with previous year.

The cost of risk reached 134bps, an increase comparing to 2019, due to the impact of the Covid-19 pandemic which resulted in credit impairments of €200.7mn. Without this effect, the cost of risk was 48bps.

Activity

Throughout 2020, net assets increased by €500mn (+1.2%), with net customer loans growing by 1.7% (+€374mn) compared to Dec.19. The growth in corporate loans reflects the continued support of domestic companies, across all economic sectors, with a focus on small and medium-sized enterprises (SMEs) and the establishment of Covid-19 related credit lines to corporate customers.

mn€

Recurrent activity	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Customer loans (net)	23 735	22 234	22 608	374	1.7%
Real estate	307	306	299	-7	-2.2%
Other assets	16 772	18 274	18 406	132	0.7%
Total Net Assets	**40 814**	**40 814**	**41 314**	**500**	**1.2%**
Total Liabilities and Equity	**40 814**	**40 814**	**41 314**	**500**	**1.2%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Comparing to 2019, the recurrent asset quality indicators showed an improvement as the NPL ratio reduced to 3.2% and the coverage ratio increased +18.6pp to 88.0%.

mn€

Customer loans	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Customer Loans (gross)	**24 380**	**22 835**	**23 327**	**492**	**2.2%**
Corporate	12 925	11 727	12 311	585	5.0%
Residential Mortgage	10 100	9 909	9 857	- 52	-0.5%
Consumer finance and other	1 355	1 199	1 158	- 41	-3.4%
Non-Performing Loans (NPL)[1]	**946**	**866**	**817**	**- 49**	**-5.6%**
Impairment	**645**	**601**	**718**	**118**	**19.6%**
NPL Ratio[1]	**3.6%**	**3.5%**	**3.2%**	**-0.4 p.p.**	**...**
NPL coverage[1]	**68.3%**	**69.5%**	**88.0%**	**18.6 p.p.**	**...**
Cost of Risk (bps)	**91**	**87**	**134**	**46**	**...**

1 Includes Deposits and Loans and advances to Banks and Customer Loans
* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

3.3.2 NOVO BANCO Legacy

NOVO BANCO Legacy reported a loss of -€1,198.9mn in the financial year 2020. This result includes the following significant items:

- independent assessment of the Bank's investment in restructuring funds based on a third party valuation, including appraisals of underlying assets, with a negative impact of -€300.2mn;
- net impairments and provisions of -€805.5mn, including the discontinuation of Spanish activities (-€166.0mn), the provision for restructuring (-€123.9mn), and higher credit costs (loans to customers, guarantees and financial institutions).

mn€

Income Statement	31-Dec-19	31-dez-19 Pro-forma* (exc. Espanha)	31-Dec-20	Change	
				absolute	%
Net Interest Income	49.4	47.7	38.1	- 9.6	-20.1%
Fees and Commissions	2.7	2.7	1.3	- 1.5	-54.5%
Commercial Banking Income	**52.2**	**50.5**	**39.4**	**- 11.1**	**-22.0%**
Capital Markets Results	- 269.0	- 269.6	- 49.5	220.2	81.7%
Other Operating Results	- 201.5	- 285.2	- 90.1	195.1	68.4%
Banking Income	**-418.3**	**- 504.4**	**-100.2**	**404.2**	**80.1%**
Operating Costs	17.7	17.7	13.2	-4.4	-25.1%
Net Operating Income	**-436.0**	**-522.1**	**-113.5**	**408.6**	**78.3%**
Restructuring funds - independent valuation	0.0	0.0	- 300.2	-300.2	...
Net Impairments and Provisions	**732.9**	**646.8**	**805.5**	**158.7**	**24.5%**
Credit	405.1	341.5	212.8	- 128.7	-37.7%
Securities	- 3.7	- 3.7	- 0.7	2.9	79.8%
Other Assets and Contingencies	331.5	308.9	593.4	284.5	92.1%
Income before Taxes	**-1 168.9**	**-1 168.9**	**-1 219.1**	**- 50.3**	**-4.3%**
Corporate Income Tax and Special Tax on Banks	83.4	83.4	-14.5	- 97.9	...
Income after Taxes	**-1 252.3**	**-1 252.3**	**-1 204.6**	**47.7**	**3.8%**
Non-Controlling Interests	-15.9	-15.9	-5.7	10.2	64.0%
Net Income for the period	**-1 236.4**	**-1 236.4**	**-1 198.9**	**37.5**	**3.0%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

There are no liabilities directly allocated to the legacy activity. Funding costs for legacy assets are calculated based on the Group's average balance sheet funding rate (0.34%).

NOVO BANCO Legacy assets decreased by €1,400mn (-31.2%) compared to Dec.19, underpinned by a reduction of the net loan book of €359mn (-26.3%), real estate assets €235mn (-28.8%), and other assets, which includes restructuring funds, €806mn (-35.1%).

mn€

Legacy activity	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change absolute	YTD Change %
Customer loans (net)	1 467	1 368	1 009	- 359	-26.3%
Real estate	829	818	582	- 235	-28.8%
Other assets	2 186	2 297	1 491	- 806	-35.1%
Total Net Assets	**4 482**	**4 482**	**3 082**	**-1 400**	**-31.2%**
Total Liabilities and Equity	**4 482**	**4 482**	**3 082**	**-1 400**	**-31.2%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

mn€

Customer loans	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change absolute	YTD Change %
Customer Loans (gross)	**2 675**	**2 562**	**1 890**	**- 672**	**-26.2%**
Corporate	2 307	2 194	1 562	- 632	-28.8%
Residential Mortgage	165	165	153	- 11	-6.9%
Consumer finance and other	203	203	175	- 28	-13.9%
Non-Performing Loans (NPL)[1]	**2 485**	**2 446**	**1 681**	**- 765**	**-31.3%**
Impairment	**1 208**	**1 194**	**881**	**- 312**	**-26.2%**
NPL Ratio[1]	**81.3%**	**83.1%**	**76.2%**	**-6.9 p.p.**	**...**
NPL coverage[1]	**51.7%**	**51.9%**	**67.3%**	**15.3 p.p.**	**...**
Cost of Risk (bps)	**1 515**	**1 333**	**1 126**	**-207**	**...**

1. Includes Deposits and Loans and advances to Banks and Customer Loans
* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations. which occurred in the third quarter of 2020

3.4 NOVO BANCO Group (Consolidated)

3.4.1 Results

NOVO BANCO Group reported a net loss of -€1,329.3mn in financial year 2020, including the following:

- a negative impact of €300.2mn as a result of the independent valuation of restructuring funds;
- €1,191.5mn of impairments and provisions, resulting from the discontinuation of the business in Spain and higher credit risk (loans to customers, guarantees and financial institutions), including €268.8mn of additional impairment for credit risks arising from Covid-19; and
- €123.9mn increase in provisions for restructuring.

mn€

Income statement	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Net Interest Income	540.6	512.4	555.1	42.7	8.3%
Fees and Commissions	323.5	312.3	271.9	- 40.4	-12.9%
Commercial Banking Income	**864.1**	**824.7**	**827.0**	**2.3**	**0.3%**
Capital Markets Results	- 196.8	- 197.7	- 72.5	125.2	63.3%
Other Operating Results	- 247.0	-326.8	- 136.6	190.2	58.2%
Banking Income	**420.3**	**300.2**	**617.9**	**317.7**	**...**
Operating Costs	478.5	438.7	431.8	- 6.8	-1.6%
Net Operating Income	**- 58.2**	**-138.4**	**186.1**	**324.5**	**...**
Restructuring funds - independent valuation	0.0	0.0	- 300.2	- 300.2	...
Net Impairments and Provisions	**935.4**	**855.1**	**1 191.5**	**336.3**	**39.3%**
Credit	627.5	540.6	524.4	- 16.1	-3.0%
Securities	- 0.2	- 0.1	41.0	41.1	...
Other Assets and Contingencies	308.1	314.7	626.0	311.4	98.9%
Income before Taxes	**- 993.6**	**-993.6**	**-1 305.6**	**- 312.0**	**-31.4%**
Corporate Income Tax	45.8	45.8	1.1	- 44.7	-97.6%
Special Tax on Banks	27.1	27.1	32.8	5.7	20.9%
Income after Taxes	**-1 066.5**	**-1 066.5**	**-1 339.4**	**- 272.9**	**-25.6%**
Non-Controlling Interests	-7.7	- 7.7	- 10.1	- 2.4	-31.6%
Net Income for the period	**-1 058.8**	**-1 058.8**	**-1 329.3**	**- 270.5**	**-25.5%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The most relevant aspects of the combined activity during the year of 2020 include the following:

- Commercial banking income at €827.0mn, stable YoY with the increase in Net Interest Income (+8.3%), offsetting the decrease in Fees and commissions (-12.9%; given Covid-19 impact on the economy and client activity);
- Capital markets results at -€72.5mn, reflecting volatility in the financial and capital markets during 2020 and the results of the Liability Management Exercise (LME; -€27mn);
- The 2.4% YoY increase of Core operating income (commercial banking income – operating costs), backed by higher Net Interest Income (+8.3%) and lower Operating costs (-1.6%), reflecting the ongoing recalibration of the business model and optimisation of the corporate structure, leading to an improvement of Bank's efficiency ratios;
- The provision charge in the period, totalling €1,191.5mn, includes €268.8mn impact of the Covid-19 pandemic, €550.2mn from impairments and provisions, resulting mainly from higher impairment charges in Legacy assets, and the discontinuation of the business in Spain (€166.0mn).

Net Interest Income

The reduction in the average interest rate on assets of 5bps YoY (from 1.82% to 1.77%) was offset by the reduction of 14bps average interest rate on liabilities. That resulted in a net interest margin increase of 9bps YoY (from 1.32% to 1.41%).

mn€

Net interest income (NII) and net interest margin (NIM)	31-Dec-19			31-Dec-20		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
Interest earning assets	**40 344**	**1.82%**	**745**	**38 597**	**1.77%**	**694**
Customer Loans	28 558	2.08%	601	24 939	2.13%	541
Corporate	17 131	2.22%	385	13 624	2.42%	335
Mortgage	9 860	1.27%	127	9 987	1.20%	122
Consumer & Others	1 567	5.58%	89	1 328	6.24%	84
Money Market Placements	1 442	1.32%	19	2 993	0.54%	16
Securities and Other Assets	10 344	1.19%	125	10 665	1.26%	137
Interest earning assets and other	**40 344**	**1.82%**	**745**	**38 597**	**1.77%**	**694**
Interest bearing liabilities	**37 960**	**0.51%**	**196**	**36 769**	**0.35%**	**132**
Customer Deposits	27 949	0.34%	97	25 775	0.27%	72
Money Market Funding	8 931	0.28%	25	9 913	-0.13%	- 13
Other Liabilities	1 080	6.68%	73	1 081	6.70%	74
Other non-interest bearing liabilities	**2 383**	**-**	**-**	**1 828**	**-**	**-**
Interest bearing liabilities and other	**40 344**	**0.48%**	**196**	**38 597**	**0.34%**	**132**
NIM / NII (without stage 3 impairment adjustment)		**1.34%**	**549**		**1.43%**	**561**
Stage 3 impairment			- 9			- 6
NIM / NII		**1.32%**	**541**		**1.41%**	**555**

The average rate on customer loans was 2.13%. The average balance of deposits was €25.8bn, with an average interest rate of 0.27%, and Money Market Funding was €9.9bn, with -0.13% average interest rate, benefiting in part from the conditions of the ECB long-term refinancing operations (TLTRO III).

The Group therefore continued to increase the spread between the rate on interest earning assets (1.77%; Dec.19: 1.82%) and the cost of liabilities (0.34%; Dec.19: 0.48%) with a positive impact on overall net interest margin (1.41%; Dec.2019: 1.32%).

Fees and Commissions

Fees and commissions on banking services contributed +€271.9mn which compares with +€312.3mn in 2019, -12.9% YoY given lower levels of transactions and banking activity in Portugal.

mn€

Fees and commissions	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Payments Management	117.2	115.6	108.5	-7.1	-6.1%
Commissions on Loans, Guarantees and Similar	107.8	102.6	86.3	-16.2	-15.8%
Asset Management and Bancassurance	71.5	65.4	61.4	-3.9	-6.0%
Advising, Servicing and Other	26.9	28.8	15.6	-13.2	-45.9%
TOTAL	**323.5**	**312.3**	**271.9**	**-40.4**	**-12.9%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Operating Costs

Operating costs reduced by -1.6% YoY, reflecting the continued optimisation and simplification of organisational structure and processes.

mn€

Operating costs	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
							absolute	%
Staff Costs	303.5	275.7	266.1	265.4	246.4	245.6	- 0.8	-0.3%
General and Administrative Costs	231.4	215.4	199.0	179.5	161.9	153.2	- 8.8	-5.4%
Depreciation	56.1	58.1	22.1	33.7	30.3	33.1	2.7	9.0%
TOTAL	**590.9**	**549.2**	**487.3**	**478.5**	**438.7**	**431.8**	**- 6.8**	**-1.6%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Staff costs totalled €245.6mn (-0.3% YoY). The significant reduction since Dec.16 (-19.1%) results from the continuous recalibration of the business model with the aim of increasing efficiency.

Compared to 2019, there was a headcount reduction of 287 employees (including the effect of the transfer of Spanish Branch to discontinued operations). As at 31 December 2020, NOVO BANCO Group had 4,582 employees (4,869 on 31 December 2019).

General and administrative costs decreased 5.4% YoY, to €153.2mn. This reduction also reflects the continued rationalisation and streamlining of the Bank's internal processes that allowed these costs to reduce by 33.8% in the last 5 years.

As at 31 December 2020 the branch network comprised 359 units (vs Dec.19: 387), of which 358 were in Portugal.

Impairments and Provisions

NOVO BANCO Group increased provisions by €1,191.5mn (+€336.3mn YoY), including a €268.8mn impact from Covid-19 (customer loans and securities; anticipating losses specifically related to the pandemic), €550.2mn from impairments and provisions resulting mainly from higher charges in Legacy assets, and the discontinuation of the business in Spain (€166.0mn).

The cost of risk was 208bps. Excluding the above-mentioned impairment related to the impact of Covid-19, the cost of risk in the period would have been 121bps.

mn€

Net impairments and provisions	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Customer Loans	627.5	540.6	524.4	-16.1	-3.0%
Securities	-0.2	-0.1	41.0	41.1	...
Other Assets and Contingencies	308.1	314.7	626.0	311.4	98.9%
TOTAL	**935.4**	**855.1**	**1 191.5**	**336.3**	**39.3%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

3.4.2 Balance Sheet and Activity

Customer loans

NOVO BANCO's strategy is one of supporting the domestic business community combined with a robust lending policy. This support has been provided across all industry sectors and all companies, with an emphasis on exporting SMEs and those that focus on innovation in their products, services or production systems.

mn€

Customer loans	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Loans to corporate customers	**15 232**	**13 921**	**13 873**	**- 47**	**-0.3%**
Loans to Individuals	**11 823**	**11 476**	**11 344**	**- 132**	**-1.2%**
Residential Mortgage	10 264	10 108	10 010	- 63	-0.6%
Other Loans	1 558	1 368	1 333	- 69	-4.9%
Customer Loans (gross)	**27 055**	**25 396**	**25 217**	**- 180**	**-0.7%**
Provisions	1 852	1 794	1 600	-195	-10.8%
Customer Loans (net)	**25 202**	**23 602**	**23 617**	**15**	**0.1%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOVO BANCO's commitment to support corporates and households resulted in the granting of €6.9bn of support moratoria, representing circa 27% of the gross loan book, along with €1.1bn of guaranteed credit lines granted to corporates, of which ~92% are already disbursed. The moratoria under the regulatory framework support more than 40,000 clients and represented ~33% of the corporate portfolio, ~20% of the mortgage book and ~16% of Other individual loans portfolio.

In December 2020, gross customer loans reached €25,217mn, showing a slight YoY decrease (-0.7%) entirely due to the evolution of the legacy loan book (-€672mn; -26.2% vs Dec.19). In the recurrent activity, loan volumes increased by 2.2%, propelled by the corporate portfolio of +5.0%.

The main credit risk indicators are shown below compared with December 2019:

mn€

Asset quality and coverage ratios	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YtD Change absolute	YtD Change %
Overdue Loans > 90 days	1 083	1 005	610	-395	-39.3%
Non-Performing Loans (NPL)[1]	3 430	3 312	2 498	-814	-24.6%
Overdue Loans > 90 days / Customer Loans (gross)	4.0%	4.0%	2.4%	-1.5 p.p.	-
Non-Performing Loans (NPL)[1] / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	11.8%	12.0%	8.9%	-3.2 p.p.	-
Credit Provisions / Customer Loans	6.8%	7.1%	6.3%	-0.7 p.p.	-
Coverage of Overdue Loans > 90 days	171.0%	178.6%	262.2%	83.6 p.p.	-
Coverage of Non-Performing Loans[1]	56.2%	56.5%	74.1%	17.6 p.p.	-

1 Includes Deposits and Loans and advances to Banks and Customer Loans
* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The reduction in loans overdue by more than 90 days, and in non-performing loans (including deposits with banks and loans and advances to banks), led to an improvement in the respective asset quality ratios to 2.4% and 8.9%, respectively (versus 4.0% and 12.0% on Dec.19).

On 31 December 2020, the coverage of non-performing loans by impairments (including deposits with banks and loans and advances to banks) was 74.1% (+17.6 pp compared to Dec.19).

Provisions for credit amounted to €1.6bn, representing 6.3% of the total loan book.

3.5 Business Segments

NOVO BANCO focuses its business model on three main segments – domestic commercial banking - retail, domestic commercial banking - corporate, and asset management –, with digital transformation applying to all the activities developed.

NOVO BANCO's Digital Transformation emerges from a context of fast-expanding and increasingly intense digital disruption, with ever higher customer expectations. In 2020 the Bank set as a priority to address the needs created by the Covid-19 pandemic. With the Covid-related restrictions on mobility and economic impacts, new opportunities arose to better serve the clients, meet their needs and cement the commercial relationship.

The Bank thus started to provide a set of structural developments:

Onboarding

Account opening remote solutions, through Digital Mobile Key / Video Call, for an all-inclusive and efficient onboarding experience.

- Average monthly growth rate of 25% (accounts opened digitally in 2020).
- Reduction of the average time to open an account by up to 80%.
- Reduction of 62,000 litres of water, and elimination of paper documentation (in 2020).
- **International recognition - honourable mention in the 2020 Banking Tech Awards , on top of the accolades already received in 2019 (Exame informática, Portugal Digital Awards).**

NB smarter

Launch of a new app for Individual Clients: renewed design and customer experience, adaptable, customisable, and predictive (based on data science), and offering a wide range of services and solutions, including the aggregation of accounts with other banks.

- Launched in December 2020, this is a new-generation App, better prepared to address the specific needs of the less digitally inclined.
- Broad range of services and solutions plus new functionalities: i) Balance/ movements enquiries in all accounts (regardless of the bank where they are held); ii) Categorisation and automatic organisation of all transactions allow giving Clients concrete suggestions to improve their financial life.

Homebuying

Reinvention of the home buying experience, from simulation to title deed. Now with a new branch platform that completes the omnichannel experience.
A simpler, faster and more transparent process.

- +55% of daily applications and 80% of title deeds with digital origin in 2020
- 50% of online-sourced applications are from new clients and of these 25% are from foreign clients
- Up to 55% reduction in the number of clicks to submit a loan application
- Reduction of 80,000 litres of water, and elimination of paper documentation
- **International Recognition - Shortlisted for Finovate Awards 2020 and Banking Tech Awards 2020**

Phygital

Improves the customer experience through mobility and sharing, enabling a remote but close relationship.
Streamlines processes through digital signatures with validation code and handwritten electronic signature, fostering transparent relationships.
Adoption of digital processes that promote a paperless culture.

- Mobile customer service solution made available to 3000 employees.
- Impacts in pilot phase:
  - +50% (vs 2019) in homebanking sharing sessions
  - Sharp rise in the volume of eligible operations executed through the new solutions (+55%)
  - Environmental impacts in 2020: saving of 199 thousand litres of water.

NBnetwork+

Digital financial management solution for companies, pioneering in Portugal, that allows a combined view of bank accounts, permits to initiate payments, and whose functionalities improve companies' operating efficiency: Financial calendar, categorisation of expenses and alerts and notifications. Based on analytical and predictive capabilities.

- Solution launched in October 2020
- Available to all the companies that use NBnetwork (NOVO BANCO's Internet Banking)
- **Winner in the 'Best Banking Project' category of the 2020 edition of the Portugal Digital Awards**

Small Business Finance

Digital solution for loans to small businesses: automated and integrated access to credit through the NBnetwork digital channel. Totally secure, with no need to deliver any documentation or go to the branch, and with funds made available in less than 48 hours.

- Funds made available to clients in <48 hours
- Greater efficiency: 80% to 100% reduction in process times, and 100% paperless.
- # of self-service transactions account for 40% of the total equivalent
- **Honourable Mention in the Banking Tech Awards 2020**

3.5.1 Corporate

During 2020 NOVO BANCO maintained its role as strategic partner of its corporate clients, at three key levels:

i. providing financial support to small and medium-sized enterprises in the Covid context - by Dec-20 it had granted €1.1bn under Credit Lines with Mutual Guarantee Entities, covering more than 4,900 clients.

ii. responding to requests for moratoria on loans which to date reach approximately 7,700 corporate clients and total €4.6bn;

iii. maintaining its focus on the digital transformation of processes, investing on remote relationship and signature tools to continue to address the needs of its clients quickly but in compliance with the social distancing restrictions imposed in the Covid context.

NOVO BANCO, which continues to be a reference bank for the national companies, has remained faithful to its matrix of proximity to the business community, seeking, as always, and beyond the financial support, to help companies adjust their strategies to the new realities, by recognizing that it is more important than ever to share experiences, to learn more about distribution chains, to receive specialized advice and information on new opportunities, and to access international markets, among others.

Therefore, in 2020 NOVO BANCO continued to promote and/or participate in several initiatives, aiming at the joint search for solutions and the promotion of outstanding economic sectors, regions and companies that can be set as a reference for the remaining national business community. From this set of initiatives, the following stand out:

- **Regional and Sector-specific Events "Portugal que Faz" ("Portugal that Does"),** an initiative under a partnership with Global Media, aimed at giving voice to the Business Associations representing the Portuguese business fabric, by identifying companies' needs across the board and discussing the necessary solutions to achieve a future of overcoming and resilience;
- **PME Líder:** Developed in partnership with Exame magazine, it aims to foster the role of SMEs in the Portuguese business fabric. In 2020 the newsletters and webinars focused, among others, on security inside and outside organisations, the acceleration of digital transformation and increasing competitiveness, the ability to adapt to new business models, the change of production processes, and financial aid.
- **Exports and Internationalisation:** Portugal Exportador, in partnership with the AIP Foundation and AICEP Portugal Global, is considered the biggest event for the promotion of exports and internationalisation.

3.5.2 Retail

During 2020, NOVO BANCO remained open and available to serve its clients, and its response included, among others, the opening of branches and incentives and training on the use of remote and digital channels. The Bank also supported its clients by setting in motion and making available credit lines to assist companies affected by the crisis, and taking part in the banking sector's global solution to help families in difficulties due to the pandemic (Moratoria on Mortgage Loans and Personal Loans).

The following should thus be stressed in terms of the offer:

- The performance in the various lending components, which, after some months of slowdown, consolidated a recovery trajectory. Notwithstanding the economic downturn in the last quarter of 2020, Mortgage Loans production exceeded that of the third quarter, surpassing the established targets and consolidating the quality of the digital subscription process.
- Production in the Non-Financial Offer, through which the bank regularly launches thematic products, was significantly higher than in the previous year.
- Investment Advisory Service for NB360° clients, which provides the most adequate investment propositions to fit the profile of each client.
- Process flexibility and digitisation to mitigate the impact of the pandemic on normal commercial activity, namely with regard to the remote subscription/ formalisation of contracts, proved to be an added value.
- Redefinition of the risk insurance offer, including the launch of: Life Insurance for young adults, who require protection appropriate to their age and lifestyle, and Insurance for older adults, with a significant increase in coverage for disability, and expansion of the array of protection for Serious Illnesses.
- Redefinition of the Service-account offer, reflecting sustainability concerns. In the new Service-account products, the Bank offsets the non-avoided CO_2 emissions of all the users of these accounts, making them carbon neutral.
- Regular launch of ESG (Environmental, Social and Governance) Structured Deposits, whose remuneration is linked to the share performance of companies that stand out for their capacity to lead social and governance changes and change in environmental criteria.

NOVO BANCO AÇORES

NBA's strategy of supporting the Azores regional business fabric was developed with rigor, and with a focus on SMEs and companies that incorporate innovation into their products, services or productive systems. NBA continued to work closely with its clients, providing support for the pressing and growing needs of the Azorean society.

The activity results had a positive performance compared to the previous year, with banking income and net interest income increasing by 3.8% and 1.8%, respectively. NBA reported a net profit of €2.8mn, which compares with €4.0mn in 2019. This reduction was mainly due to the reinforcement of impairments, mainly for credit risks, as a result of the Covid-19 pandemic, and for real estate.

In 2020, assets increased by €25.8mn (+4.6%), with net customer loans growing by 3.2% (+€11.0mn) compared to December 2019. The growth in corporate loans reflects the continued support to the regional business community, across all sectors and all companies, with a focus on SMEs, and the availability of Covid-19 related credit lines for corporate clients. NBA recorded the lowest amount of non-performing loans in recent years (€7.1mn), corresponding to a non-performing loans ratio of 1.9% only.

As to customer funds, at the end of the year customer deposits totalled €392.7mn (+7.0% vs. 2019).

BEST - Banco Electrónico de Serviço Total, S.A.

In 2020 the financial markets recorded historically high levels of volatility, with a significant impact on the AUMs of Banco Best's clients, - which, even so, increased by 6% YoY, to €2,193mn, as well as on the volume of customer loans (of which 94% collateralised by financial assets), which contracted by 17% YoY, to €123mn, of which only a small amount in moratoria (€0.3mn). On the other hand, the volume of customer deposits reached €694mn, showing a significant increase of 27% YoY.

Trading, which, together with Asset Management, is one of BEST's core activities, strongly benefited from this financial market's volatility, with the volume of transactions up to December 2020 having more than doubled compared to the previous year.

As a result, Banco Best recorded a net profit of €1.8mn in 2020.

BEST's strong traditional presence in digital banking is reflected, among others, on the fact that the number of new clients increased by 28%, with 40% of the new accounts being opened by video call or through the Digital Mobile Key.

In 2020, and all the more so due to the context of the Covid-19 pandemic, BEST pursued its strategy of focusing on digital banking, on the innovation of its offer of financial products and services - particularly in the area of asset management -, and on the reinforcement of the independence of the offer, as shown by the following achievements:

Main achievements in 2020

Business

ENRICHMENT OF THE OPEN INVESTMENT PLATFORM (ASSET MANAGEMENT), IN LINE WITH MARKET TRENDS AND TO BOLSTER MARKET LEADERSHIP:

- Launch of precious metals ETCs (Platinum, gold and silver)
- Exclusive distribution of Mutual Fund (Square Property Core)
- New partnerships: Amundi (ETF ESG), Flossbach von Storch, BlueBay, Natixis and Sixty Degrees
- New post-Covid related "investment themes": Technology, Health, ESG, Lower interest rates and A-Commerce.

BEST'S NEW APP, FOCUSED ON BANKING SERVICES INTEGRATION AND WITH NEW OPTIONS:

Innovation

- Mutual funds, targeted saving, plus TDs and Auctions
- Equipment and travel insurance
- Cards blocking and unblocking
- Sending of notifications (SCA)
- Upload of certificates and document photos for data updates (KYC)

THE INVESTMENT MADE TO SUPPORT THE CORE ACTIVITY GENERATED ADDITIONAL VALUE FOR THE CLIENT AND INCREASED PROCESS EFFICIENCY:

Structural

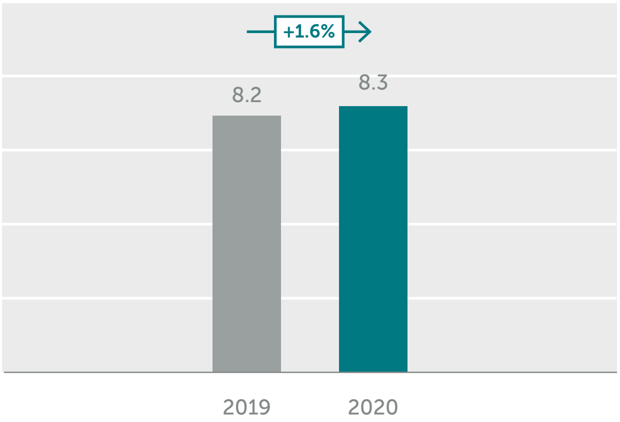
- Commercial Dashboard (Capital gains and losses on Funds and Securities)
- Replacement of structure for receiving quotes from stock exchanges
- New approach to the Investor Profile Questionnaire, now with a modular rationale

ASSET MANAGEMENT

GNB GA's management remained faithful to its mission of creating financial value, notwithstanding the disruption in the financial markets caused by the pandemic context. In December 2020, in line with the strategy of focusing on the domestic banking business and divesting non-strategic assets, Novo Activos Financieros España, S.A. was sold.

In 2020 income from asset management activities increased by 1.6%, to €8.3mn, with the positive impact of the disposal of the asset management business in Spain being partially offset by non-recurrent events.

Net Profit Evolution
€mn



Highlights in 2020

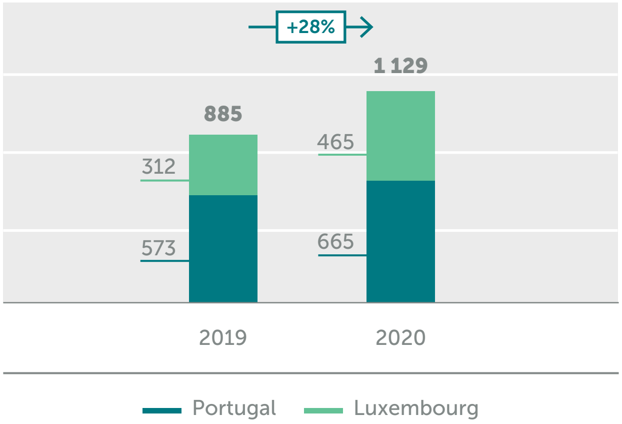
Mutual Funds:

- +28% increase, to €1.1bn, in assets under management of all the funds domiciled in Portugal and Luxembourg.
- Awards: GNB GA earned 5 awards in 2020, in connection to pension funds, bond mutual funds and flexible mutual funds. The main highlight was the Lipper award in the segment of Euro bond funds sold in Europe. The NB Euro Bond fund won in this category for the 2nd consecutive year in all three tenors: 3, 5 and 10 years.
- Sustainability: GNB GA continued to take important steps to reinforce the incorporation of sustainability principles. Having formally adopted ESG criteria in the management of equity funds, the company went on developing other initiatives to include more products in its offer of funds considered socially responsible.

GNB Real Estate:

- GNB GA's management remained faithful to its mission of creating financial value, pursuing its main objective of reducing exposure to non-strategic real estate.
- The volume under management of real estate investment funds totalled approximately €1,066mn on 31 December 2020 (+2.7% vs 2019).
- The implementation of the project to reorganise the portfolio of real estate funds managed by the company, involving the transfer in kind of properties, had its first phase starting in December.
- GNB RE closed 2020 with a market share of 10.2% (vs 10.4% in 2019).

Mutual Funds - AuM
€mn



Wealth Management:

- Confirming the confidence placed by clients in GNB GA management, the number of clients with discretionary management portfolios increased to 1,002 (vs 985 in 2019). Including the remaining management contracts, the amount of assets under management totals €5.1bn.

3.6 NOVO BANCO Separate

Results

NOVO BANCO reported a net loss of €1 374.2mn in 2020, which compares with a net loss of €1 087.6million in 2019.

Commercial banking income reached €812.2mn (+1.4% YoY) driven by the increase in net interest income (+9.7%), despite lower fees and commissions (-13.9%).

Capital markets results were negative, at €224.2mn, and the impact of the independent evaluation of NOVO BANCO's restructuring funds had a negative effect of € 300.2mn.

Operating costs decreased by -1.7% YoY, to €402.7mn, reflecting staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structures.

Net operating income (excluding the extraordinary effect of the independent assessment of restructuring funds) was positive, at €149.4mn. On the other hand, the evolution of impairments and provisions, which increased by 21.1% YoY, to €1 195.5mn, was influenced by the impairments associated with the Covid-19 pandemic (€268.8mn).

mn€

Income statement	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	% Change
Net Interest Income	546.2	517.6	568.0	9.7%
Fees and Commissions	295.0	283.5	244.2	-13.9%
Commercial Banking Income	**841.1**	**801.1**	**812.2**	**1.4%**
Capital Markets Results	-313.9	-314.9	-224.2	28.8%
Other Operating Results	-31.4	-111.6	-35.9	67.8%
Banking Income	**495.8**	**374.6**	**552.1**	**47.4%**
Operating Costs	450.7	409.7	402.7	-1.7%
Net Operating Income	**45.1**	**-35.1**	**149.4**	**...**
Restructuring funds - independent valuation	0.0	0.0	-300.2	...
Net Impairments and Provisions	1 067.4	987.1	1 195.5	21.1%
Credit	630.9	543.9	520.5	-4.3%
Securities	0.2	0.3	40.9	...
Other Assets and Contingencies	436.3	442.9	634.1	43.2%
Income before Taxes	**-1 022.2**	**-1 022.2**	**-1 346.3**	**-31.7%**
Taxes	38.7	38.7	-4.2	...
Special Tax on Banks	26.6	26.6	32.2	20.8%
Net Income for the year	**-1 087.6**	**-1 087.6**	**-1 374.2**	**-26.4%**

* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Activity

NOVO BANCO's activity in 2020 was developed under the same guidelines already referred to for NOVO BANCO Group

mn€

Activity evolution	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Assets	**45 026**	**45 026**	**44 042**	**- 984**	**-2.2%**
Customer Loans (gross)	**25 046**	**23 367**	**23 332**	**- 35**	**-0.1%**
Loans to Individuals	9 939	9 593	9 609	16	0.2%
Residential Mortgage	8 524	8 334	8 395	61	0.7%
Other Loans	1 415	1 259	1 214	- 44	-3.5%
Loans to corporate customers	15 106	13 775	13 723	- 51	-0.4%
On Balance Sheet Funds	**28 891**	**27 019**	**26 709**	**- 310**	**-1.1%**
Deposits	27 419	25 547	25 557	10	0.0%
Other Customer Funds (1)	561	561	222	- 340	-60.5%
Debt Securities	496	496	515	19	3.9%
Subordinated Debt	415	415	415	0	0.0%

(1) Includes checks and pending payment instructions, Repos and other funds.
* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

On 31 December 2020, customer deposits totaled €25.6bn, being stable YoY (Dec.19: €25.5bn).

Gross customer loan portfolio remained stable YoY (Dec.20: €23.3bn; Dec.19: €23.4bn), together with a significant decrease in non-performing loans (-€808M; -24.8%).

The quality of the loan portfolio at the end of the period shows a transversal improvement in NOVO BANCO's asset quality, with the Overdue loans >90 days / Gross loans ratio decreasing to 2.6% (Dec.19: 4.3%) and with the NPL coverage ratio rising to 65.2% (Dec.19: 54.8%).

mn€

Asset quality	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change absolute	Change %
DATA BASIS (Euro millions)					
Customer Loans (gross)	25 046	23 367	23 332	- 35	-0.1%
Overdue Loans	1 097	1 009	616	- 393	-38.9%
Overdue Loans > 90 days	1 073	994	603	- 392	-39.4%
Forborne Loans	2 694	2 536	2 054	- 482	-19.0%
*Non-Performing Loans (NPL)**	3 372	3 253	2 445	- 808	-24.8%
Customer Loans Impairment	1 841	1 783	1 587	- 196	-11.0%
ASSET QUALITY AND COVERAGE RATIOS (%)					
Overdue Loans / Gross Loans to Customers	4.4%	4.3%	2.6%	-1.7 p.p.	-
Overdue Loans > 90 days / Gross Loans to Customers	4.3%	4.3%	2.6%	-1.7 p.p.	-
Forborne Loans / Gross Loans to Customers	10.8%	10.9%	8.8%	-2.1 p.p.	-
Non-Performing Loans (NPL) / Gross Loans to Customers + Gross Loans to Credit Institutions*	12.4%	12.8%	9.3%	-3.5 p.p.	-
Impairment / Total Loans to Customers	7.4%	7.6%	6.8%	-0.8 p.p.	-
Impairment / Overdue Loans	167.8%	176.8%	257.5%	80.8 p.p.	-
Impairment / Overdue Loans > 90 days	171.6%	179.3%	263.3%	83.9 p.p.	-
Impairment / Non-Performing Loans*	54.6%	54.8%	64.9%	10.1 p.p.	-

* includes Credit Institutions
* Pro-forma values to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

3.7 Relevant facts from the activity and subsequent events

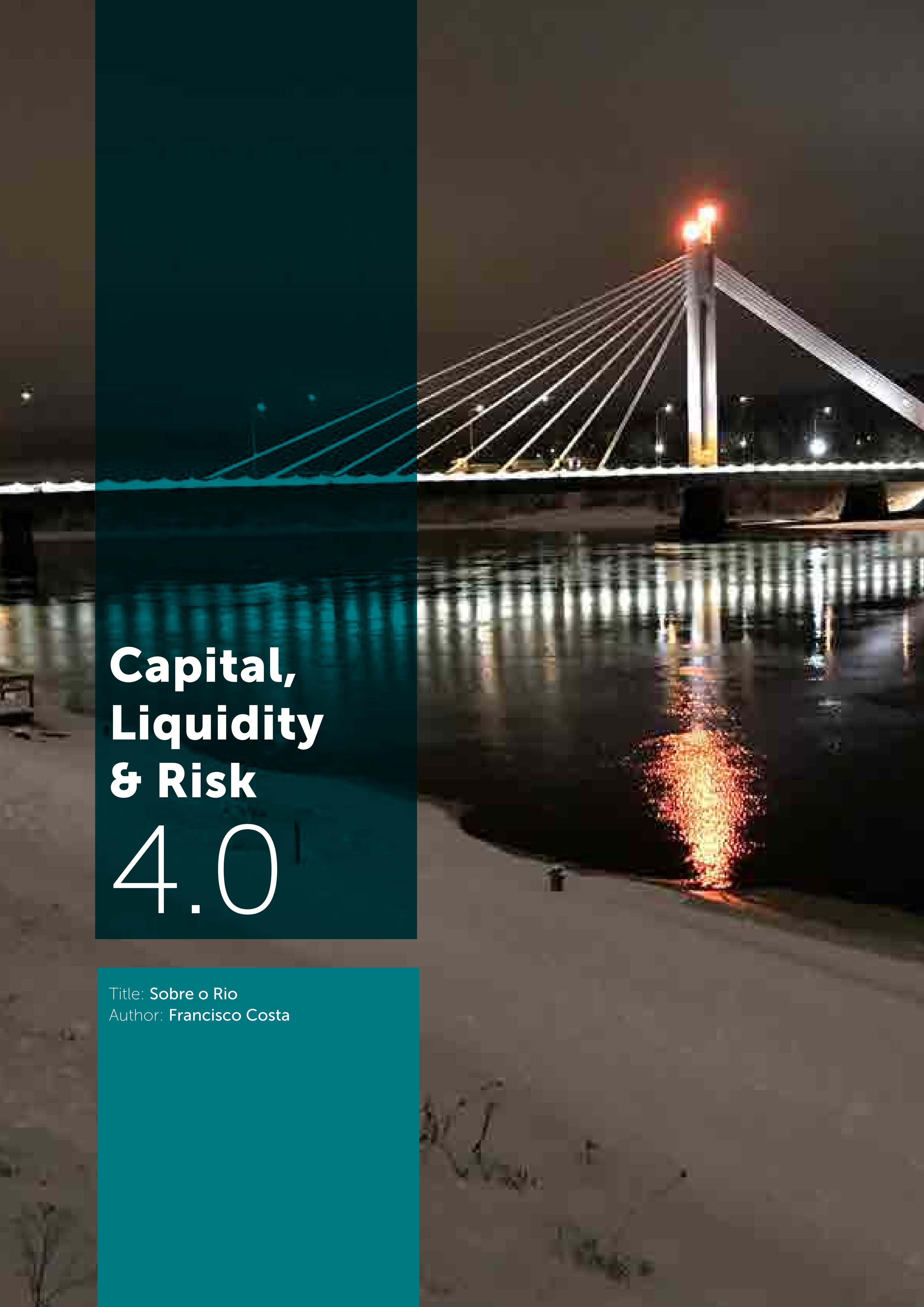
- On 1 September, NOVO BANCO received the Independent Audit Report prepared by Deloitte prepared pursuant to Law 15/2019. As referred in the note sent by the Ministry of Finance, the audit report "shows that the losses incurred by NOVO BANCO resulted primarily from exposures to assets that originated in the period of activity of Banco Espírito Santo and that were transferred to NOVO BANCO within the scope of the resolution".
- On 8 October NOVO BANCO completed the sale of its 25% stake in GNB – Seguros, a non-life insurance company, for a total consideration of €15.9mn, to Crédit Agricole Assurances, a company of Crédit Agricole Group, which already held the remaining 75% of the share capital of GNB – Seguros. The transaction also included the renegotiation of the non-life insurance distribution agreement for the Portuguese market for a period of 22 years. The sale had an expected positive impact on the income statement of approximately €6mn;
- On 22 October the General Meeting of NOVO BANCO appointed the members of GSB for the 2021-2024 four-year mandate, subject to authorisation by the competent regulatory authorities, ten members led by Byron Haynes as Chairman and Karl-Gerhard Eick as Vice-Chairman, including the new member William Henry Newton.
- The GSB also appointed the members to the EBD subject to authorisation by the competent regulatory authorities for the 2021-2024 mandate. The GSB appointed António Ramalho as Chief Executive Officer, Mark Bourke as Chief Financial Officer, Luísa Soares da Silva as Chief Legal and Compliance Officer, Rui Fontes as Chief Risk Officer, Luís Ribeiro as Chief Commercial Officer (Retail) and Andrés Baltar as the new member of the Bank's Executive Board of Directors as Chief Commercial Officer (Corporate).
- On 11 November NOVO BANCO announced a tender offer on NB Finance's outstanding bonds.
- On 27 November, NOVO BANCO noted the approval of the legislative proposal no. 61/XIV/2 concerning the Portuguese State Budget for 2021, which aims to withdraw the authorisation for the Resolution Fund to transfer additional funds to NOVO BANCO under the CCA. Considering that the Resolution Fund had met its payment obligations over the last three years, the Bank trusted it would continue to do so. Also, in this context, the Bank stressed the statement made by the Portuguese Prime Minister to the President of the ECB where he guaranteed "full compliance with the commitments undertaken in the framework of the sale of NOVO BANCO".
- On 22 December, NOVO BANCO, through its subsidiary GNB Gestão de Ativos, S.A., announced the conclusion of the sale of the total share capital of NOVO ACTIVOS FINANCIEROS ESPAÑA, S.A. ("NAFE") to TEAM & WORK 5000, S.L. ("TEAM & WORK"), which holds 100% of the share capital of TREA ASSET MANAGEMENT, S.G.I.I.C., S.A., for a total amount of €12.9mn. NAFE holds the entire share capital of NOVO BANCO GESTION, S.G.I.I.C., S.A. and NOVO BANCO PENSIONES, S.G.I.I.C., S.A., and in November 2020 the assets under management totalled €678mn. The sale had an expected positive impact on the 2020 Income Statement of approximately €3.5mn.
- On 28 December NOVO BANCO informed that following a competitive bid process, on 23 December a Sale and Purchase Agreement had been signed for the sale of a portfolio of non-performing loans and related assets (together known as Project Carter), with a gross book value of €79mn, to a company owned by affiliated companies, advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The sale price was approximately €37mn, and the completion of the transaction, on the agreed terms, is expected to have a marginal positive impact on NOVO BANCO's income statement and capital.
- On March 5 2021, NOVO BANCO informed that, following a competitive bid process, it had signed a Sale and Purchase Agreement with BURLINGTON LOAN MANAGEMENT DAC, a company affiliated with, and advised by, DAVIDSON KEMPNER EUROPEAN PARTNERS, LLP, for the sale of a portfolio of non-performing loans and related exposures (also known as Project Wilkinson) with an outstanding balance amount of €216.3mn (still being subject to perimeter adjustments usual in transactions of this nature). The portfolio sale price totalled €67.5mn, and the completion of the transaction on the agreed terms is expected to have a marginally positive impact on NOVO BANCO's capital and its 2021 income statement.

3.8 Main Risks and Uncertainties

2021 will continue to be marked by the Covid-19 pandemic which, despite the progress being made in terms of vaccination, which should start yielding results as the year advances, continues to exert acute pressure on the economy due to the imposition of successive states of emergency, with potential impacts in terms of Credit and Liquidity Risk.

With the slowdown of the world's main economies, the financial markets sustained large and widespread losses, foreshadowing a severe deterioration of the global macroeconomic scenario.

This environment generates risks for all Financial Institutions, namely: i) geopolitical uncertainties; ii) stock of non-productive assets and their potential growth; iii) cybercrime and disruption in Information Technology (IT); iv) low interest rates; and v) growing competition from non-banking entities.



Capital, Liquidity & Risk 4.0

Title: Sobre o Rio
Author: Francisco Costa

4.1 Capital Ratios

NOVO BANCO's Common Equity Tier 1 (CET1) is protected at pre-established levels up to the amounts of losses already recorded on the assets protected by the Contingent Capital Agreement. The amount to be requested in 2020 (of €598.3mn), considers the losses incurred on the assets covered by the Contingent Capital Agreement, as well as the minimum capital condition applicable at the end of 2020 under the Contingent Capital Agreement.

As at 31 December 2020, the CET1 ratio was 11.3% and total solvency ratio was 13.3%, representing a decrease compared with 2019, due to the decrease in the minimum capital condition of the Contingent Capital Agreement.

In this context, it is important to highlight the fact that the European Central Bank (ECB) disclosed during March 2020 several measures that allow Banks to operate temporarily below the required capital level. Following these measures NOVO BANCO opted for the IFRS9 dynamic approach. These measures aim to prevent Banks from suspending financing to the economy in an adverse economic environment. In addition, changes were introduced to the regulatory framework on the calculation of capital ratios, in force since June 2020, aimed at mitigating the impacts of the Covid-19 pandemic, both at the level of related impairment reinforcement and at the level of risk-weighted assets.

In addition, the accounts contain an aggregate provision of €166mn in relation to the discontinuation of Spanish operations. As there is a potential for dispute between the parties and therefore potential barrier to immediate access of this amount, the Bank, as a matter of prudence, has deducted this amount from regulatory capital calculation.

milhões de euros

Capital ratios (CRD IV/CRR)		31-Dec-19 (Phased-in)	31-Dec-20 (Phased-in)[1]	31-Dec-20 (fully loaded)[1]
Risk Weighted Assets	(A)	29 579	26 719	26 411
Own Funds				
Common Equity Tier 1	(B)	3 996	3 029	2 638
Tier 1	(C)	3 998	3 030	2 638
Total Own Funds	(D)	4 475	3 541	3 150
Common Equity Tier 1 Ratio	(B/A)	13.5%	11.3%	10.0%
Tier 1 Ratio	(C/A)	13.5%	11.3%	10.0%
Solvency Ratio	(D/A)	15.1%	13.3%	11.9%
Leverage Ratio		8.4%	6.5%	5.7%

(1) Preliminary; Novo Banco and Fundo de Resolução have different positions regarding the implementation of IFRS9 from the phase-in to the fully-loaded regime, and so both parties have submitted the matter to arbitration, in accordance with the rules of the CCA, the impact of such implementation in the calculation of the amount due by Fundo de Resolução under the CCA for 2019 financial year.
It was further agreed that NB would not change the implementation of IFRS9 from the transitional arrangements to the full implementation, pending a settlement of the dispute.
In the event the arbitration decides in favor of NB, Fundo de Resolução shall pay an amount corresponding to the amount that would have been paid had NB implemented IFRS9 in full as of 31 December 2019, provided that the CCA cap is not exceeded. The arbitration proceeding is still pending, and the decision is expected in the 4Q2021.
Novo Banco requested the ECB's authorization to apply the transitional arrangements (IFRS 9 dynamic approach), subject to arbitration, in the context of Novo Banco and Fundo de Resolução having recognized another divergence regarding the application of such regime.

4.2 Liquidity and Funding

Liquidity remains at comfortable levels and well above regulatory requirements.

Stable funding structure, relying mainly in customer deposits.

Cost optimization continues to be one of the main focus of the bank, without incurring undesirable liquidity risks.

Liquidity Management

NOVO BANCO manages liquidity in accordance with all the regulatory rules and its own management principles, guaranteeing that all responsibilities are met, whether in normal market conditions or under stress conditions. These include, among others, the ECB´s legal reserves, liquidity ratios (LCR and NSFR), maintenance of adequate levels of liquid assets, definition of funding transfer pricing (FTP) framework and establishment of an offer of financial products that results in a diversified panel of funding sources.

Short-term liquidity is monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which allows the bank to make an early detection of any signals of crisis with potential impacts on the Bank, namely through idiosyncratic risk, contagion risk (due to market tensions) or the risk of repercussions of an economic crisis on the Bank. The report 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 evolution of the treasury gap (net interbank deposits), as well as several warning indicators established for the purpose.

This process ensures an ongoing and active role in liquidity risk management and risk assessment from the EBD and also allows the Bank to take immediate action whenever necessary.

In addition, the liquidity position is also regularly reported to the Joint Supervisory Team.

In terms of the structural liquidity, NOVO BANCO manages its activity and funding sources in order to achieve funding stability and cost optimization, avoiding as much as possible undesirable liquidity risks. The structural liquidity of the bank is analysed in detail on the Capital and Asset Liability Committee (CALCO), which meets on a monthly basis. Among other, CALCO analyses and discusses the Bank's liquidity position, performs a comprehensive analysis of the liquidity risk and its evolution, with special focus on current liquidity buffers and generation / maintenance of eligible assets for rediscount with the ECB and respective impacts on the liquidity ratios.

NOVO BANCO Group's funding policy is one of the major components of the Bank's liquidity risk management, which stresses the diversification of funding sources by instruments, investors and maturities. Given the commercial nature of the balance sheet, NOVO BANCO's strategy has, since its incorporation, largely relied on boosting customer deposits as its major source of funding, as deposits were severely hit by the resolution and market access has not been normalized.

Additionally, the bank prepares a monthly liquidity report (for more details see '4.3. Risk Management), considering not only the effective maturity but also behavioural maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on this information and the Bank's medium-term plan, the annual activity funding plan is prepared considering the established budget targets. This plan, which is regularly reviewed, favours, as much as possible, stable funding instruments.

The Bank also has in place a contingency liquidity plan, which comprises a set of measures that, if triggered, would allow the bank to manage and/or minimize the effects of a severe liquidity crisis. These measures aim to address additional liquidity needs and boost the resilience of NOVO BANCO in a potential stress situation.

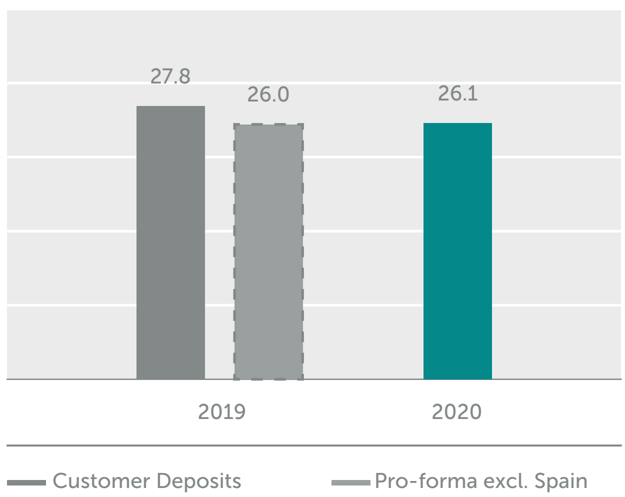
Finally, the Bank also performs, on an annual basis, an Internal Liquidity Adequacy Assessment Process or ILAAP, which evaluates the liquidity position of the Bank in a normal and stress scenario. The results of this process, which is approved by the EBD, must be sent to the regulatory authorities and concluded that the Bank's funding and liquidity structure and Internal processes are solid and that the Bank could withstand a stress scenario.

Funding structure and Liquidity in 2020

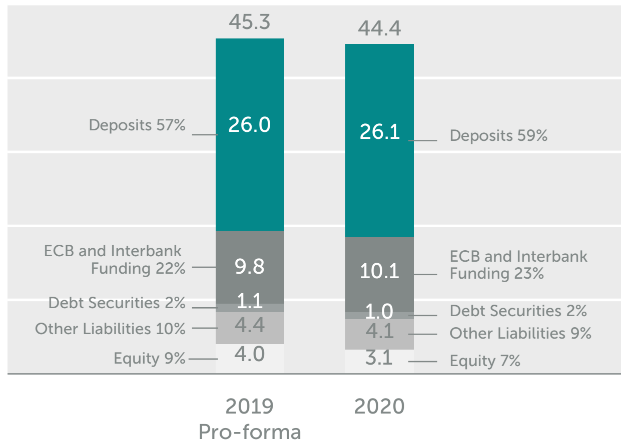
NOVO BANCO maintained a comfortable liquidity position in 2020, with deposits at the ECB having increased by €0.9bn, to €2.4bn. During the year, liquidity management continued to involve the rationalization of funding sources and improvement of profitability.

At the end of 2020 NOVO BANCO's customer deposits totalled €26.1bn, having remained stable since the end of 2019, excluding the effect of the transfer of the Spanish Branch to discontinued operations. However, retail customer deposits showed a very positive performance having increased €0.8 bn YoY, notwithstanding the reduction of interest rates. The Bank managed to maintain the weight of customer deposits in its financing structure, achieving, however, a relevant reduction in the associated cost.

Customer Deposits
(€bn)



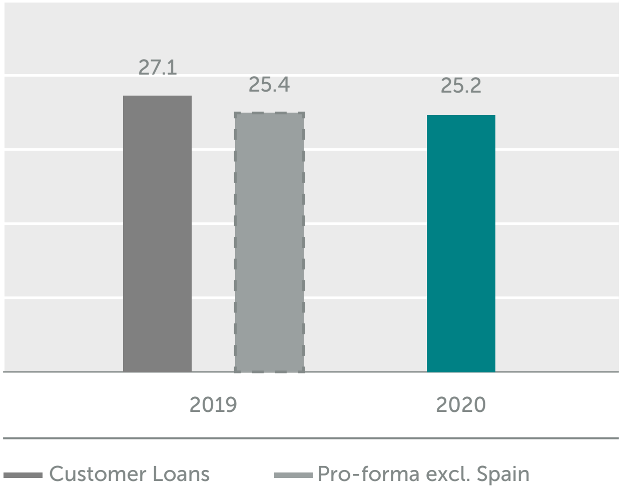
Funding Structure
(€bn)



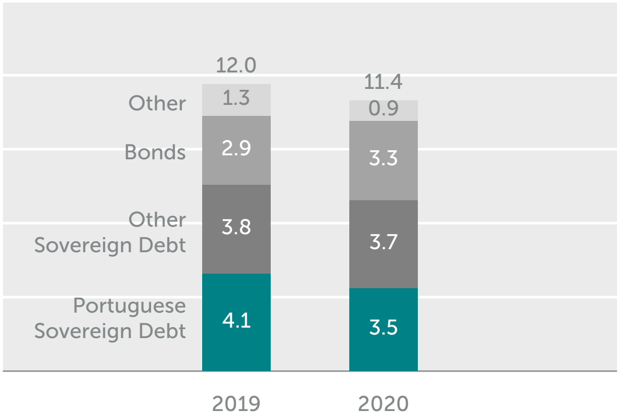
At the end of 2020, customer deposits remained the Bank's main funding source, accounting for 59% of its funding structure (61% at the end of 2019, or 57% excluding the effect of the Spanish Branch), of which 72% were deposits from the retail segment.

In terms of loan portfolio, the Bank's core business continued to grow both on the retail and corporate segment, reflecting the moratorium in place and the Covid-19 credit lines for the corporate segment. However, given the continuous effort to reduce non-strategic and non-productive assets, either through write-offs, outright sales and/or other deleveraging strategies, the total loan book, remained fairly stable standing at €25.2bn at December 2020, a YoY decrease of €0.2bn, excluding the effect of the Spanish Branch.

Gross Loan Book Evolution
(€bn)



Securities Portfolio
(€bn)



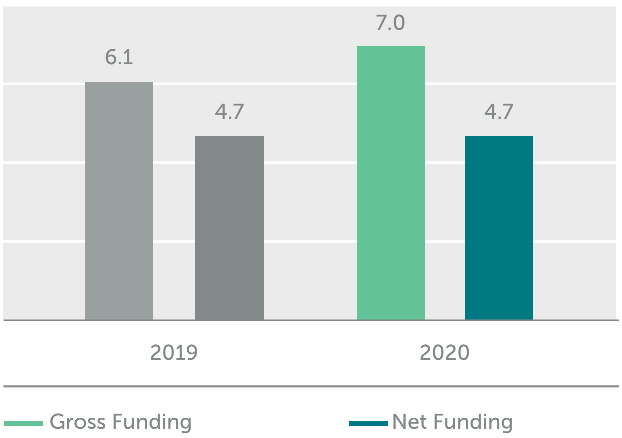
On the other hand, the securities portfolio reduced by around €0.6bn, largely due to the de-risking strategy followed by the Bank as a result of the Covid-19 outbreak and the market disruption it caused at the time. The Bank's security portfolio remained substantially composed of high-quality liquid assets (HQLAs), and among these approximately 80% are public debt securities. In 2020, as mentioned above, within its HQLA's portfolio, as part of the de-risk strategy, the Bank sold a portion of the longer dated sovereign bonds and partially replaced it with HQLA corporate bonds with a maturity up to 10 years.

One of the main liquidity events on 2020 was the capital contribution of €1.0bn made by the Resolution Fund to NOVO BANCO under the CCA in May 2020, which had a significant positive impact on the liquidity position of the Bank.

In terms of medium- and long-term funding, the Bank performed a liability management exercise at the end of 2020. This exercise consisted of a Tender Offer and Consent Solicitation on all the outstanding bonds issued by NB Finance, NOVO BANCO's debt issuing vehicle based in the Cayman Islands. As foreseen in the EU Commitments, NOVO BANCO should, on best-effort basis, unwind NB Finance by the end of 2021. However, given the long maturity dates of the outstanding bonds and the voluntary nature of any transaction that attempted to substitute or exchange the existing bonds, the execution of the transaction on economic favourable terms to the investors was enough to ensure compliance with the said commitment. The transaction was very successful, and it allowed the Bank to redeem 97% of the bonds (€370mn in nominal amount, or €160mn in book value).

Regarding medium- and long-term funding, the substitution of some credit lines for longer and cheaper financing including, but not limited, the TLTRO III will also improve the funding profile of the Bank in the coming years. As of the end of 2020, gross funding from the ECB increased €0.9bn YoY, all under the TLTRO III, to €7.0bn. However, net funding remained stable at €4.7bn, as the amount of cash placed with the ECB increased €0.9 bn as well, to €2.3bn. During 2020, as deposits with the ECB largely exceeded tiering, the Bank decided to significantly redeem short term repo transactions in the amount of €0.7bn.

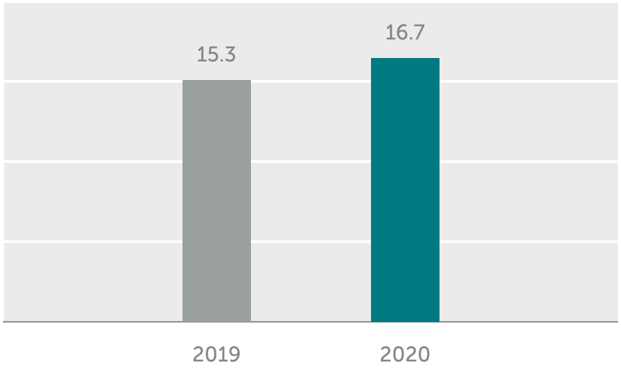
Evolution of Funding from the ECB
(€bn)



Despite the reduction of the HQLA's securities portfolio, NOVO BANCO maintained its liquidity buffer at very comfortable, due to not only the liquidity inflows referred above but also to the collateral easing measures applied by the ECB in April. In December 2020, the portfolio of eligible securities for rediscount with the ECB totalled €16.7bn (net of haircuts), which compares with €15.3bn in 2019.

NOVO BANCO thus maintained a comfortable liquidity position, with the regulatory Liquidity Coverage Ratio (LCR) standing at 144% at the end of 2020 and the Net Stable Funding Ratio (NSFR) at 113%, well above the regulatory requirement

Evolution of Eligible Assets at the ECB
(€bn)



Liquidity Ratios
(%)

4.3 Risk Management

The definition of a risk management framework with standards, patterns, objectives and responsibilities established for all areas of NOVO BANCO Group, allows to follow the strategic direction in compliance of the established risk appetite.

Supporting top management in effective risk management and in the development of a strong risk culture, this framework defines the following:

- the main risks faced by NOVO BANCO Group;
- the risk appetite requirements;
- the responsibility functions in risk management;
- the risk management governance structures and committees.

Risk Management Framework

The Risk Culture at NOVO BANCO Group

NOVO BANCO Group is naturally exposed to the various classes of risk inherent to the banking system, arising from external and internal factors, namely from the nature of the markets in which it operates.

GNB considers that Risk Management is a key pillar for sustained value creation over time.

GNB's Risk Management is therefore grounded on the following assumptions:

- Independence vis-à-vis the other Bank's units
- Universality, through application across the whole GNB
- Integration of the risk culture, through a holistic and preemptive approach to risk
- Specialisation

- Three lines of defence model, viewing the adequate detection, measurement, monitoring and control of all material risks to which GNB is exposed. This Model implies that all employees, in their sphere of activity, are responsible for the management and control of risks.

RISKS	1ST LINE OF DEFENCE	2ND LINE OF DEFENCE	3TH LINE OF DEFENCE
NOVO BANCO Group	Business Areas	• Global Risk Department • Compliance Department	Internal Audit Department
Function	Maximise return	Control	• Independent review • Ensure adequacy of policies and processes • Ensure correct implementation of policies and processes
Limitation	Takes risk according to Risk Appetite	Does not take risk	
Mission	• Correctly identify risks • Make sure that risk remains within defined limits • Measure, monitor, report		

Risk Management Function

The risk management function is organised in such a way as to allow effective management of the risks considered relevant and material by GNB (those to which senior management pays special attention and which may impact the achievement of the objectives defined by the Bank) as well as those considered as emerging (those where little is known about their components, and whose impact may occur over a longer time horizon).

The risks identified as relevant and material are quantified within the scope of the Internal Capital Adequacy Self-Assessment (ICAAP) exercise, the most relevant being:

i. credit risk, which includes default, counterparty and concentration risk,
ii. liquidity risk,
iii. market risk in the trading book and banking book, which includes interest rate risk (IRRBB), equities risk, credit spread risk, real estate risk and pension fund risk,
iv. operational risk, which includes operations risk, information systems risk, compliance risk, and reputational risk, and
v. business risk.

Emerging risks, which are closely monitored by the risk structures, include climate change and regulatory changes, among others.

Risk Management is Considered Vital for NB Group

Risk Management, as a vital function for the development of GNB's activity, is centralised in the Risk Management Function, which comprises the Global Risk Department (GRD) and the Rating Department (RTD). It defines holistic principles for risk management and control, in close coordination with the Compliance Function, which is responsible for operationalizing and implementing the policies defined by the EBD.

All materially relevant risks are reported to the management and supervision bodies (as applicable, to the EBD, GSB, both Risk Committees and the specialised committees), which are responsible for supervising, monitoring, assessing and defining the Risk Appetite and control principles.

At operational level, the GRD centralises NB Group's Risk Management Function, namely in terms of the responsibilities inherent to the function, supervising the various institutions of the Group and ensuring independence vis-à-vis the business areas.

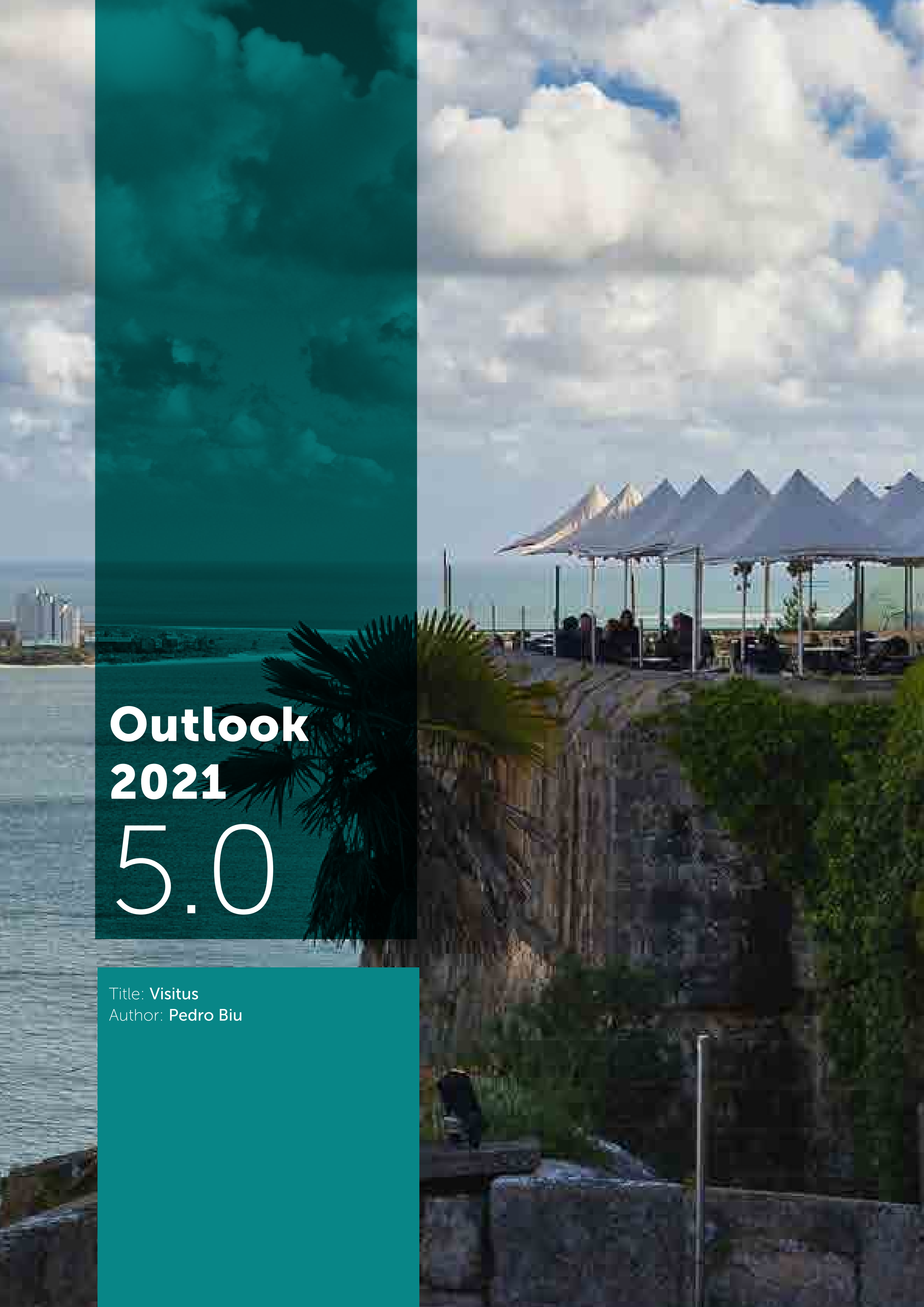
The Head of GNB's Risk Management Function is the Head of the GRD. To ensure maximum efficiency in the articulation with the GRD, a local Risk Function Officer was appointed in each relevant entity of GNB. The GRD acts either directly or as coordinator, in articulation with the units in charge of the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

The Risk Appetite framework defines:

The mais risks to which GNB is exposed → **The risk appetite statements** → **The roles and responsibilities in risk management** → **The organization and function in risk management** → **Governance and risk decision-taking and monitoring committees**

RISKS	CONCEPT	MANAGEMENT
Credit	The risk of financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with NOVO BANCO within the scope of its lending activity	Management and control of risks of this nature are based on an internal risk identification, assessment and quantification system
Liquidity	The current or future risk deriving from an institution's inability to satisfy its commitments as they mature, without incurring excessive losses	Based on the measurement of liquidity outflows from contractual and contingent positions in normal or stress situations, the management and control of this risk consists, on the one hand, in determining the size of the liquidity pool available at any given time and, on the other hand, in planning for stable sources of funding in the medium and long term.
Market	The risk of a 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	A GRD expert team centralises GNB's market risk management and control, in line with the regulations and good risk practices
Operational	The risk of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures or information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: Operations, Information Systems, Compliance and Reputational.	• A GRD expert team defines the Operational Risk Policies, with other units, namely the Compliance Department and the Information Security Office issuing specific risk Policies • The implementation of operational risk identification and control methodologies is carried out through the operational risk management Representatives appointed for each organisational Unit, promoting the risk culture in the first line of defence in continuous collaboration with the GRD

RISKS	RISK APPETITE	FOCUS IN 2021
Credit	Conservative risk appetite	• Reinforcement of the Bank's operational capacity to manage credit exposures under moratoria by identifying early signs of financial deterioration and defining strategies for timely action with viable debtors in need of debt service support to avoid potential "cliff effects" at the end of the moratoria • Reinforcement of remote service models and creation of automated credit assessment and decision tools • Reinforcement of continuous monitoring processes of credit portfolios
Liquidity	• Funding of medium- and long-term assets through stable liabilities; • Withstanding liquidity stresses for a minimum of 12 months • Always respect the limits imposed by the regulations	• Permanent alignment to regulatory framework • Increasing risk management support to the commercial and management areas, ensuring the Bank's overall alignment • Compliance with the established risk appetite
Market	Market investments of cash and liquidity surpluses in accordance with conservative risk appetite predefined rules	Incorporation of the new reference interest rates (short-term rates and IBORs) into market risk models, namely market risk control models, IRRBB and economic capital calculations within the scope of the ICAAP exercise
Operational	The operational risk appetite defined for GNB covers the various categories under this risk, reflecting the infeasibility of eliminating it, from a cost-benefit perspective, along with GNB's ethical and conduct values.	• Strengthen the Fraud Risk framework in light of the increasingly sophisticated fraud typologies • Reinforcement of compliance with the established risk appetite • Reinforcement of the risk culture as the basis for the activity and decision-taking at the various levels of the organisation • Due to the change in Customers behaviour and the Bank's digitalization strategy, further strengthening of Cyber risk prevention and control mechanisms



Outlook 2021 5.0

Title: **Visitus**
Author: **Pedro Biu**

5.1 Economic Expectations

Economic activity in 2021 will be conditioned by the evolution of the Covid-19 pandemic and as such should remain subject to very high levels of uncertainty. In a baseline scenario, the start of the vaccination process at the end of 2020 bolsters expectations of a more visible recovery of growth as from the second half of the year. However, this recovery could be constrained by the possible need for new confinements and restrictions on activity (as was the case in 1Q21) should there be no herd immunity and also as a result of the natural logistic hurdles of mass vaccination. Hence it is assumed at both European and Portuguese level that in a first phase the recovery will be gradual, non-linear and incomplete, as opposed to a V-shaped recovery. With this recovery profile, activity should remain for quite some time below its pre-Covid levels. In the Eurozone GDP is expected to grow by 3% to 4% in the year. As to the Portuguese economy, the expectation is that GDP will grow by around 2.7% in 2021. This recovery should be asymmetrical, with industrial activity showing more vigour and services (mainly tourism and hospitality) being initially slower to pick up.

This recovery baseline scenario is supported by several factors. First, the expected progress in vaccination allowing a gradual evolution towards herd immunity between the end of 2021 and the first half of 2022, with a consequent increase in confidence levels. Second, the release of forced household savings should allow the materialisation of demand postponed during the confinement. In this context, stronger growth should be seen in demand for the services most penalised by the pandemic, including tourism and hospitality services. Third, the recovery should be driven by strong monetary and fiscal policy stimuli in the main economies. In the Eurozone the ECB is expected to maintain key interest rates unchanged and extend or reinforce several liquidity injections programmes. Expansionary monetary and financial conditions are therefore assumed, including in the Portuguese economy. Fiscal policy should also take an expansionary stance, with domestic stimuli being complemented by the start of disbursements under the European Recovery Fund (NextGenEU) as from 2Q21 and on a larger scale in 2022. In the baseline scenario, the external environment is expected to be favourable, with stronger GDP growth in the US and China, in the first case benefiting from aggressive fiscal stimuli within the new political environment.

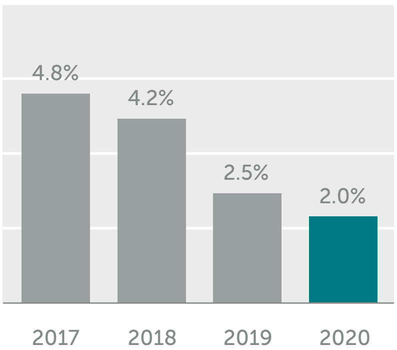
Ample liquidity combined with a strong increase in public spending, and some production restrictions, are conducive to a climate of reflation in the global economy. Market expectations for inflation are on the rise and, as soon as in 1H21 some statistical base effects related to the sharp fall in oil prices and the temporary drop in indirect taxes in 2020 could heighten year-on-year price growth and generate noise in financial markets. However, the persistence of excess production capacity in the projected recovery profile (including unemployment rates above pre-Covid levels) should contain any significant wage-induced inflationary pressures. It is therefore assumed that Central Banks will avoid a sudden withdrawal of stimuli, even if markets may anticipate less expansionary monetary policies. In addition to the possible rise in inflation, other main risks include delays in the vaccination process, difficulties in overcoming the pandemic (e.g. due to virus mutations), less aggressive fiscal stimuli than expected, and the markets' revaluation of assets upon an increase in indebtedness and risk exposure driven by widely available liquidity. In Portugal, concerns about high debt levels and the possible withdrawal of support measures, including credit moratoria and employment protection schemes, may condition activity. Other risks include the possibility of political uncertainty towards the end of the year.

Besides cyclical developments, the outlook is also marked by the need for economic agents to adapt to several ongoing structural trends. At the macro level, the following stand out: the State's increased role in the economy and greater focus on inequality; the persistence of high levels of indebtedness and low interest rates; population ageing; growing focus on sustainability; shifts in globalisation towards more diversified and local or regional value chains; and, above all, a more digital economy. At the micro level, consumption trends favour a greater use of digital channels. In addition, consumers are also expected to be more focused on physical, mental and financial health, and to demand greater convenience, quality, transparency, purpose and social responsibility from companies.

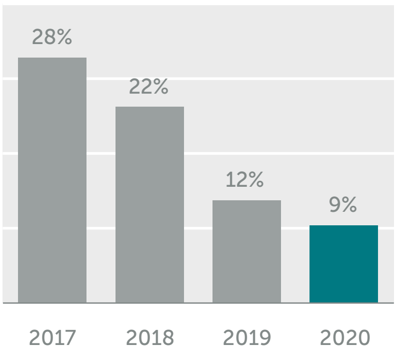
5.2 Strategic Priorities For 2021

In 2020, NOVO BANCO completed the restructuring process launched upon the sale of the Bank to Lone Star, characterised by the subsequent restoration of profitability focused on the deleveraging of non-core businesses and non-productive assets, as well as on cost optimisation.

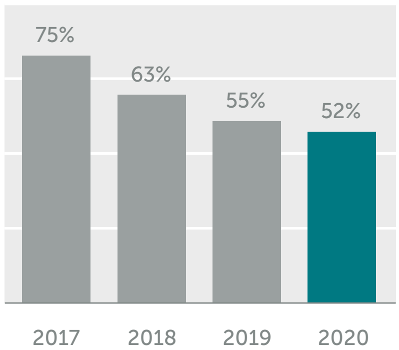
Real Estate Exposure: Evolution
% Net Assets



NPL: Evolution
% Consolidated Reported Figures



Efficiency: Cost to Income Rate
% Consolidated Reported Figures



In 2021 NOVO BANCO embarks on a new phase, affirming itself as a partner, professional, and proximity bank. A Bank focused on responding to a new market reality and regaining indisputable relevance in the Portuguese market.

AS IT ENTERS THIS PHASE OF RENEWAL AND TRANSFORMATION, NOVO BANCO AIMS TO LEVERAGE ON ITS HISTORIC COMPETITIVE ADVANTAGES:

- Market leader in the Portuguese SMEs segment, with a strong position in Corporate Banking
- Distinctive relational DNA, especially focused on SMEs and affluent clients
- Resilient organisation, capable of reinventing itself to tackle different contexts and environments
- Proven track record in reducing costs while meeting commercial targets

IN ORDER TO:

Support the growth of the Portuguese economy

Maintain its support to businesses and in particular to SMEs, increasing the value per current client and strengthening / diversifying the portfolio of corporate clients;

Leverage the competitive edge in the SME segment to serve and promote small businesses by offering them integrated products, POS solution and a "simplified and innovative" credit process;

Optimise the retail commercial banking model

Grow the customer base, positioning itself as a modern, easy to interact with and humane bank, with a simple and differentiated offer covering life's major events;

Maintain a relationship-focused service model targeting affluent and singular clients, with simple and complementary offers and superior customer service.

In 2020 NOVO BANCO remained at the side of the Portuguese families and businesses, helping the Portuguese business community to innovate, reinvent and export, and assisting them, not only in turning difficulties into opportunities, but also with measures to ensure cash flow and employment protection. The Bank redesigned its offer for this segment in order to meet the needs of its individual and corporate clients in this year's abnormal context. The Bank strengthened and reinvented its unique project to bring to light regional entrepreneurs, businesses and other relevant entities through Regional and Sectoral Summits.

In 2021, the sustainability model will remain an essential part of the Bank's strategy, bolstering the confidence of the various stakeholders in NOVO BANCO. This model will focus on the mitigation of less favourable economic scenarios by continuing to provide banking services and adapting them to the new needs, implementing a renewed Social Dividend Programme and enhancing its offer of Sustainable Financing.

Contributing to society's sustainable future is a commitment that NOVO BANCO embraces in this new phase.

Corporate Governance 6.0

Title: **Reflexos**
Author: **Marta Vieira Pereira**

6.1 Shareholder Structure

6.1.1 Qualified holdings in NOVO BANCO's share capital

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

Qualified holdings in NOVO BANCO's share capital as at 31 December 2020:

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%

6.1.2 Equity holders with special rights

There are no shareholders with special rights.

6.1.3 Restrictions on voting rights

By virtue of the commitments assumed by the Portuguese State before the European Commission in the context of the approval of the sale of a 75% holding in the share capital of NOVO BANCO under European Union rules on State aid, the shareholder Resolution Fund should refrain from exercising its non-economic rights, namely its voting rights.

6.2 Corporate Bodies: Composition And Functioning

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

Under the terms of the Company's articles of association, the corporate and statutory bodies of NOVO BANCO are the Shareholder's General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company's Secretary. The members of the corporate bodies are elected for four-year mandates and they may be re-elected once or more than once.

Also in accordance with the Articles of Association, the members of the Board of the Shareholder's General Meeting, General and Supervisory Board, and Monitoring Committee are elected by the Shareholder's General Meeting. The Shareholder's General Meeting also has the powers to appoint and replace the Bank's Statutory Auditor, acting upon a proposal of the General and Supervisory Board, based on a proposal of the Financial Affairs (Audit) Committee. The members of the Executive Board of Directors are appointed by the General and Supervisory Board. The Company's Secretary and Alternate Secretary are appointed by the EBD, after consulting with the GSB.

6.2.2 Amendments to the Articles of Association

Changes to NOVO BANCO's Articles of Association are the responsibility of the Shareholder's General Meeting. In 2020 there were no changes in NOVO BANCO's Articles of Association.

6.2.3 General and Supervisory Board

The GSB is the supervisory body of NOVO BANCO and its members are elected by the Shareholder's General Meeting.

In October 2020, the General Meeting of NOVO BANCO appointed the following members of the General and Supervisory Board for the 2021-2024 mandate e subject to the authorisation of the competent regulatory authorities, which is still pending:

Byron Haynes Chairman	**Benjamin Dickgiesser**
Karl-Gerhard Eick Vice-Chairman	**John Herbert**
Donald Quintin	**Robert A. Sherman**
Kambiz Nourbakhsh	**Carla Antunes da Silva**
Mark Coker	**William Henry Newton**

All the members in office in the previous term were reappointed, with the exception of Mr. William Henry Newton, and therefore, until the fit and proper authorisations are obtained, the current mandate stands and the GSB is composed of 9 members.

At the date of this Annual Report, 6 (six) of the 9 (nine) members of the General and Supervisory Board, including its Chairman, are independent.

The General and Supervisory Board has the powers vested upon it by law and by the Articles of Association, having as main functions to regularly monitor, advise and supervise the management of NOVO BANCO and of the Group companies, as well as to supervise the Executive Board of Directors with regard to compliance with the relevant regulatory requirements of banking activity. Additionally, the General and Supervisory Board has specific powers to elect the members of the Executive Board of Directors and responsibilities in granting previous consents for approval by the Executive Board of Directors of certain matters established in the Articles of Association, namely in what concerns the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of registered address, and closure or changes to representation structures abroad, (iv) capital expenditure, debt or refinancing, sales or acquisitions, creation of liens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the Contingent Capital Agreement; and (vi) hiring of employees with annual remuneration above certain limits.

The General and Supervisory Board holds meetings on a monthly basis. The Chairman of the General and Supervisory Board and the Chief Executive Officer maintain regular, and at least weekly, dialogue and communication between them.

In its activity, the General and Supervisory Board is directly supported by 5 (five) Committees, namely the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, these holding some powers delegated by the General and Supervisory Board.

These Committees are composed of and chaired by independent members of the General and Supervisory Board. Their meetings may also be attended by members of the Executive Board of Directors responsible for the matters that are dealt with by said committees.

Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee has monitoring and supervision responsibilities concerning the financial performance of the Bank and other financial entities included in the prudential consolidation perimeter, the accounting and accounts reporting policies and procedures and the follow-up of the external auditor, and in particular, has the powers provided for in the Companies Code.

This Committee also has delegated powers of the General and Supervisory Board with regard to, among others, material changes to accounting policies, the approval of the annual budget, and prior consent to the issuance of certain debt instruments.

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

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

Chairman: Karl-Gerhard Eick
Byron Haynes
Kambiz Nourbakhsh

Risk Committee

The Risk Committee advises and supports the General and Supervisory Board in monitoring the Bank's actual and future global risk appetite and risk strategy as well as the effectiveness of the internal control system and risk management system of the Bank and the financial companies included in its prudential consolidation perimeter.

This Committee also has the powers provided for by law and the delegated powers of the General and Supervisory Board with regard to certain credit transactions and changes in risk policies.

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

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

William Newton will become the Chairman of the Risk Committee of the General and Supervisory Board upon obtaining the fit and proper approval by the regulatory authorities.

Compliance Committee

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

In addition, it has delegated powers in matters related to related parties (except for transactions between the Bank and shareholders and their related parties, a non-delegable matter that falls to the General and Supervisory Board).

The above functions also extend to the following financial subsidiaries: BEST, NOVO BANCO Açores and GNB Gestão de Ativos.

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

Chairman: Robert Sherman
John Herbert
Mark Coker

Nomination Committee

The Nomination Committee supports the General and Supervisory Board in overseeing the Executive Board of Directors' action in the establishment of, and in ensuring compliance with, consistent and well-integrated nomination policies at the Bank and the following financial subsidiaries: BEST, NOVO BANCO Açores and GNB Gestão de Ativos companies.

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

Chairman: John Herbert
Robert Sherman
Donald Quintin
Mark Coker
Carla Antunes da Silva[7]

7. Appointed by the General and Supervisory Board on 22 October 2020 to serve on the Nomination Committee of the General and Supervisory Board

Remuneration Committee

The Committee advises and supports the General and Supervisory Board in the establishment of adequate, consistent and well-integrated remuneration policies in the Bank and in monitoring the implementation of remuneration policies in the Bank and in its financial subsidiaries BEST, NOVO BANCO Açores and GNB Gestão de Ativos companies.

This Committee also has delegated powers with regard to the hiring of employees with annual remuneration above €200,000.00.

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

Chairman: Byron Haynes
Karl-Gerhard Eick
Benjamin Dickgiesser

The company documents and main regulations can be accessed at **www.novobanco.pt > Institutional > Governance > Company Documents > here**

6.2.4 Executive Board of Directors

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

Regarding the composition of the EBD, the members of the EBD in office at the date of this report (identified in point 1.2 Who We Are - Organisation) are the following:

António Manuel Palma Ramalho **Chief Executive Officer**	**Luísa Marta Santos Soares da Silva Amaro de Matos** **Chief Legal & Compliance Officer**
Mark George Bourke **Chief Financial Officer**	**Luís Miguel Alves Ribeiro** **Chief Commercial Officer (Retail)**
Rui Miguel Dias Ribeiro Fontes **Chief Risk Officer**	**Andrés Baltar Garcia** **Chief Commercial Officer (Corporate)**

In 2020 changes in the composition of the Executive Board of Directors included the appointment of Mr. Andrés Baltar Garcia by the General and Supervisory Board on 22 October 2020. Mr. Andrés Garcia took office on 2 December 2020, replacing Mr. Vítor Manuel Lopes Fernandes, who had resigned on 22 October 2020, with effect from 30 November 2020.

On 22 October 2020, Mr. Jorge Telmo Maria Freire Cardoso and Mr. José Eduardo Tavares de Bettencourt also resigned, with effect from 30 November 2020, and were not replaced.

Upon obtaining the fit and proper approval by the regulatory authorities, the EBD members will begin functions for the new mandate (2021-2024) following their appointment on 22 October 2020 by the GSB.

Committees of the Executive Board of Directors

The activity of the EBD is supported by several Committees. In accordance with its rules of procedure, the EBD may establish committees to complement its own management activity, ensuring the monitoring of the Bank's activity in areas that are considered relevant.

Risk Committee

Responsible for issuing an opinion on, approving, under the powers delegated by the Executive Board of Directors, and monitoring NOVO BANCO Group's policies and risk levels. In this context, the Risk Committee is responsible for monitoring the evolution of GNB's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, market, liquidity and operational.

Chairman: Rui Fontes

Financial and Credit Committee

Responsible for deciding the main credit operations in which the NOVO BANCO Group participates, in line with the risk policies defined for NOVO BANCO Group.

Chairman: António Ramalho

Capital, Assets and Liabilities Committee (CALCO)

Responsible for the definition of the balance sheet management policies (capital, pricing, and interest rate, liquidity and foreign exchange risk) and for monitoring their impact at NOVO BANCO Group level. The CALCO also monitors early warning indicators with regard to the Recovery Plan and Liquidity, proposing mitigation measures, and if necessary, triggering the recovery plan and/or the liquidity contingency plan.

Chairman: Mark Bourke

Internal Control System Committee

The Committee monitors all issues related to NOVO BANCO Group's Internal Control System, without prejudice to the responsibilities attributed in this regard to the Executive Board of Directors and other Committees in place at NOVO BANCO Group, namely the Risk Committee, the Operational Risk Subcommittee and the Compliance and Product Committee.

Chairman: Rui Fontes

Compliance and Product Committee

Responsible for approving, from a compliance standpoint, products and services to be developed and/or distributed by the Bank, issuing an opinion on all of them within the scope of the products' signoff process in force, as well as monitor the issues related to control implementation, without prejudice of competences of other governing bodies and GSB Committees.

Chairwoman: Luísa Soares da Silva

Digital Transformation Committee

Responsible for defining and driving digital transformation at NOVO BANCO.

Chairman: António Ramalho

Costs and Investments Committee

Responsible for approving the execution of expenses, within the limits of the powers conferred upon it. Its objectives include the definition of an annual expenditure plan and the revision of the acquisition's strategy.

Chairman: Mark Bourke

Impairment Committee

Responsible for defining the amount of impairment to be allocated to each client, when NOVO BANCO has an exposure above €100 million to that client or group of clients.

Chairman: Rui Fontes

In addition, the Executive Board of Directors has set up 3 (three) subcommittees, (i) Non-Performing Assets (NPA) Subcommittee; (ii) Extended Models Risk Subcommittee; (iii) Operational Risk Subcommittee and 6 (six) steering groups for the areas of (i) Retail, (ii) Corporate Clients, (iii) Human Capital, (iv) Management Information System (MIS), (v) Investment and (vi) Business Monitoring. The Steering Groups have no rules of their own, their composition and rules of procedure being decided on a case-by-case basis by the members of the Executive Board of Directors.

6.2.5 Monitoring Committee

The Monitoring Committee is a statutory advisory body ruled by the Articles of Association and deriving from the CCA. It is composed of three members elected by the Shareholders' General Meeting, one of whom to act as Chairman. The composition of the Monitoring Committee must respect the following criteria: one of its members must be independent from the parties to the CCA, and another shall be a registered charter accountant. Two of its members are appointed by the Resolution Fund.

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

6.2.6 Supervision

Supervision is the responsibility of the General and Supervisory Board and the Statutory Auditor.

The Statutory Auditor and Alternate Statutory Auditor are elected and removed by the Shareholders' General Meeting, under a proposal of the General and Supervisory Board, and they have the powers and responsibilities provided for in the law.

6.2.7 Powers of the management body

Including regarding resolutions on share capital increases

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

The EBD has no powers to resolve on capital increases, or on the issuance of securities convertible into shares or securities granting subscription rights, such decisions being the exclusive responsibility of the Shareholders' General Meeting. In the case of securities' issuance, the GSB issues a previous opinion.

6.3 Internal Control

Definition and Objectives

Internal Control is integral to the running of the organisation, combining strategies, policies, processes, systems and procedures to ensure the medium- and long-term sustainability of the institution and the prudent exercise of its activity.

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

- the fulfilment of the objectives set out in strategic planning, through the efficient execution of operations, the efficient use of the institution's resources and the safeguarding of its assets;
- the proper identification, assessment, monitoring and control of the risks to which the institution is or may come to be exposed;
- the existence of comprehensive, relevant, reliable, and timely financial and non-financial information;
- the adoption of solid accounting principles;
- compliance with the legislation, regulations and guidelines applicable to the institution's activity, issued by the competent authorities, with the institution's own internal regulations, and with professional and ethical standards and practices and with rules on conduct and relationship with clients.

Internal Control concerns all the members of the management and supervisory bodies, and Institution's employees, who perform their duties in accordance with internal policies and standards of ethics, integrity and professionalism, also applying to the structural units responsibilities and to all the institution's business segments, outsourced activities, and product distribution channels.

Each employee has a role to play as well as duties and responsibilities, which contribute to ensure the efficiency and effectiveness of Internal Control.

The Executive Board of Directors is the body with ultimate and global responsibility for the institution and that which defines, supervises and is responsible for the implementation of an adequate Internal Control System, with a clear organisational structure and independent and efficient functions in terms of risk management, compliance and audit.

In turn, it is incumbent upon the General and Supervisory Board, among other duties detailed in the Bank's Articles of Association, to ensure that the Executive Board of Directors establishes and maintains adequate, independent and effective internal control, in compliance with the law, regulations and internal policies.

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

General Principles

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

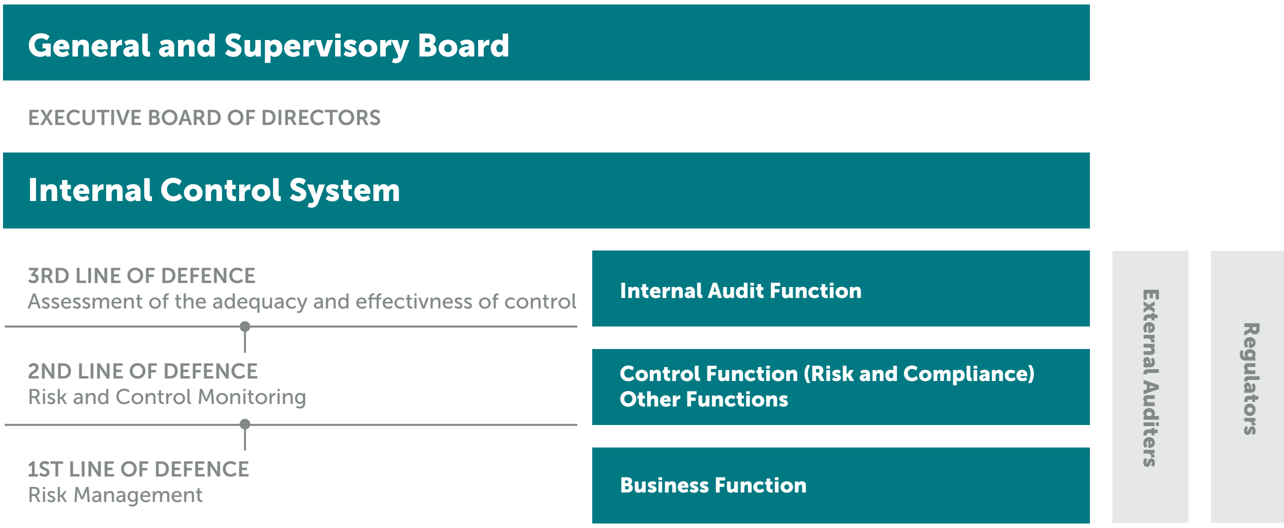
- Adequate control environment reflecting the importance recognized by NOVO BANCO Group for the Internal Control System and whose organization is supported by a model of 3 lines of defence, which defines the levels of responsibility in terms of governance and risk management for the different functions that integrate each line, including permanent, independent and effective Internal Control functions;
- Solid risk management system, designed to identify, assess, monitor and control all risks that may influence the strategy, risk appetite and objectives of NOVO BANCO Group (as detailed in section 4.3 – Risk Management);

- Efficient information and communication system that guarantees the capture, treatment and exchange of relevant, reliable, complete, comprehensive and consistent information, in a timely manner and in a way that allows effective and timely management and control of the activity and the inherent risks;
- Effective monitoring process, implemented to ensure the adequacy and effectiveness of the Internal Control System over time, ensuring in particular the timely identification of any deficiencies and opportunities for improvement that will enable the Internal Control System to be strengthened, promoting the triggering of corrective actions.

Under NOVO BANCO Group's Internal Control System, policies, processes, procedures, systems and controls are formalised in internal standards, process catalogues, internal control manuals, presentations supporting the main committees involved in the management of risk, information and communication, control function reports, and in the Annual Self-assessment Report itself.

3 Lines of Defence Model

The Internal Control System is grounded on the 3 lines of defence model, which clearly defines the levels of intervention and responsibility in risk management and in the execution of controls, in order to guarantee the adequacy and overall effectiveness of Internal Control within in the organisation.



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

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

The mission of **the 2nd line of defence** is to maintain the Bank within its risk limits by controlling, measuring and monitoring risks and reporting any deviations relative to the risk policies in force. This line of defence comprises the "Risk Management" and "Compliance" Control Functions, for which the Global Risk and the Rating Departments, and the Compliance Department are respectively responsible, being complemented by activities carried out by other departments of the Bank (e.g., Accounting, Consolidation and Taxation Department, Internal Control and Data Protection Department, Chief Information Security Officer).

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

The 3rd line of defence is held by the Internal Audit Department, and its mission is to assess, independently and based on risk, the adequacy and effectiveness of the entity's organizational culture and its governance and internal control systems.

To ensure its necessary independence, the internal audit function:

- Reports functionally to the Financial Affairs (Audit) Committee of the General and Supervisory Board, and administratively (i.e., daily operations) to the Chief Executive Officer;
- Performs its activity in accordance with a pre-established plan and a risk-based approach. This plan is approved by the General and Supervisory Board;
- Cannot have any kind of responsibility or authority over the design, implementation and execution of the control procedures which it audits.

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

Additionally, and as **external intervenients** in the defence of the Internal Control System (4th line of defence):

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

This line of defence external to the Bank promotes a strong risk culture as well as a more efficient risk management within the parameters institutionally defined for the purpose. In this context, these entities contribute in the following manner: (I) They provide guidelines/recommendations and supervise the governance of the Bank, including through detailed assessments and regular interaction with the Executive Board of Directors and top management; (ii) request improvements and remediation measures, when and if necessary.

Control Functions Independence

The independence of the control functions is ensured through implementation of the following mechanisms:

- **Internal authority:** the functions are established at an appropriate hierarchical level and report hierarchically to the Executive Board of Directors and functionally to the General and Supervisory Board and respective committees, regularly participating in the meetings of these bodies;
- **Head of function:** the person responsible for the control function does not carry out activities in business or support areas that are subject to control;
- **Human Resources:** the employees allocated to these functions only perform control functions and are independent of the negotiation and support units that they supervise and control. However, they are not isolated from them, and are familiar with their activity. The control functions have an adequate number of qualified employees (at both the Bank and in its branches and subsidiaries);
- **Remuneration:** the remuneration of control function employees is not linked to the results of the activities which they supervise and control, nor does it compromise, in any other way, their objectivity;

- **Technical resources and organisation:** the functions have adequate technical resources at their disposal and are organisationally independent from each other;
- **Scope:** the Bank's control functions carry out supervision activities over the control functions of its branches and subsidiaries.

6.4 Main Policies

For NOVO BANCO Group, the legal framework that regulates its activities is as decisive for its course of action as the set of values, principles and good practices which it assumes and which steer its actions and define the standards that shape the manner in which the Group does business and carries out its activities. The existence and application of a Code of Conduct, policies on the Prevention of Conflicts of Interest, a Whistleblowing Policy and an Anti-Bribery and Anti-Corruption Policy are therefore paramount across the entire NOVO BANCO Group. Additionally, but no less importantly, the scrutiny and transparency requirements of the Related-Party Transactions Policy, the strict application of the Law and Policies on the Prevention of Money Laundering and Terrorist Financing, the care and transparency towards clients and investors derived from the Investor Protection and Market Transparency Policies, and the assurance of sound and prudent management ensured by the Remuneration Policies for the Management and Supervisory Bodies and for the Employees, altogether provide evidence of the importance that NOVO BANCO attributes to the compliance culture dimension.

The commitment assumed by NOVO BANCO Group focuses on the prevention, detection, reporting and management of situations involving risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness.

Code of Conduct

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

The Code of Conduct is available at NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance > here.**

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

In 2020, in NOVO BANCO, as a result of non-compliance with internal regulations and negligence in the performance of their duties, 13 employees received sanctions, namely: 1 dismissal without any indemnity or compensation; 10 cases of days of suspension without pay and with loss of seniority; and 2 registered reprimands.

Policies on the Prevention of Conflicts of Interest

The Policies on the Prevention of Conflicts of Interest establish rules on the identification, management and monitoring of potential conflicts of interest in the various activities of NOVO BANCO and the NOVO BANCO Group, but also with respect to their corporate bodies, employees, and ultimately, their suppliers. They enable compliance with the applicable legal and regulatory provisions, as well as with the recommendations of the European Central Bank, the European Securities and Markets Authority, the Bank of Portugal, and the Securities and Exchange Commission (CMVM), and seek to ensure that any possible situation of conflict of interests identified is recorded, assessed, and, as the case may be, mitigated or, at limit, abstaining from action, by the Group, the Bank and its agents.

The Conflicts of Interest Policy is available at NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance > here.**

Related-Party Transactions Policy

NOVO BANCO's Related-Party Transactions Policy sets down rules aimed at identifying transactions concluded between NOVO BANCO and Related Parties and at ensuring that the Bank complies with several provisions and regulations, namely the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2017/11), Articles 85 and 109 of the General Law on Credit Institutions and Financial Companies and the International Accounting Standards (IAS 24).

In this context, the control system implemented identifies those involved in transactions contracted with the Bank, in strict compliance with the applicable legislation, and the process of identification, analysis and validation is described in Internal Regulations. Assessment and approval of any transaction (credit, sale of assets, passive or contractual relationship) are mandatory prior to its conclusion - all proposed transactions with related parties must be submitted to the Compliance Department, which checks their conformity with the applicable internal rules and legal and regulatory provisions, and subsequently to the approval of the Compliance Committee of the General and Supervisory Board, ratification of the General and Supervisory Board and approval by the Executive Board of Directors.

The Related-Party Transactions Policy is available at NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance > here.**

During 2020, transactions were carried out with Related Parties (credit transactions, provision of services and other contracts) under which credit transactions, including extensions and renewals of limits, reached a total amount of €1,767 million.

Article 85 of the General Law on Credit Institutions and Financial Companies stipulates that credit institutions may not grant credit, in any form or type, including the provision of guarantees, to members of their management or supervisory bodies and their relatives, or to companies or other collective bodies directly or indirectly controlled by them. However, the granting of credit to companies and other collective bodies not included in paragraph 1, of which they are managers or in which they have a qualifying holding is allowed under paragraph 8 of the same article 85. In this context, the Compliance Department issued favourable opinions on 13 credit transactions allowed under said paragraph 8 of Article 85, which subsequently received the approval of the Compliance Committee of the General and Supervisory Board, the approval of the Executive Board of Directors and the ratification of the General and Supervisory Board.

In addition, under Article 109 of the General Law on Credit Institutions and Financial Companies, credit granting to qualifying shareholders, or entities directly or indirectly controlled or in a group relationship with them is allowed, subject to certain limits. During 2020 NOVO BANCO did not conclude any credit transactions with qualifying shareholders, under said legal rule.

Whistleblowing Policy

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

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

Examples of irregularities are any violations committed within NOVO BANCO in the fields of accounting, internal accounting controls, auditing, prevention of corruption and banking and financial crime, crimes against the market, or breaches of the Law and regulations that inform the internally defined policies, procedures and controls on the prevention of money laundering and terrorist financing.

The communication of irregularities - which may be anonymous but in any case guarantees at all times that the author is maintained confidential, providing he/she acts in good faith -, is made in writing and submitted through any of the following channels, at the choice of the author:

Addressed to the Compliance Committee of the General and Supervisory Board

- Avenida da Liberdade, 195, 14º, 1250-142 Lisbon, Portugal; or
- Through the form available at NBWeb; or
- By e-mail to the address: irregularidades@novobanco.pt.

The General and Supervisory Board is responsible for managing the irregularities communication system, ensuring the confidentiality of communications.

The Whistleblowing Policy is available at NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance > here.**

Anti-Bribery and Anti-Corruption Policy

Corruption and bribery represent one of the key challenges in modern society and fighting them requires a joint effort by all sectors of society, including banking, which plays an important role in promoting a culture of public integrity. The fight against practices of corruption and bribery becomes everyone’s responsibility, requiring the development of a new set of preventive duties and methodologies across organisations and public and private entities. The Anti-Bribery and Anti-Corruption Policy approved by the Compliance Committee of the General and Supervisory Board, and by the Executive Board of Directors aims to prevent and mitigate the risk of corruption and bribery, and related practices, reaffirming NOVO BANCO's commitment to building up integrity in society.

The Anti-Bribery and Anti-Corruption Policy is available at NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance > here.**

Policies on the Prevention of Money Laundering and Terrorist Financing

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

The NOVO BANCO Group, through its Compliance Department, sets up the conditions that enable the Bank to detect and prevent, through adequate policies and procedures, the possibility of the Bank and the Group being used as vehicles for money laundering or terrorist financing activities, such risks materialising to a significant extent within the financial system.

Aware of the challenge that this control and preventive action represents, the NOVO BANCO Group maintains the ongoing reassessment of the risks it incurs, by virtue of its business, operations and the geographies where it operates, endeavouring to identify weaknesses and areas of greater exposure, in order to ensure it has in place adequate methods of control and mitigation of money laundering or terrorist financing risks. The ability to prevent and, if possible, detect activities capable of constituting such crimes is directly linked to the Bank's knowledge about its clients, their counterparties and the transactions they engage in, particularly at the following moments:

- Opening of contract or change of a party in an existing contract, through what is known as KYC (Know Your Customer) - i.e., the identification of contract parties, representatives and beneficial owners must be effectively established;

- Monitoring contracts' transactions - KYT (Know Your Transactions), spotting unusual situations, either beforehand or by contacting the client after the situation was detected.
- Analysis of counterparties in investment and divestment transactions, and of transaction and source of funds circuits, under the terms of the Law.

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

NOVO BANCO Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorist financing for all its employees (commercial and central structures, including senior management). Training can be remote or face-to-face, the latter mainly directed to new employees, and the objective is to equip them with skills that enable them to collaborate with the control functions in mitigating the risks inherent to the execution of their functions.

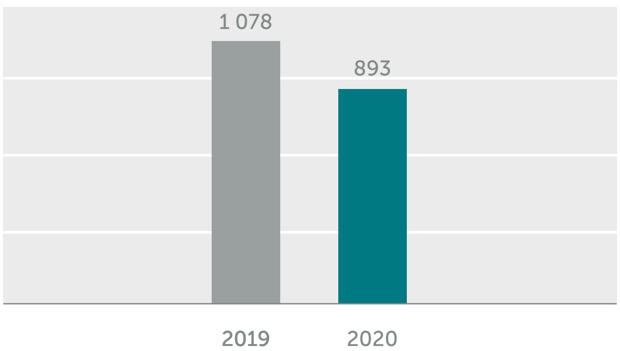
In 2020, NOVO BANCO reinforced training on money laundering and terrorism financing prevention, having provided 23 634 hours of online training (including 955 hours for senior management) and 38 hours of face-to-face training (of which 4 hours for senior management), making a total of 23 672 hours.

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

The prevention of money laundering and terrorist financing is one of the foundations of confidence in the financial system and as such will continue to deserve permanent attention by the NOVO BANCO Group.

In 2020 the NOVO BANCO Group examined 3 362 new contracts, of which 99 were rejected. In addition, 1 068 other contracts were analysed, upon which their ownership was changed. It also analysed 13 186 transactions under existing contracts, of which 893 were reported to the competent authorities.

Reports to the competent authorities
(number)



The Bank's Policies on the Management of the Risk of money laundering and terrorist financing are available at **NOVO BANCO's website, in Portuguese and English, at NOVO BANCO > Governance > Compliance > here.**

Policies on Investor Protection and Market Transparency

The Markets in Financial Instruments Directive, no. 2014/65/EU, of 15 May 2014 ("MiFID II), and related regulations, which entered into force in January 2018, aim to reinforce investor protection and increase the transparency and quality of the financial market operation and services provided, and cover all persons and entities operating in the markets in financial instruments. In addition, the national legislation on financial intermediation activities (in particular the Securities Code) and life insurance mediation (in particular Law 7/2019 of 16 January) constitutes the basic framework for fair and transparent action by financial market operators and, as such, for the NOVO BANCO Group.

To address the international trend towards a tightening of the duties of financial intermediaries - of transparency, legality, completeness of information, diligence and protection of investors -, as well as changes in the rules for marketing financial instruments, NOVO BANCO has adopted the best practices in terms of the governance of products and services, ensuring the prior assessment and subsequent monitoring of its offer, with the Compliance Department having extended responsibilities in this area.

In compliance with the legal framework, NOVO BANCO has approved its standards and policies, and discloses them in a dedicated area of its website, at **www.novobanco.pt > Produtos > Poupança e Investimento > Informação ao Investidor (here).** The most salient aspects of these standards and policies are summarised below:

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

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

Assessment of adequacy. In order to ensure that the financial instruments or investment services it provides suit its Customers' investment profile, NOVO BANCO asks its Customers and potential Customers to complete investor profile questionnaires, in order to obtain a more comprehensive and detailed image of, inter alia, their experience and knowledge of investment, their financial situation, their investment objectives (including capacity to withstand losses) and their risk tolerance. This sharing of information and knowledge permits to assess whether a given investment product or service is adequate to the specific situation of the investing client.

Safeguard of Customer Assets. The Securities Code sets forth that in all acts performed, as well as in accounting and transactions records, the financial intermediary should adopt procedures and implement measures permitting to maintain a clear distinction between its assets and the assets of each of its clients to ensure that the opening of proceedings for the insolvency, recovery of the company or reorganisation of the financial intermediary does not have effects on actions carried out by the financial intermediary on behalf of its clients. The financial intermediary may not utilise, for its own or a third party's benefit, the clients' financial instruments or exercise the rights inherent thereto, unless the holders have agreed thereto. NOVO BANCO has in place procedures that ensure compliance with these rules.

Offer screening process. NOVO BANCO has established procedures that govern the design, approval, distribution and monitoring of the products and services offered. These procedures provide for the screening of new products and services offers, and the monitoring of the existing offer.

Remuneration Policies for the Management and Supervisory Bodies and Staff Members

Under the terms and for the purposes of *Regime Geral das Instituições de Crédito e Sociedades Financeiras* ("RGICSF"), and Banco de Portugal Notice no. 3/2020, and for compliance with the disclosure duties related to the remuneration policies provided for therein, the Remuneration Committee has undertaken the annual review and assessment of these remuneration policies to be presented, discussed and reviewed by the General and Supervisory Board and the Executive Board of Directors. A report prepared by the Remuneration Committee regarding the annual review and assessment of the remuneration policy for the Management and Supervisory Bodies is to be submitted for approval at the General Shareholders' Meeting of NOVO BANCO.

Prior to the closing of year end 2020, an assessment and review has been made by several NOVO BANCO departments (Human Capital, Legal, Compliance and Risk) with respect to the remuneration policies for the Management and Supervisory Bodies and for Staff and these remuneration policies have been amended accordingly. These amendments are mainly related with:

i. Update of current regulatory framework, for example, Notice 03/2020 of Banco de Portugal among others;

ii. Improvement of the internal governance process regarding the definition and approval of the total annual Variable Remuneration Budget and related matters.

These Policies have been prepared in accordance with the legislation in force on this date, in particular RGICSF, and the EBA Guidelines no. 2015/22 on sound remuneration policies and related legislation and reflect the Bank's objectives, strategy, structure and culture, steered by principles of meritocracy and transparency. Recently, these Policies have also been amended (subject to the approval of the General Shareholders' Meeting regarding the Management and Supervisory Bodies policy) to reflect the changes in the legislation, including Banco de Portugal Notice no. 3/2020, Regulation (UE) No. 2019/2088, of 27 November 2019, on sustainability-related disclosures in the financial services sector (SRDR), where gender neutrality guidance have also been introduced following the best practices and recommendations. Their implementation aims to foster adequate professional practices and conducts, namely in the sale of products and services, as well as in the prevention of conflicts of interest with clients.

The Remuneration Committee believes that the Remuneration Policies are appropriate to the current situation of NOVO BANCO, being in line with the objectives of the Restructuring Plan and respect the related limitations. Accordingly, the incentives defined for the members of the Executive Board of Directors and for the different categories of employees, as well as the structure of those incentives, are considered to support the long-term objectives of the institution and of the various stakeholders.

The Governance of the Remuneration Policy provides for the involvement of several internal bodies and structures, notably the Remuneration Committee, the Risk Committee of the General and Supervisory Board, and also several Departments of the Bank, including the Risk, Compliance, Audit, Legal, and Human Capital Departments, ensuring full alignment of the established practices with the applicable regulatory requirements and the higher interests of the institution.

i) Limits to remuneration in NOVO BANCO

Following the sale process of NOVO BANCO, and in the context of the State aid granted, the Portuguese State assumed certain commitments before the European Commission (State Aid no.SA.49275 (2017 / N)) up to the end of the Restructuring Period – currently 31 December 2021 (hereinafter the "Restructuring Period").

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

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

In view of the fulfilment of the commitments for 2019, the above restriction ceased to be effective in July 2020. However, the Bank opted to maintain this cap, keeping its remuneration policy unchanged.

- Up to the end of the Restructuring Period, the total remuneration and respective conditions of payment/attribution may be affected by non-compliance with the commitments referred to above. The aforementioned Remuneration Policies are thus subject to changes resulting from the said commitments.

ii) Description of the Remuneration Policy of the Management and Supervisory Bodies

Policy Approval Powers. The approval of the Remuneration Policy of the Management and Supervisory Bodies is the responsibility of the General Shareholders' Meeting, upon proposal of the Remuneration Committee of the General and Supervisory Board, and this Committee is also responsible for, among others:

- Decide on the remuneration to be attributed to the members of the Executive Board of Directors, as well as their KPIs, and set and approve, when applicable, the budget for the total variable remuneration of employees, based on, amongst other factors, the operating results in the period;
- Verify if the existing remuneration policies are updated and if necessary, propose the appropriate changes;
- Review the mechanisms and systems used to ensure that remuneration systems are consistent with sound and effective risk management and assess the criteria used to define remuneration and ex ante risk adjustment based on actual risk outcomes (Clawback or Malus).

General and Supervisory Board. Only the independent members of the General and Supervisory Board shall receive remuneration from NOVO BANCO, such remuneration being fixed only and paid 12 times per year. If applicable, the members of the General and Supervisory Board shall also be subject to the limitations referred to in i) above.

Executive Board of Directors. The remuneration of the Executive Board of Directors consists of a fixed component and a variable component. The fixed remuneration is established according to the complexity, level of responsibility and skills required for the function, and is paid 14 times per year. The variable component of the remuneration is awarded on a discretionary basis, according to individual and collective performance assessment that takes into account quantitative and qualitative criteria. These criteria are set by the Remuneration Committee and informed in due time to the members of the Executive Board of Directors.

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

- It may only be attributed if it does not jeopardise the Bank's ability to maintain a solid capital base, if the Bank has achieved a positive operational performance, and if its attribution is consistent with sound and effective risk management practices;
- It is subject to a maximum cap of 100% of the annual fixed remuneration;
- It is phased over a multi-year framework, being fully deferred proportionally over a minimum period of three years. However, during the Restructuring Period, the amounts attributed relative to 2019 and 2020 are 100% deferred and will only become a vested right and, consequently, will only be paid, at the end of that period, under the terms defined in the respective Policy.
- 50% of the amounts attributed shall take the form of “Remuneration Units”, whose terms and conditions regarding the award, vesting and payment are defined in the Remuneration Units Regulation. The value of each “Remuneration Unit” is determined by the Remuneration Committee, according to financial indicators of the Bank, prior to any settlement of any deferred amount.

Besides any commitment agreed in the hiring process under the form of a sign-on bonus, no other Variable Remuneration shall be guaranteed in any way.

All amounts paid or deferred, regardless of whether they constitute vested rights, are subject to risk-based adjustments, Clawback and/or Malus, including those that are deferred as a result of the application of the limits established in point i) (Limitations on remuneration at NOVO BANCO).

In what concerns other benefits, such as Health Insurance or Mobile Phone, their attribution is aligned to the internal policies for the employees of the Bank.

iii) Identified staff

Policy Approval Powers. The approval of the Remuneration Policy for Staff Members is the responsibility of the Executive Board of Directors, upon a proposal of the Remuneration Committee.

Selection of employees. The Bank's Staff Members Remuneration Policy includes specific chapters applicable to employees who have or may have a significant impact on NOVO BANCO's risk profile and that are classified as Identified Staff in accordance with the criteria set out in the Policy.

The list of Identified Staff is shared every year with the Bank of Portugal, under Bank of Portugal Notice 3/2020.

Components of Remuneration The attribution of a Fixed Remuneration shall reflect the skills, experience and responsibility inherent to the function performed, and does not depend on performance. The attribution of Variable Remuneration to the Identified Staff, as well as its annual amount, depends on the discretionary decision of the Remuneration Committee. When a Variable Remuneration exists, it is calculated based on individual and collective performance, taking into account the following principles:

- Performance must be assessed according to quantitative and qualitative criteria and through financial and non-financial variables;

- The period of assessment of performance and attribution of variable remuneration must be multi-annual - which implies that a substantial part of the amount attributed be deferred so as to take into account economic cycles and the management of risk -, and promote the retention of Identified Employees;
- The existence of risk adjustment mechanisms (Malus and Clawback), as described in the Remuneration Policy;
- The amount attributed is limited to 100% of the annual Fixed Remuneration;
- 50% of the amounts attributed shall take the form of "Remuneration Units", whose terms and conditions regarding the award, vesting and payment are defined in the Remuneration Units Regulation. The value of each "Remuneration Unit" is determined by the Remuneration Committee, according to financial indicators of the Bank, prior to any settlement of any deferred amount;
- Guaranteed variable remuneration can only be established in the first year after hiring, under the form of a Sign-on bonus;
- Limits to Remuneration set in i) above, also apply to these employees.

iv) Disclosure of Remuneration

Refer to point 6.6 Remuneration of the members of the Corporate Bodies and Identified Staff.

Policy for Selection and Assessment of the Management and Supervisory Bodies and Key Function Holders

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

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

Recently, this Policy has been amended (subject to the approval of the General Shareholders' Meeting) and includes the heads of Treasury and Marketing as Key Function Holders.

Policy for the Selection and Evaluation of NOVO BANCO' Statutory Auditor and the Contracting of Non-prohibited Non-audit services.

NOVO BANCO approved in 2018 and amended in 2020 its Policy for the Selection and Evaluation of Novo Banco' Statutory Auditor and for the contracting of non-prohibited non-audit services (the "Policy"), in compliance of the applicable regulations. This Policy was approved by the Financial Affairs (Audit) Committee of the General and Supervisory Board and by NOVO BANCO's General Shareholders' Meeting.

The Policy applies to the selection and assessment of the Statutory Auditor and aims to ensure that the Statutory Auditor fulfils the necessary requirements of suitability ("fit and proper"), professional experience, independence and availability, taking into account the nature, dimension and complexity of NOVO BANCO' activity and the responsibilities inherent to the specific tasks to be performed. To achieve its purpose, the Policy defines the assessment criteria, the internal responsibilities and the procedures that must be followed.

In addition, the Policy defines the criteria and procedures to apply in case non-audit services are contracted with the Statutory Auditor and defines the ones which are allowed and the ones which are prohibited.

6.5 Credit to Members ff The Corporate Bodies

At 31 December 2020 the outstanding amount of loans to persons and entities falling under the provisions of art. 85 of the General Law on Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF) is presented below:

Name	Position	Amount (in euros)
Members of the Corporate Bodies in office at the date of this Report		
Executive Board of Directors		
Luís Miguel Alves Ribeiro Closely related persons	Member of the Executive Board of Directors	€192 477.13 €138 601.53
General and Supervisory Board		
Carla Alexandra Severino Antunes da Silva Closely related persons	Member of the General and Supervisory Board	€294 637.67
Statutory Auditor		
António Filipe Dias da Fonseca Brás	Statutory Auditor, representative of Ernst & Young Audit & Associados - SROC, S.A.	€132 536.77
Entity where a member of the Executive Board of Directors holds a management position		
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.		€115 801 359.57
NOVO BANCO dos AÇORES		€1 294 560.00
SIBS - SGPS SA		€25 080 335.73
UNICRE - Instituição Financeira de Crédito SA		€22 550 000.00
Members of the Corporate Bodies no longer in office at the date of this Report		
Executive Board of Directors		
José Eduardo Fragoso Tavares de Bettencourt Closely related persons	Member of the Executive Board of Directors	€56 747.85

Mr. José Eduardo Fragoso Tavares de Bettencourt resigned his position on 22.10.2020 with effects from 30.11.2020.

The amounts shown in the tables above concern Residential Mortgage Loans, save for those listed for Entities where a member of the Executive Board of Directors holds a management position and the person related to the member of the General and Supervisory Board, where they concern corporate loans and bank guarantees.

For the disclosure purposes of Art. 109 (7) of the RGICSF, during 2020 there were no loans granted to direct or indirect holders of qualified holdings. For the purposes of the same article, outstanding amount of loans to persons related were as follows:

Name	Type of Credit	Amounts (in euros)
Entities controlled directly or indirectly by a person holding directly or indirectly a stake in the credit institution		
Esmalglass Portugal Productos Ceramicos, S.A.	Bank Guarantee	€1 500.00
Inframoura - Empresa de Infraestruturas de Vilamoura, E.M.	Leasing	€114 061.82

6.6 Remuneration of the Members of the Corporate Bodies and Identified Staff

According to several regulatory obligations, among others, Bank of Portugal Notice 3/2020 and Regulation (EU) No 575/2013 of the European Parliament and of the Council, NOVO BANCO shall disclose the Remuneration of Members of Corporate Bodies and Identified Staff.

i) Executive Board of Directors

Amount in euros

		Total 2020		Fixed Remuneration			Others
	Role	Total Paid and Deferred	Paid	Salary	Other post-EBD benefits	Deferred	Compensation
Executive Board of Directors		**2 638 587**	**2 606 044**	**2 396 903**	**2 891**	**32 543**	**206 250**
António Manuel Palma Ramalho	CEO	400 000	367 457	367 457	0	32 543	0
Mark George Bourke	Member	350 000	350 000	350 000	0	0	0
Rui Miguel Dias Ribeiro Fontes	Member	276 173	276 173	275 000	1 173	0	0
Luisa Marta Santos Soares da Silva Amaro de Matos	Member	275 000	275 000	275 000	0	0	0
Luis Miguel Alves Ribeiro	Member	276 173	276 173	275 000	1 173	0	0
Andres Baltar Garcia (*)	Member	29 235	29 235	29 235	0	0	0
Jorge Telmo Maria Freire Cardoso (**)	Member	343 750	343 750	275 000	0	0	68 750
Vitor Manuel Lopes Fernandes (**)	Member	343 750	343 750	275 000	0	0	68 750
José Eduardo Fragoso Tavares de Bettencourt (**)	Member	344 505	344 505	275 211	545	0	68 750
General and Supervisory Board		**875 000**	**867 457**	**867 457**	**0**	**7 543**	
Byron James Macbean Haynes	Chairman	375 000	367 457	367 457	0	7 543	0
Karl - Gerhard Eick	Vice-Chairman	250 000	250 000	250 000	0	0	0
Donald John Quintin	Member	0	0	0	0	0	0
Kambiz Nourbakhsh	Member	0	0	0	0	0	0
Mark Andrew Coker	Member	0	0	0	0	0	0
Benjamin Friedrich Dickgiesser	Member	0	0	0	0	0	0
John Ryan Herbert	Member	95 000	95 000	95 000	0	0	0
Robert Alan Sherman	Member	95 000	95 000	95 000	0	0	0
Carla Alexandra Severino Antunes da Silva	Member	60 000	60 000	60 000	0	0	0

(i) Member of EBD from 1st of December 2020
(ii) Resigned from their EBD mandate with effect on the 30th of November 2020 and remained available for transition

In 2020, there were no amounts paid to the members of the corporate bodies of NOVO BANCO by other group companies.

Additionally, and resulting from the commitment to take up Andrés Baltar Garcia as new Executive Board Member, €320 thousand were paid in December 2020 to this Board Member as a sign-on bonus.

For the year 2020, Variable Remuneration was conditionally attributed, subject to the verification of several conditions, of 1 860 thousand euros to the members of the Executive Board of Directors. This award was based on individual and collective performance of each member, which was assessed by the Remuneration Committee. This attribution did not create vested rights and no payment to the members was made.

The totality of the Variable Remuneration attributed is subject to the maximum limit of 100% of the annual Fixed Remuneration of each member, 50% of which is attributed in the form of cash and 50% in the form of Remuneration Units. The value of the Remuneration Units at the date of the attribution is 1 (one) Euro and their value is then reassessed, by the Remuneration Committee, at the time of payment. According to the Regulation of Remuneration Units, at the time of payment, the value of the Remuneration Units can only be adjusted downwards when compared to that defined at the time of attribution.

As in the previous year (2019), this award was fully deferred and there shall be no payments until after the end of the Restructuring Period, on the date currently defined as December 31, 2021 and, upon that the payment depends on the conditions set out in the Policy. This Variable Remuneration does not constitute an acquired right until after the end of the Restructuring Period and will be subject to the risk adjustment mechanisms provided for in the Remuneration Policy, namely, Malus and/or Claw back.

The 2020 Variable Remuneration attributed to the members of the Executive Board of Directors is subject to future adjustments. In particular, there is no vested right or certainty as to what the final Variable Remuneration amount will be attributed or when payments will be made. In particular:

i. the right to receive will only be effective after the end of the Restructuring Period (currently, December 31, 2021), so there will be no payments until that date; and

ii. the value of the Variable Remuneration component paid in Remuneration Units may be less than the assigned amount or even zero, depending on the Bank's financial indicators at the time of payment, after the end of the Restructuring Period.

Other benefits and compensation and non-cash benefits

Nothing to report.

Compensation paid or due to former members of the Executive Board of Directors in relation to early contract termination in the reporting year

As reported in the table above, the three members of the Executive Board of Directors resigned from their mandate with effect on the 30th of November 2020 and remained available for transition. Each received an amount equivalent to 3 months of their pro-rata annual base salary, as a condition for them to cooperate and remain available to NOVO BANCO during the course of the first quarter of 2021.

Plans for the attribution of shares or stock options

Nothing to report.

ii) Identified Staff

Following the annual self-assessment procedure stated in the Remuneration Policy, the list of the Identified Staff was updated by the Executive Board of Directors and reviewed and approved by the Remuneration Committee in December 2020. A group of 44 employees was classified as Identified Staff and the table below show their Fixed and Variable Award Remuneration for 2020.

Amount in euros

		Total 2020 (**)		Fixed Remuneration		Variable Remuneration Award of 2020 (*)
	# Employees	Total Paid and Awarded	Pais	Salary	Other post-employment benefics	
Identified Staff	**44**	**8 266 161**	**5 766 161**	**5 739 116**	**27 046**	**2 500 000**
Commercial	8	1 214 434	874 371	867 028	7 343	340 063
Control Functions	4	699 866	538 553	537 967	587	161 313
Suport	32	6 351 862	4 353 237	4 334 121	19 116	1 998 625

(*) The 2020 award will be deferred and paid out in subsequent years in accordance with Remuneration Policy.
(**) As of 31st December 2020 2/3 of the identified Staff Bonus award of 2018 and 1/3 of Bonus award 2019 have been paid (1.402.588€).

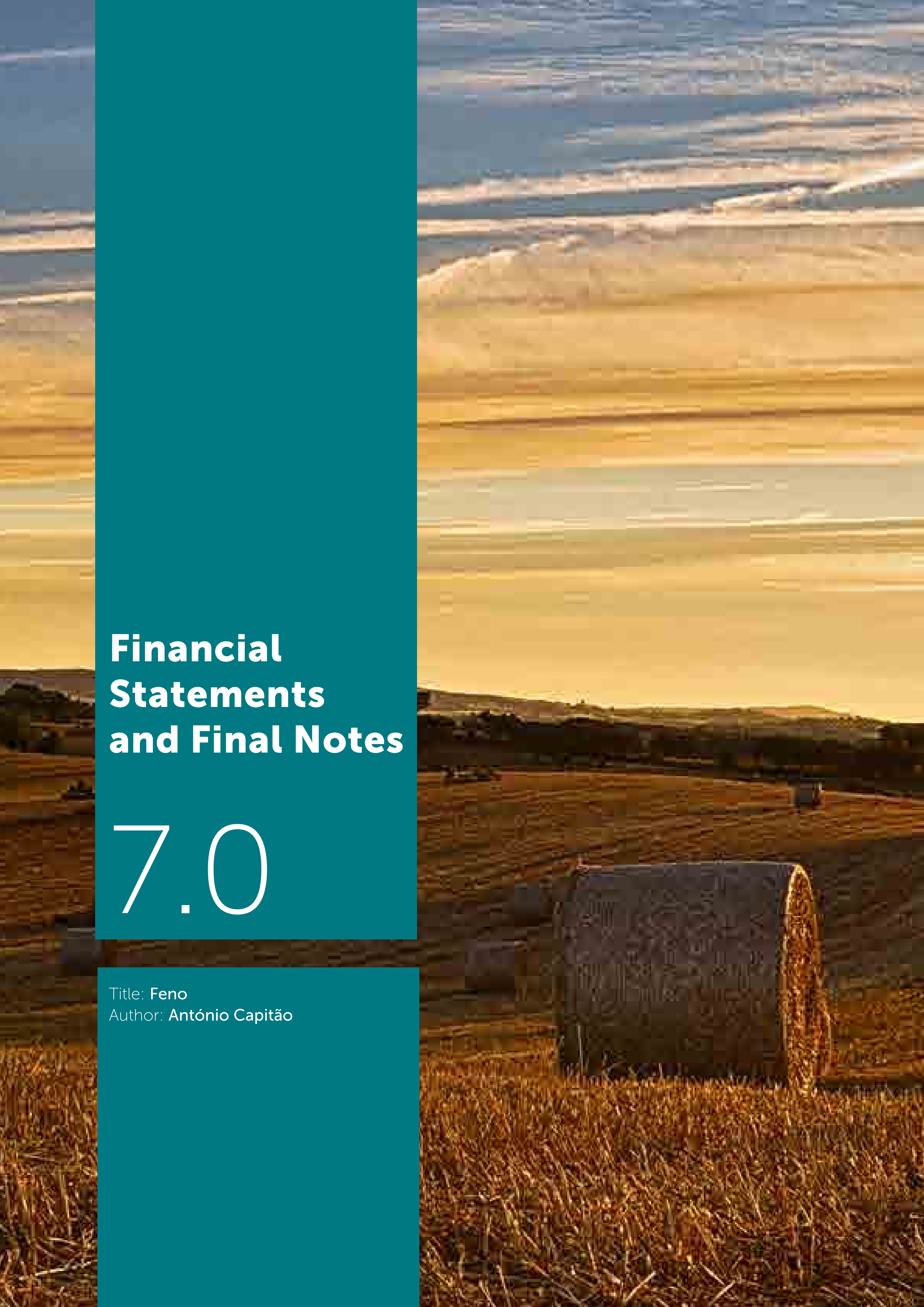
6.7 Securities held by members of the management and supervisory bodies

As at 31 December 2020, and with regard to 2020, the members of the management and supervisory bodies of NOVO BANCO did not hold any securities issued by NOVO BANCO or by companies in a control or group relationship with NOVO BANCO.

Additionally, no acquisitions, disposals or transmissions of securities issued by NOVO BANCO or by companies in a control or group relationship with NOVO BANCO were carried out in this period by the members of the management and supervisory bodies of NOVO BANCO.

6.8 Non-Material Indirect Investment in Novo Banco

All members of the Executive Board of Directors and certain members of the General and Supervisory Board acquired in 2018 (as disclosed in the 2018 Annual Report), using their own resources, holdings in an indirect investment structure in Novo Banco, which had been set up (and is controlled) by LSF Nani GP, LLP, which owns indirectly a 75% interest in Novo Banco. This indirect investment represents a shareholding of substantially less than 1% in Novo Banco and has no financial impact on the Bank, or in the exercise of the functions, suitability and independence of the aforesaid members, taking into account the reduced weight of their investment as a percentage of the share capital, either collectively or individually. These situations were disclosed to the relevant supervisory authorities and internal control bodies. There were no changes in 2020.



Financial Statements and Final Notes

7.0

Title: **Feno**
Author: **António Capitão**

7.1 Consolidated Financial Statements

thousands of Euros

Consolidated income statement as at 31 december 2020 and 2019	31.12.2019	31.12.2020
Interest Income	753 087	743 707
Interest Expenses	(212 474)	(188 573)
Net Interest Income	**540 613**	**555 134**
Dividend income	9 909	16 478
Fee and comission income	367 400	313 823
Fee and comission expenses	(53 456)	(47 305)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	61 554	88 472
Gains or losses on financial assets and liabilities held for trading	(59 223)	(91 611)
Gains or losses on financial assets mandatorily at fair value through profit or loss	(253 720)	(364 000)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	4	-
Gains or losses from hedge accounting	(1 740)	(11 641)
Exchange differences	38 829	(2 414)
Gains or losses on derecognition of non-financial assets	3 954	(3 416)
Other operating income	139 802	120 732
Other operating expenses	(368 592)	(230 294)
Operating Income	**425 334**	**343 958**
Administrative expenses	(444 840)	(398 769)
Staff expenses	(265 350)	(245 606)
Other administrative expenses	(179 490)	(153 163)
Cash contributions to resolution funds and deposit guarantee schemes	(34 707)	(35 048)
Depreciation	(33 664)	(33 072)
Provisions or reversal of provisions	(21 297)	(186 423)
Commitments and guarantees given	60 776	(22 116)
Other provisions	(82 073)	(164 307)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(627 294)	(755 070)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	333	(4 192)
Impairment or reversal of impairment on non-financial assets	(287 159)	(245 778)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	1 470	9 430
Profit or loss before tax from continuing operations	**(1 021 824)**	**(1 304 964)**
Tax expense or income related to profit or loss from continuing operations	(45 769)	(1 082)
Current tax	(8 804)	8 639
Deferred tax	(36 965)	(9 721)
Profit or loss after tax from continuing operations	**(1 067 593)**	**(1 306 046)**
Profit or loss from discontinued operations	1 128	(33 345)
Profit or loss for the period	**(1 066 465)**	**(1 339 391)**
Attributable to Shareholders of the parent	**(1 058 812)**	**(1 329 317)**
Attributable to non-controlling interests	(7 653)	(10 074)
	(1 066 465)	**(1 339 391)**

The Certificated Accountant

Executive Board of Directors

thousands of Euros

Consolidated balance sheet as at 31 december 2020 and 2019	31.12.2019	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	1 854 081	2 695 459
Financial assets held for trading	748 732	655 273
Financial assets mandatorily at fair value through profit or loss	1 314 742	960 962
Financial assets at fair value through other comprehensive income	8 849 896	7 907 587
Financial assets at amortised cost	27 141 460	25 898 046
Securities	1 622 545	2 229 947
Loans and advances to banks	369 228	113 795
Loans and advances to customers	25 149 687	23 554 304
Derivatives – Hedge accounting	7 452	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	52 540	63 859
Investments in subsidiaries, joint ventures and associates	92 628	93 630
Tangible assets	889 152	779 657
Tangible fixed assets	188 408	187 052
Investment properties	700 744	592 605
Intangible assets	26 378	48 833
Tax assets	900 095	775 498
Current Tax Assets	1 628	610
Deferred Tax Assets	898 467	774 888
Other assets	3 378 492	2 944 292
Non-current assets and disposal groups classified as held for sale	40 255	1 559 518
TOTAL ASSETS	**45 295 903**	**44 395 586**
LIABILITIES		
Financial liabilities held for trading	544 825	554 791
Financial liabilities designated at fair value through profit or loss	102 012	-
Financial liabilities measured at amortised cost	39 673 649	37 808 767
Deposits from central banks and other banks	9 849 623	10 102 896
Due to customers	28 400 127	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 065 211	1 017 928
Other financial liabilities	358 688	365 883
Derivatives – Hedge accounting	58 855	72 543
Provisions	307 817	384 382
Tax liabilities	17 980	14 324
Current Tax liabilities	11 873	9 203
Deferred Tax liabilities	6 107	5 121
Other liabilities	586 066	417 762
Liabilities included in disposal groups classified as held for sale	1 942	1 996 382
TOTAL LIABILITIES	**41 293 146**	**41 248 951**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(702 311)	(823 420)
Retained earnings	(6 115 245)	(7 202 828)
Other reserves	5 942 501	6 570 153
Profit or loss attributable to Shareholders of the parent	(1 058 812)	(1 329 317)
Minority interests (Non-controlling interests)	36 624	32 047
TOTAL EQUITY	**4 002 757**	**3 146 635**
TOTAL LIABILITIES AND EQUITY	**45 295 903**	**44 395 586**

The Certificated Accountant

Executive Board of Directors

7.2 Separate Financial Statements

thousands of Euros

Income statement as at 31 december 2020 and 2019	31.12.2019	31.12.2020
Interest Income	765 259	760 111
Interest Expenses	(219 109)	(192 112)
Net Interest Income	**546 150**	**567 999**
Dividend income	17 313	16 928
Fee and comission income	333 362	279 878
Fee and comission expenses	(48 049)	(41 438)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	59 377	86 183
Gains or losses on financial assets and liabilities held for trading	(60 446)	(91 208)
Gains or losses on financial assets mandatorily at fair value through profit or loss	(372 645)	(521 059)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	(102)	-
Gains or losses from hedge accounting	(2 261)	(12 053)
Exchange differences	38 599	(2 000)
Gains or losses on derecognition of non-financial assets	7 996	2 272
Other operating income	62 522	87 599
Other operating expenses	(78 216)	(89 879)
Operating Income	**503 600**	**283 222**
Administrative expenses	(413 977)	(367 635)
Staff expenses	(242 098)	(223 604)
Other administrative expenses	(171 879)	(144 031)
Cash contributions to resolution funds and deposit guarantee schemes	(34 448)	(34 766)
Depreciation	(36 681)	(35 033)
Provisions or reversal of provisions	(101 844)	(187 839)
Commitments and guarantees given	60 467	(21 595)
Other provisions	(162 311)	(166 244)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(631 044)	(750 975)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	(36 040)	(41 285)
Impairment or reversal of impairment on non-financial assets	(298 424)	(215 397)
Profit or loss before tax from continuing operations	**(1 048 858)**	**(1 349 708)**
Tax expense or income related to profit or loss from continuing operations	(38 726)	4 216
Current tax	(2 541)	13 400
Deferred tax	(36 185)	(9 184)
Profit or loss after tax from continuing operations	**(1 087 584)**	**(1 345 492)**
Profit or loss from discontinued operations	-	(28 754)
Profit or loss for the period	**(1 087 584)**	**(1 374 246)**

The Certificated Accountant

Executive Board of Directors

thousands of Euros

Balance sheet as at 31 december 2020 and 2019	31.12.2019	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	1 674 826	2 524 868
Financial assets held for trading	748 836	655 327
Financial assets mandatorily at fair value through profit or loss	3 044 724	2 445 605
Financial assets at fair value through other comprehensive income	8 758 131	7 813 584
Financial assets at amortised cost	26 042 243	24 804 483
Securities	2 392 843	2 873 753
Loans and advances to banks	495 252	245 472
Loans and advances to customers	8	-
Derivatives – Hedge accounting	23 154 148	21 685 258
Fair value changes of the hedged items in portfolio hedge of interest rate risk	7 992	13 606
Investments in subsidiaries, joint ventures and associates	49 884	60 976
Tangible assets	231 425	189 924
Tangible fixed assets	194 753	188 968
Investment properties	194 753	188 968
Intangible assets	26 043	48 331
Tax assets	892 713	771 854
Current Tax Assets	680	-
Deferred Tax Assets	892 033	771 854
Other assets	3 333 586	2 956 010
Non-current assets and disposal groups classified as held for sale	21 273	1 568 912
TOTAL ASSETS	**45 026 429**	**44 042 448**
LIABILITIES		
Financial liabilities held for trading	544 400	554 343
Financial liabilities measured at amortised cost	39 924 564	37 895 984
Deposits from central banks and other banks	10 542 549	10 778 468
(dos quais: Operações com acordo de recompra)	2 168 488	1 625 724
Due to customers	27 980 577	25 778 507
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 044 445	974 996
Other financial liabilities	356 993	364 013
Derivatives – Hedge accounting	58 854	72 543
Provisions	371 744	438 572
Tax liabilities	9 239	5 536
Current Tax liabilities	9 239	5 536
Other liabilities	471 626	314 611
Liabilities included in disposal groups classified as held for sale	-	2 007 770
TOTAL LIABILITIES	**41 380 427**	**41 289 359**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(632 033)	(749 259)
Retained earnings	(6 115 245)	(7 202 828)
Other reserves	5 580 864	6 179 422
Profit or loss attributable to Shareholders of the parent	(1 087 584)	(1 374 246)
TOTAL EQUITY	**3 646 002**	**2 753 089**
TOTAL LIABILITIES AND EQUITY	**45 026 429**	**44 042 448**

The Certificated Accountant

Executive Board of Directors

7.3 Final Notes

7.3.1 Declaration of Conformity with the Financial Information Reported

In accordance with Article 246-1-c) of the Portuguese Securities Code ("*Código dos Valores Mobiliários*"), the members of the Executive Board of Directors of NOVO BANCO, S.A., named below, state that:

i. the separate and consolidated financial statements of NOVO BANCO, S.A., for the year ended on 31 December 2020 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

ii. to the best of their knowledge the financial statements referred to in (i) provide a true and fair view of the assets and liabilities, equity and earnings of NOVO BANCO and of NOVO BANCO Group, in accordance with the referred standards;

iii. the management report describes accurately the evolution of the businesses, the performance and the financial position of NOVO BANCO and of NOVO BANCO Group in 2020 and includes a description of the main risks and uncertainties faced.

The management report and the individual and consolidated financial statements have been approved at the meeting of the Executive Board of Directors held on 24 March 2021.

7.3.2 Proposal for the distribution of NOVO BANCO results

Under the terms of Article 66 (5-f) and for the purposes of Article 376 (1-b) of the Portuguese Companies Code, and pursuant to Article 29 of the Bank's Articles of Association, the Executive Board of Directors of NOVO BANCO proposes, for approval by the General Meeting, that the net loss reported in the separate accounts for financial year 2020, in the amount of -€1 374 246 267.71 be allocated to the "Other Reserves and Retained Earnings" caption on the Balance Sheet.

7.4 Note of Recognition

The General and Supervisory Board and the Executive Board of Directors hereby express their recognition for the loyalty, trust and involvement with the Bank of its Clients and Employees, as well as for the collaboration of the Governmental, Supervision and Resolution Authorities and the European Commission.

Lisbon, 24 March 2021

Executive Board of Directors

António Manuel Palma Ramalho

Luísa M. S. Soares da Silva Amaro de Matos

Rui Miguel Dias Ribeiro Fontes

Luís Miguel Alves Ribeiro

Mark George Bourke

Andrés Baltar

Alternative Performance Measures 8.0

Title: **Nascer do Sol**
Author: **João Ribeiro**

The European Securities and Markets Authority (ESMA) issued on 5 October 2015 a set of guidelines on the disclosure of Alternative Performance Measures (APM) by issuers of securities (ESMA/2015/1415), of compulsory application from 03 July 2016.

The NOVO BANCO Group uses a set of indicators in the analysis of its financial performance that can be classified as Alternative Performance Measures, in accordance with the referred ESMA guidelines.

In compliance with the ESMA guidelines, we present hereunder (i) the reconciliation of the Consolidated Income Statement and (ii) the Alternative Performance Measures:

I – Reconciliation of the Income Statement

Reconciliation between the Official Consolidated Income Statement and the Management Consolidated Income Statement used by NOVO BANCO's management as a work tool in the analysis of the Group's performance:

euro thousand

Official Income Statement		Net Interest Income	Fees and Commissions	Market Results	Other Operating Results	Staff Costs	General and Administrative Costs
		555 134	**271 891**	**(72 548)**	**(136 555)**	**(245 606)**	**(153 163)**
Interest Income	743 707	743 707					
Interest Expenses	(188 573)	(188 573)					
Net Interest Income	**555 131**						
Dividend income	16 478			16 478			
Fee and comission income	313 823		313 823				
Fee and comission expenses	(47 305)		(47 305)				
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	88 472			88 575	(103)		
Gains or losses on financial assets and liabilities held for trading	(91 611)			(91 611)			
Gains or losses on financial assets mandatorily at fair value through profit or loss	(364 000)			(63 825)			
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	-						
Gains or losses from hedge accounting	(11 641)			(11 641)			
Exchange differences	(2 414)			(2 414)			
Gains or losses on derecognition of non-financial assets	(3 416)				(3 416)		
Other operating income	120 732		5 373	30 683	84 676		
Other operating expenses	(230 294)			(38 793)	(158 749)		
Operating Income	**339 804**						
Administrative expenses							
Staff expenses	(245 606)					(245 606)	
Other administrative expenses	(153 163)						(153 163)
Contributions to resolution funds and deposit guarantee schemes	(35 048)				(35 048)		
Depreciation	(33 072)						
Provisions or reversal of provisions							
Commitments and guarantees given	(22 116)						
Other provisions	(164 307)						
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(755 070)						
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	(4 192)						
Impairment or reversal of impairment on non-financial assets	(245 778)						
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	9 430				9 430		
Profit or loss before tax from continuing operations	**(1 316 991)**						
Tax expense or income related to profit or loss from continuing operations							
Current tax	8 639						
Deferred tax	(9 721)						
Profit or loss after tax from continuing operations	**(1 309 358)**						
Profit or loss from discontinued operations	(33 345)				(33 345)		
Profit or loss for the period	(1 338 310)						
Attributable to Shareholders of the parent	(1 328 236)						
Attributable to non-controlling interests	(10 074)						
	(1 339 391)						

Official Income Statement	Depreciation	Restructuring funds - independent valuation	Credit Impairment	Securities Impaiment	Other Assets and Contingencies Provisions	Taxes	Special Tax on Banks
	(33 072)	**(300 175)**	**(524 442)**	**(40 999)**	**(626 022)**	**(1 082)**	**(32 752)**
Interest Income							
Interest Expenses							
Net Interest Income							
Dividend income							
Fee and comission income							
Fee and comission expenses							
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss							
Gains or losses on financial assets and liabilities held for trading							
Gains or losses on financial assets mandatorily at fair value through profit or loss		(300 175)					
Gains or losses on financial assets and liabilities designated at fair value through profit and loss							
Gains or losses from hedge accounting							
Exchange differences							
Gains or losses on derecognition of non-financial assets							
Other operating income							
Other operating expenses							(32 752)
Operating Income							
Administrative expenses							
Staff expenses							
Other administrative expenses							
Contributions to resolution funds and deposit guarantee schemes							
Depreciation	(33 072)						
Provisions or reversal of provisions							
Commitments and guarantees given					(22 116)		
Other provisions					(164 307)		
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss			(524 442)	(40 999)	(189 629)		
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates					(4 192)		
Impairment or reversal of impairment on non-financial assets					(245 778)		
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method							
Profit or loss before tax from continuing operations							
Tax expense or income related to profit or loss from continuing operations							
Current tax						8 639	
Deferred tax						(9 721)	
Profit or loss after tax from continuing operations							
Profit or loss from discontinued operations							
Profit or loss for the period							
Attributable to Shareholders of the parent							
Attributable to non-controlling interests							

II – Alternative performance measures

Information on the Alternative Performance Measures (definition, calculation method and scope).

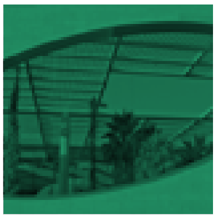
Income Statement			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients Historical financial performance indicator	Fee and commission income less fee and commission expenses	(DR): Fee and commission income and Fee and commission expenses
Commercial banking income	Indicator of the results of commercial activity most directly related to customers Historical financial performance indicator	Financial margin + Customer services	
Capital markets results	Indicator of results of activity in the financial markets Historical financial performance indicator	Results from trading and hedging operations, assets at fair value through other comprehensive income and at amortized cost	(DR): Dividend income, gains or losses on the derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets that must be accounted for at fair value through profit or loss, gains or losses on financial assets and liabilities accounted for at fair value through profit or loss, gains or losses from hedge accounting and exchange differences
Other operating results	Indicator of other diverse results, not directly related to activity with customers and markets Historical financial performance indicator	Gains or losses on the derecognition of non financial assets + Other operating income + Other operating expenses + Proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equity method	(DR): Gains or losses on the derecognition of non -financial assets, other operating income, other operating expenses, proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equivalence method
Banking Income	Financial activity results indicator Historical financial performance indicator	Net interest income + Fees and commissions + Capital markets results + Other operating results	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs Indicator of historical financial performance	Personnel expenses + Other administrative expenses + Depreciation	(DR): Personnel expenses, Other administrative expenses and Depreciation
Operational result	Indicator of results of financial activity less costs and before impairment. Measures the extent to which the income generated covers / exceeds operating costs Historical financial performance indicator	Banking income Operating costs	
Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year Historical financial performance indicator	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates + Impairment or reversal of impairment of non-financial assets	(DR): Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates and Impairment or reversal of impairment of non-assets financial

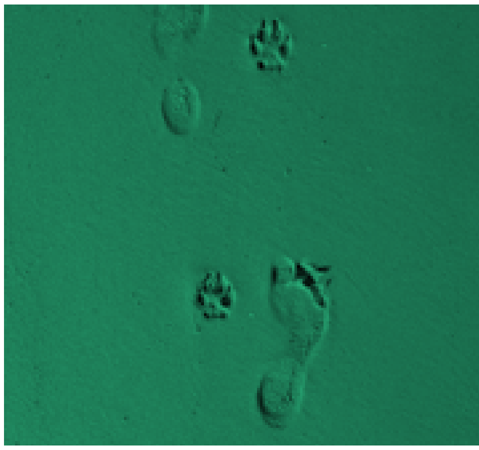
Balance Sheet/Liquidity			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Assets eligible for rediscount transactions with the ECB	Trading financial securities or other types of assets, such as non-marketable assets or cash, accepted as collateral by the ECB in financing operations Indicator of historical financial performance	na	na
Securities portfolio	Indicator of the size of funds invested in trading assets, at fair value through profit or loss, at fair value through profit or loss mandatory, at fair value through other comprehensive income and at amortized cost Historical financial performance indicator	Securities (bonds, shares and other variable income securities) recorded in trading portfolios, at fair value through profit or loss, at fair value through mandatory income, at fair value through equity and amortized cost.	(BAL): Securities held for trading and Securities portfolio
Customer deposits Instruction No 16/2004 of Banco de Portugal	Indicator of the asset's financing capacity Historical financial performance indicator	Set of amounts entered in the following general ledges accounting items: [# 400 # 34120 + # 52020 + # 53100]	(BAL): Customer resources
Net financing from the ECB	Indicator that reflects the net amount that was obtained from the ECB to finance the activity Historical financial performance indicator	Difference between the amount of financing obtained from the ECB and investments in the ECB	(BAL): Applications at the ECB and Resources from the ECB
Customer funds	Indicator of the asset's financing capacity Historical financial performance indicator	'Deposits + Other customer funds + Debt securities placed on customers	(BAL): Customer funds, Debt securities issued, subordinated liabilities and Liabilities associated with transferred assets
Off-balance funds	Indicator of off-balance sheet customer funds Historical financial performance indicator	Off-balance sheet resources managed by Group companies, which include real estate and investment funds, pension funds, banking insurance, portfolio management and discretionary management	
Total customer funds	Indicator of customer resources registered on the balance sheet and off balance sheet Historical financial performance indicator	Deposits + Other customer resources + Issued bonds + Subordinated liabilities + Disintermediation resources	(BAL): Customer resources, Liabilities represented by securities, subordinated liabilities and Liabilities associated with transferred assets
Commercial gap	Indicator that measures the need / excess of financing in absolute value of the commercial area Historical financial performance indicator	Difference between customer deposits and net credit	(BAL): Net customer loans and customer deposits
Liquidity gap	Indicator that allows assessing the need / excess liquidity accumulated up to 1 year, in each cumulative scale of residual maturity. Historical financial performance indicator Indicator of the relationship between the financing of the	Difference between [(Net assets volatile liabilities)]	
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	Indicator of the relatioship between the financing of the activity and the funds raised from customers Historical financial performance indicator	Ratio between [(total credit - accumulated impairment for credit) and customer deposits]	(BAL): Net customer loans and customer deposits

Asset Quality and Coverage Ratios			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Overdue loans ratio	Loans quality indicator, showing the proportion of the gross loan portfolio that is in default Historical financial performance indicator	Ratio between overdue loans and total loans	(BAL): Overdue loans, that is, loans with installments of capital and interest in default and loans to customers, gross
Ratio of loans overdue for more than 90 days	Loans quality indicator, reflects the proportion of the gross loan portfolio that has been in default for more than 90 days Historical financial performance indicator	Ratio between loans overdue for more than 90 days and total loans	(BAL): Loans overdue for more than 90 days, that is, loans with installments of capital and interest in default for more than 90 days and loans to customers, gross
Non-performing loans ratio	Loans portfolio quality indicator, reflects the proportion of the gross loans portfolio including cash and deposits with loans institutions that are in a non-performing situation Historical financial performance indicator	Ratio between the total balance of loans agreements with customers and cash equivalents and investments in loans institutions identified as: (i) being in default (internal definition in line with Article 178 of the Capital Requirements Regulation, that is, contracts with higher material defaults) 90 days and contracts identified as unlikely to pay, according to qualitative criteria; and (ii) having specific impairment and total loans	(BAL). Loans identified as non-productive loans and Gross customer loans
Forborne ratio Instruction No 32/2013 of Banco de Portugal	Loans quality indicator, reflects the proportion of the gross loan portfolio that was restructured Historical financial performance indicator	Ratio between forborne and total loans	(BAL). Loans identified as restructured due to financial difficulties of the customer and loans to customers gross
Overdue loans coverage	Indicator of the ability to absorb potential losses related to loans default Historical financial performance indicator	Ratio between balance sheet impairments for loans to customers and the amount of overdue loans	(BAL): Provisions for loans and overdue loans to customers
Coverage of loans overdue for more than 90 days	Indicator of the ability to absorb potential losses related to loans default for more than 90 days Historical financial performance indicator	Ratio between balance sheet impairments for loans to customers and loans overdue for more than 90 days	(BAL): Provisions for loans and loans to customers overdue by more than 90 days
Non-performing loans coverage	Indicator of the capacity to absorb potential losses related to non-performing loans default Historical financial performance indicator	Ratio between balance sheet impairments for loans to customers and non-performing loans	(BAL): Provisions for loans and non-performing loans
Coverage of loans to customers	Indicator of the ability to absorb potential losses related to the customer loan portfolio Historical financial performance indicator	Ratio between balance sheet loan impairments and gross loans to customers	(BAL): Provisions for loans and gross loans to customers
Cost of Risk	Measure of the cost recognised in the year to cover the risk defaultin the customer loans book -historical financial performance measure	Ratio between impairment charges recorded in the period for loans risk and the balance of loans to customers gross	(DR): Reinforcement of provisions for loans, in the year (BAL): Gross customer loans

Efficiency and Profit Ability Ratio			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
EFFICIENCY I Instruction No 16/2004 of Banco de Portugal	It expresses the proportion of income necessary to cover the staff costs incurred. The lower the value of the indicator, the higher the level of efficiency of the organization's human resources Historical financial performance indicator	Ratio between staff expenses and banking income	(DR): Staff expenses
EFFICIENCY II Instruction No 16/2004 of Banco de Portugal	Expresses the proportion of income necessary to cover operating costs incurred. The lower the value of the indicator, the greater the level of efficiency of the organization Historical financial performance indicator	Ratio between [administrative expenses and depreciation] and banking income	(DR): Operating costs include Staff expenses, Other administrative expenses and Depreciation
Cost to Income	It expresses the proportion of income necessary to face the operating costs incurred and allows to measure the progression of efficiency levels. The lower the value of the indicator, the greater the level of efficiency of the organization Historical financial performance indicator	Ratio between operating costs and banking income	
PROFITABILITY Instruction No 16/2004 of Banco de Portugal	Expresses the banking income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate income per unit of assets used Indicator of historical financial performance	Ratio between banking income and average net assets	(BAL): Active; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered
Return on average net assets Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate results per unit of assets used Indicator of historical financial performance	Ratio between profits or losses of continuing operations before taxes and average net assets.	(DR): Profit or loss from continuing operations before taxes (BAL): Assets; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered
Return on average equity Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by equity in the period and provides information on the efficiency with which capital is used to generate results Indicator of historical financial performance	Ratio between profits or losses of continuing operations before taxes and average equity	(DR): Profit or loss from continuing operations before taxes (BAL): Equity; the calculation of average equity includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered

Sustainability Report 2020





NOVO BANCO

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Sustainability at NOVO BANCO

1.0

Títle: I can see clearly know
Author: Nair Domingues

1.1 Key indicators

	2019	2020	2020 vs 2021
Social Indicators			
Employees	4 326	4 321	-0.1%
Training (no. of hours)	200 545	194 925	-2.8%
Staff Turnover	6.7	7.4	0.7 p.p.
Total of Women (%)	52.5%	53.5%	1.0 p.p.
Women in management positions (%)	34.7	38.2	3.5 p.p.
Women in first line positions (%)	31.3	31.3	-
Gender pay gap (%)	9.6	10.2	0.6%
Environmental Indicators			
ESG Structured Products launched in the period (#)	12	9	- 25.0%
Subscription of ESG Structured Products in the period (#)	5 339	5 120	-5.2%
Cumulative subscription of ESG Structured Products (#)	6 735	11 855	76.0%
Clients that subscribed ESG Structured Products in the period (#)	4 870	4 911	0.8%
Cumulative Clients that subscribed ESG Structured Products (#)	5 973	9 540	59.7%
Total ESG Structured Products subscribed in the period (€mn)	121	117	-3.3%
Total cumulative ESG Structured Products subscribed in the period (€mn)	151	268	77.5%
$C0_2$ emissions from electricity consumption (ton)	5 828	4 241	-27.2%
Active Digital Clients (# thousand)	566	600	6.0%
Corporate Governance Indicators			
Entries of analysed accounts (# warnings)	11 457	11 422	-0.3%
Notifications to the authorities (#)	1 035	843	-18.6%
Account openings investigated (#)	3 705	3 101	-16.3%
Insertion of investigated participations	1 138	901	-20.8%
Account openings refused after investigation	63	93	47.6%
Economic Indicators: Community and Society			
Planned saving/"*Poupança programada*" (# clients)	277 495	225 935	- 18.6%
Planned saving/"*Poupança programada*" (€mn)	1 090	1 039	-4.7%
Minimum banking services account (#)	8 491	9 740	14.7%
No of suppliers with sustainability scoring	496	569	14.7%
Clients Very Satisfied and Satisfied with customer service - Retail (%)	97.0	96.3	-0.7 p.p.
Clients Very Satisfied and Satisfied with customer service - SMEs (%)	95.1	94.0	-1.2 p.p.
Donations (€mn)	0.58	0.50	-13.8%
Direct economic value generated (€mn)	841	812	-3.4%
Economic value distributed (€mn)	412	381	-7.5%
Economic value retained (€mn)	429	431	0.5%

1.2 Highlights

JAN

23 | NB ECO ZERO CARBONO

NOVO BANCO launches new structured deposit - NB ECO Zero, with interest rate pegged to the share performance of companies with clear commitments to reduce carbon emissions.

FEB

7 | NOVO BANCO CULTURA

NOVO BANCO offers a tour guide on the NOVO BANCO CULTURA website, showing several regions and museums in the country and walking you through their painting collections.

11 | NOVO BANCO CULTURA

NOVO BANCO lends six paintings from German painter Günther Förg to the Ourique Art Gallery.

12 | NOVO BANCO SUMMIT DO ALENTEJO

In partnership with SIC Notícias TV channel and the Expresso newspaper, NOVO BANCO held a regional summit, where it highlighted entrepreneurs, businesses, and other relevant entities in the region.

23 | NB ESG MELHOR SAÚDE

NOVO BANCO launches new structured deposit, with interest rate pegged to the share performance of companies included in the STOXX® Global ESG Impact index, which stand out for compliance with environmental, social and internal governance criteria.

MAR

4 | GLOBAL RESPONSE TO COVID-19

NOVO BANCO joins the "Global Response to Covid-19" initiative, through which Portugal will contribute €10 million to accelerate the development, production and equitable access to Covid-19 vaccines, diagnostics and treatments.

6 | SUSTAINABILITY REPORT

NOVO BANCO publishes 2019 Sustainability Report.

25 | CLIENTS SUPPORT MEASURES

NOVO BANCO launches support measures for families and companies due to Covid-19 context.

APR

11 | SOS CORONAVÍRUS

NOVO BANCO joins the Associação Empresarial de Portugal in the SOS-Coronavirus campaign.

20 | NB ESG INOVAÇÃO BIOFARMACÊUTICA and NB ESG MAIS SAÚDE

NB launches two new structured deposits, with interest rate pegged to the share performance of companies that engage in pharmaceutical and biotechnology research and development and are included in the STOXX® Global ESG Impact index.

20 | "A FRIEND IN NEED IS A FRIEND INDEED"

NOVO BANCO joins AMI – Foundation for International Medical Assistance in the "A friend in need is a friend indeed" campaign to provide this organisation's most vulnerable beneficiaries, who are alone at home, with food and health goods.

28 | INSTITUTIONAL CAMPAIGN

NOVO BANCO launches a campaign to position its brand in the context of Covid-19, where it highlights its strategic traits of being essential, convenient, close and nonconformist.

MAY

8 | NOVO BANCO

NOVO BANCO shares with clients and the community in general specialised and technical information (GPS) that can support decision making in the context of Covid and preparation for post-Covid.

11 | NOVO BANCO

NOVO BANCO publishes a page on its website with advice and measures intended for employees, clients and the community in the context of COVID-19.

19 | NOVO BANCO AGRIFOOD SUMMIT

In partnership with SIC Notícias and the Expresso newspaper, NOVO BANCO organises a summit on the agrifood sector, the first in webinar format.

26 | NOVO BANCO CULTURA

NOVO BANCO lends five works by Portuguese painters Graça Morais, Manuel Amado and Luís Noronha da Costa to the Lousã Museum

JUN

9 | NOVO BANCO TOURISM SUMMIT

In partnership with SIC Notícias and the Expresso newspaper, NB organises a summit on the tourism sector, the first in webinar format.

25 | NOVO BANCO CULTURA

NOVO BANCO's Photography Collection in international prominence though its inclusion in the study group of the International Association of Corporate Collections.

JUL

10 | NB ESG MAIS NUTRIÇÃO

NOVO BANCO launches new structured deposit - NB ESG Mais Nutrição (more nutrition), with interest rate pegged to the share performance of companies included in the MSCI World ESG Leaders Index, which stand out for compliance with the environmental, social and internal governance criteria established in global sustainable investment requirements.

13 | NOVO BANCO CULTURA

NOVO BANCO lends the works of Frederico Ayres to the Viana do Castelo museums.

14 | NOVO BANCO CULTURA

NOVO BANCO lends a set of works by Nikias Skapinakis, Maluda and Noronha da Costa to the Mirandela Municipal Museum.

AUG

3 | NBnetwork +

NOVO BANCO earns award for "Best Integrated Corporate Banking Site in Western Europe".

10 | TALENT ATTRACTS TALENT

NOVO BANCO opens applications for the 3rd edition of the 6-month or 1-year traineeships programme for young graduates.

SEP

17 | NOVO BANCO INDUSTRY SUMMIT

In partnership with SIC Notícias and the Expresso newspaper, NOVO BANCO holds another industry-specific summit in webinar format, this time addressing the industrial sector.

26 | NEW DISTRIBUTION MODEL

NOVO BANCO opens its first branch in the New Distribution Model, with social and environmental criteria.

15 | NB MAIS ELÉTRICO

NOVO BANCO launches new structured deposit with interest rate pegged to the share performance of electrical car makers included in the STOXX® Global ESG Impact Index, which stand out for compliance with the environmental, social and internal governance criteria established in global sustainable investment requirements.

OCT

1 | NOVO BANCO CULTURA

Opening of "REFLEX: World with a Future Exhibition", an initiative of Cais, which the Bank is a sponsor. The exhibition enhances positive and sustainable initiatives.

3 | NOVO BANCO EDUCATION PATRONAGE

Closing Ceremony of the 38th edition of the Portuguese Mathematics Olympics.

22 | NOVO BANCO

NOVO BANCO appoints Andrés Baltar as new member of Executive committee and approves corporate bodies.

23 | NOVO BANCO CULTURA

NOVO BANCO Photo Collection exhibits works by Vik Muniz at Universidade NOVA SBE.

26 | INSTITUTIONAL CAMPAIGN

NOVO BANCO launches new campaign praising the country's production capacity, under the motto "Portugal que faz" (Portugal that does).

31 | SOCIAL DIVIDEND MODEL

End of the 1st edition of the Social Dividend Model, surpassing the target points for 2020.

NOV

9 | NOVO BANCO Digital

NOVO BANCO launches the first app of a new generation of smarter, more personalised applications that revolutionises the way clients interact with the bank in their everyday life.

DEC

3| NBnetwork +

NOVO BANCO earns award for "Best Banking Project" at this year's Portugal Digital Awards.

10 | NOVO BANCO CULTURA

NOVO BANCO lends two paintings by Thomas Buttersworth to the Olhão Municipal Museum.

10 | NOVO BANCO CULTURA

NOVO BANCO Photo Collection opens "Território Solar" exhibition at Faro museum.

10 | EPIM AWARD

NOVO BANCO earns the EIPM (European Institute of Purchasing Management), award in the 'Business Continuity' Master category.

15 | NB ESG INFRASTRUCTURES STRUCTURED DEPOSIT

NOVO BANCO launches new structured deposit, with interest rate pegged to the share performance of 3 companies included in the STOXX® Global ESG Impact index, which stand out for compliance with sustainable investment global requirements.

18 | NOVO BANCO CULTURA

NOVO BANCO lends a set of works by Júlio Resende, Manuel Amado, Francisco Relógio, Roberto Chichorro and Noronha da Costa to the Barrancos Municipal Museum.

1.3 Partnerships

UN Global Compact	**Signatory**	Corporate citizenship initiative which had its origin, back in 2000, in a proposal by the then UN Secretary-General, Kofi Annan. It is based on ten fundamental Principles, in the areas of human rights, labour practices, environmental protection and anti-corruption, and aims to promote businesses' public and voluntary commitment to endorse these principles.
BCSD Portugal	**Member**	Non-profit association that brings together and represents more than 90 leading companies in Portugal, which are actively committed to the transition to sustainability.
iGen	**Member**	Organisations for Equality Forum, created in 2013, comprises 69 organisations committed to reinforcing and highlighting their organisational culture of social responsibility, incorporating, in their strategies and management models, the principles of equality between women and men at work.
APB	**Associate**	Main entity representing the Portuguese banking sector, it was created in 1984 to strengthen the financial system and contribute to the development of a more solid banking sector.
APFIPP	**Associate**	Portuguese Association of Investment and Pension Funds and Asset Management Firms, which represents the interests of Mutual Funds management, Real Estate Funds management, Pension Funds Management and Asset Management, viewing a more efficient defence of these activities.
APQ	**Associate**	The Portuguese Quality Association is a non-profit organisation, founded in 1969, that aims to promote and disseminate theoretical and practical knowledge in the field of Quality and Excellence in Portugal.
ECSI	**Associate**	National Customer Satisfaction Index is a system for measuring the quality of goods and services available in the national market, through customer satisfaction surveys.
1.5°C	**Subscriber**	Document presented by the United Nations Global Compact, which has as its main objective to achieve the transition to a low carbon economy and to avoid the overheating of the atmosphere.
CARTA DE COMPROMISSO	**Subscriber**	Commitment to Sustainable Finance in Portugal Letter, which aims to contribute to the promotion of sustainable investment practices.

1.4 Approach to sustainability

NOVO BANCO steers its activity based on sustainability principles and with the firm resolve to give a positive contribution to the entire ecosystem within which it operates. With the aim of managing its business in a fair and responsible manner, the Bank has been implementing a culture that involves permanent monitoring of its impact on the community, training and raising the awareness of its employees, business partners and clients, and adherence to the principles and policies that govern its activity.

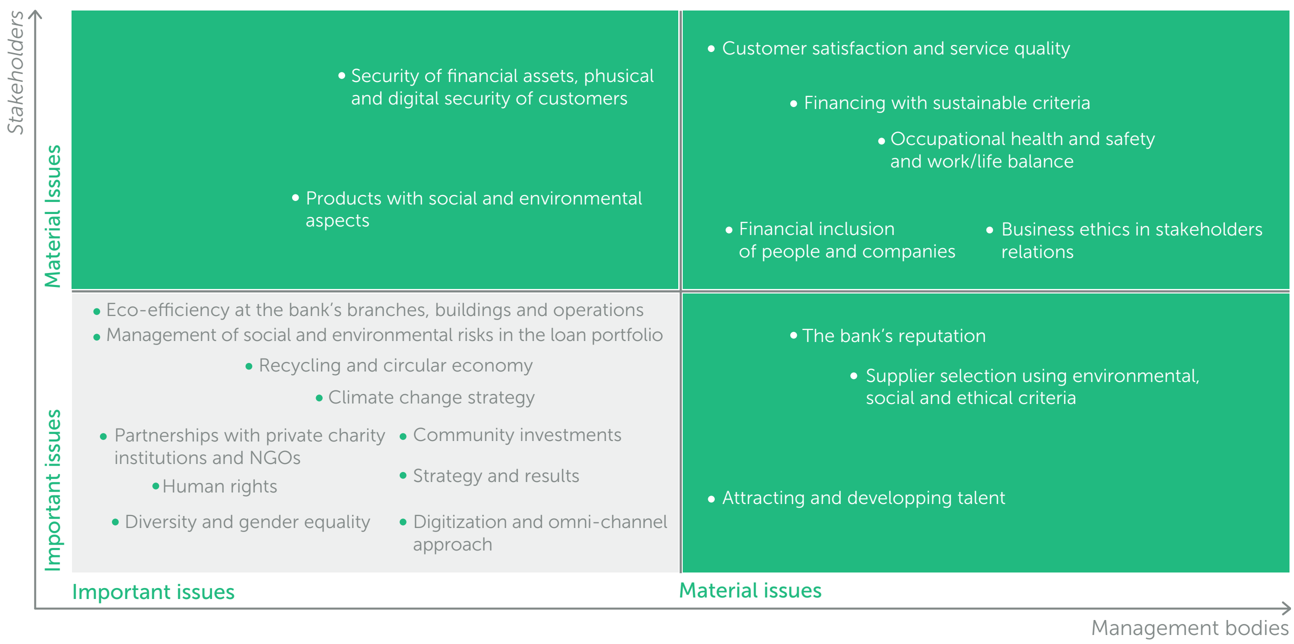
Business ethics and social and environmental responsibility criteria are incorporated in NOVO BANCO's management model. By integrating these criteria, the Bank commits itself to managing the business with a view to creating value for clients, employees, shareholder(s), people, the environment and the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

To this end and to strengthen its sustainability governance model, in 2020 NOVO BANCO started up a multidisciplinary working group which, after sounding the various stakeholders, will review the Bank's sustainability strategy, in an integrated approach with its business plan and economic and financial objectives. This working group will assist and strengthen the Bank's governance and management in carrying out their activities by reconciling economic development issues with social, environmental and ethical responsibility issues to ensure that the Bank's operations are aligned to its sustainability strategy.

To implement its sustainability strategy in 2020, several studies and trend analyses were carried out to validate the materiality of the issues to be considered. In light of the constraints caused by the pandemic, the Bank immediately decided to take a more proactive social stance, acting based on the following themes of first materiality matrix, published in 2020:

- Physical and digital security of the Client and security of its financial assets
- Financial inclusion of people and companies
- Health and safety in the workplace and reconciling the personal and professional lives of employees

Materiality Matrix



Despite the commitments made in 2019, where environmental commitments were very relevant, in 2020 the social area was paramount in the Bank's ESG (Governance, Social Environment) activities. Striving to provide a quick and prompt response to issues arising from the pandemic, NOVO BANCO focused its activity in favour of the community, and sought to give its best contribution to its individual and corporate clients, its employees and society in general, in an attempt to mitigate the adverse context.

NOVO BANCO is aware of the challenge that sustainable financing poses to the financial sector, faced with the need to classify and redirect private financial resources towards more sustainable investments, and therefore assumes the commitment to gradually transition its business model to fit a more sustainable economy, in compliance with the provisions of the Community directives deriving from the European Ecological Pact and the commitment made by the European Union in the framework of the Paris Agreement. In its social dimension, in 2020 the Bank will continue to support its individual and corporate clients in their transition towards a more sustainable and carbon-neutral economy. The new climate change financing framework will provide the Bank with the opportunity to take effective measures to mitigate climate change and risks that are already present, and to address their causes.

To this end, the Bank pays and will continue to pay particular attention to the two-way relationship maintained with its various stakeholders through the existing communication channels.

Canais de comunicação de *stakeholders*

Employees

- Request for in-person feedback via questionnaires and meetings
- Intranet (Somos NOVO BANCO, NBweb and Human Resources Portal)
- Thematics Mailboxes Email (including CEO Office and "Ask the Chairman" address")
- HCD manager for active and retired employees
- Human Resources Business Partner
- Executive leadership visits to the commercial network
- Whistleblower line
- Workshops and Lectures
- Annual Meeting and other meetings
- Thematic meetings, workshops, clarification sessions and webinars
- Workers Committee, Union Secretariat and Information and Consultation Procedure

Clients

- Request for by phone, online and in person;
- Formal system for filing complaints;
- Branch Network, Corporate Centres and Regional Divisions;
- Social networks (NOVO BANCO Cultura, NOVO BANCO Facebook and Linkedin)
- Events, such as NOVO BANCO Summit

Regulators

- Provision of mandatory and voluntary information
- Request for feedback by phone, online and in person.
- Investor Relations team
- Regular meetings with investors
- Quarterly results presentation
- Investors website

Suppliers

- Contacts established through a specific website (Grupo NOVO BANCO Supplier Portal), coordinating the exchange of information via e-mail, telephone and in person.

Media

- Information provided in-person, by phone and online;
- Press conferences
- Quarterly results presentation
- Sharing of specialized knowledge through social networks and media (radio, newspapers, televisions).

Community

- Continuous in-person, telephone and online dialogue with Associations, Private Social Solidarity Institutions, social and environmental NGOs;
- Corporate Social Responsibility Initiatives
- Participation in conferences
- Social networks (NOVO BANCO Cultura, NOVO BANCO Facebook and Linkedin)

Our Clients 2.0

Title: **Namoro ao pôr do sol**
Author: **Isabel Chapert**

NOVO BANCO shapes its business strategy according to the specific needs and preferences of its clients, with the aim of providing an offer of products and services with value and appropriate to each of the segments, supported by a commercial network and the various business channels available to the client. In this extremely challenging year, marked by the constraints and limitations arising from the Covid-19 pandemic, NOVO BANCO sought to protect its community of clients, by keeping its branches open (following the appropriate protection rules), and taking several initiatives, including financial support through credit lines and moratorium, encouraging the use of remote channels, creating more flexible ways of subscribing to products, and promoting the secure use of digital channels, NOVO BANCO positioned itself from the outset as a strategic partner for its clients.

More information is provided in chapter 1.1.1 - Business Model, of the Annual Report.

2.1 Listening to the clients

In order to offer the best experience to its clients, the Bank seeks to gather as much information as possible about what they want, when, where and how. Knowing the clients' expectations throughout their life cycle permits to identify opportunities for improvement, using a robust model for monitoring the customer experience based on several action pillars.

Service quality	Monitoring the clients' experience of the service provided in all the commercial structures of the Bank, through a questionnaire designed to measure their satisfaction with the various dimensions of service, as well as other global indicators.
Moments of Truth	Continuous monitoring of the clients' experience immediately after the main moments of their relationship with the Bank, in order to identify improvements that will allow them to meet their expectations and needs.
Digital channels	Customer satisfaction survey targeting the different aspects of the digital channels (available features, ease of use, security, visual attractiveness) and comparison with the competition.

Mystery Client	Development of a customised Mystery Client programme with the main objective of assessing compliance with the quality principles defined by the Bank, and identifying any service weaknesses as well as training needs.
Quality Indicator	Development of a Quality indicator for the commercial areas that reflects the quality of service and other elements that impact the customer experience.
Ad hoc surveys	Carrying out specific surveys on a case-by-case basis and using different methodologies, depending on the critical themes of the moment.
External Surveys	Monitoring of external benchmark market surveys such as the ECSI (National Customer Satisfaction Index), developed by APQ and NOVA IMS, BASEF Banca, developed by Marktest, and the Financial Services Barometer, developed by DATA E.

The information obtained through this monitoring model is shared with the Bank's commercial structures and with the central areas, enabling a set of actions to be taken that aim to improve this group of stakeholders' experience of the Bank in its various dimensions.

In order to correct the reasons of dissatisfaction conveyed by clients through satisfaction surveys, the Restart programme sends a lead to the commercial network's workstations, allowing it to assess the grounds for dissatisfaction and mitigate them whenever possible.

The management of complaints also has a significant impact on the clients' relationship with the bank, providing an opportunity to win back unhappy clients. For each complaint received, the underlying causes are analysed, the ensuing losses are quantified and corrective and preventive measures are implemented to avoid the recurrence of failures.

In 2020, the Bank received 0.35 complaints for every thousand active customers, which compares with 0.30 in 2019.

Clients may lodge complaints through several channels, and an effort is made to solve problems at the first contact with the client.

NB NET

NB DIRETO
707 24 7 365

NOVO BANCO
BRANCHES

CORPORATE
CENTRES

E-MAIL
satisfacao@novobanco.pt

ONLINE
FORM

LETTER

A frank and continuous contact with the clients requires fast and efficient replies to their comments or complaints, and helps to develop a relationship of trust.

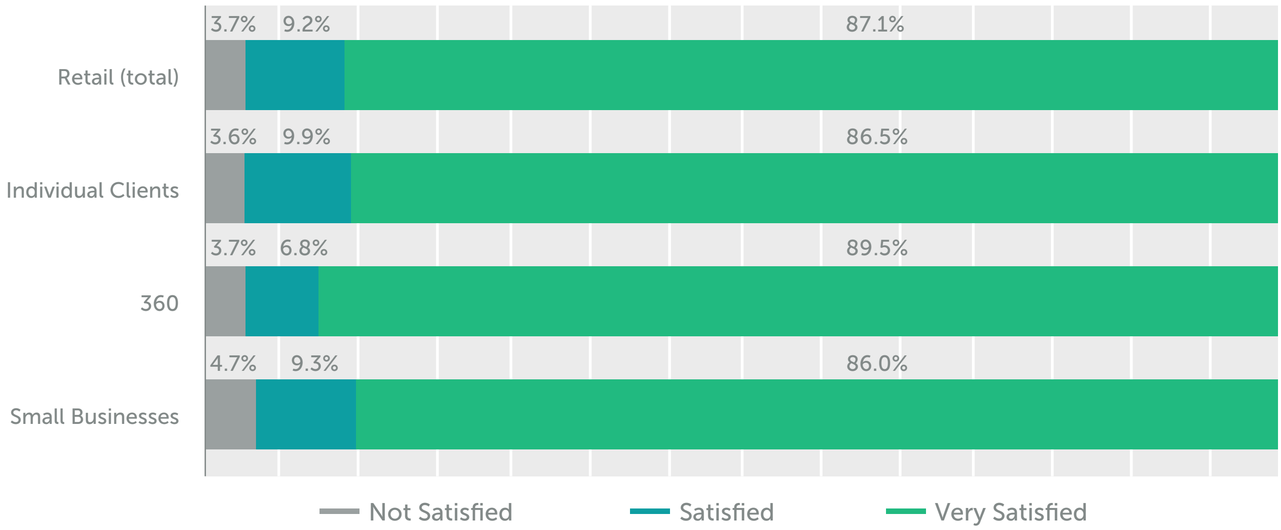
The Bank maintains its ambition to be recommended as a reliable, straightforward, and fast-response bank, with easy physical and digital access, viewing the strengthening of customer confidence and the development of a sustainable business.

2.2 Retail Banking

The Bank seeks to learn about the needs of its clients at every step of their lives, listening carefully to what they have to say through the various channels available, so as to keep developing and implementing offers and products that best suit the clients' needs.

In 2020, approximately 54 thousand replies to the satisfaction questionnaires were collected, covering the three segments of Retail: individual clients, 360º and Small Businesses.

Customer Service - Retail (%)

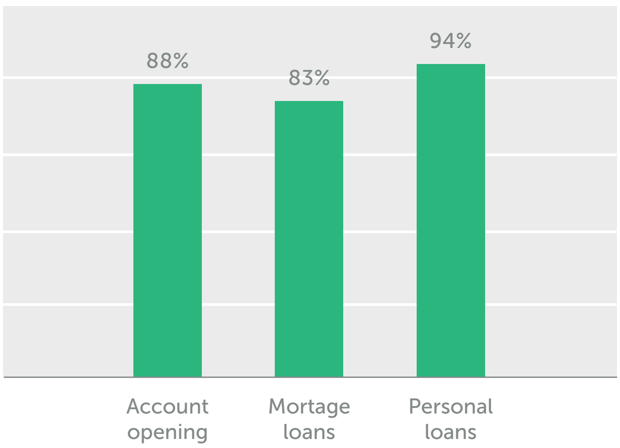


In 2020 the confidence index[1] is 75%. Global satisfaction (very satisfied clients) stands at 75%, up from 70% in 2019. The Net Promoter Score (which indicates the intention to recommend the Bank) is currently 25.

In 2020, a survey was once again conducted to sound the opinion of clients (around 15.8 thousand) concerning their experience in the main moments of truth in their relationship with the Bank, and in particular with regards to: personal loans, mortgage loans and account opening.

The Bank also promotes a Mystery Client programme that covers all the commercial structures of Retail. However, in 2020, due to the Covid-19 restrictions imposed, there were no Mystery Client visits.

Moments of Truth
Very satisfied clients (%)



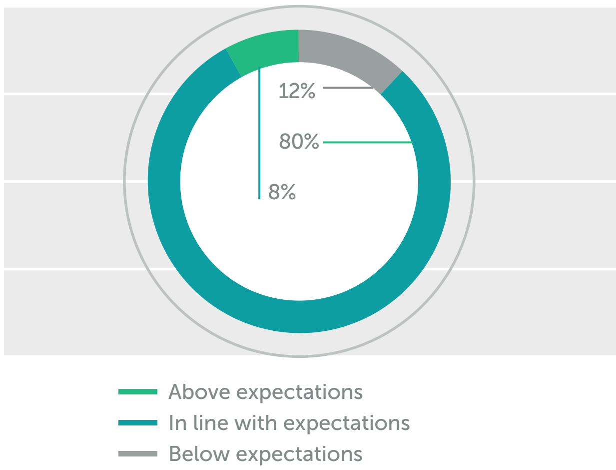
1. See methodological notes

A survey was carried out in April to the individual clients and businesses segments to assess their opinion on some of the measures implemented by the bank to address the Covid-19 pandemic.

For 88% of the clients surveyed, the measures implemented by NOVO BANCO were in line with or above their expectations. The level of satisfaction with the manner in which NOVO BANCO informs on the measures taken to respond to the Covid-19 outbreak is worth noting, with 84% of the respondents saying they were satisfied or very satisfied.

In terms of the offering, NOVO BANCO developed a large set of initiatives aimed at supporting individual and small business clients, by setting in motion and making available credit lines of support to companies affected by the crisis, and taking part in the financial sector's global solution to support families in financial difficulties due to the pandemic (moratoria for Residential Mortgage Loans and Personal Loans), thus encouraging and promoting a digital relationship with the Client. Moreover, the Bank offered temporary exemptions from payment on certain commissions (such as on digital transfers and cash advances), and made available free-of-charge debit cards, as well as insurance products with special Covid-19 related coverage.

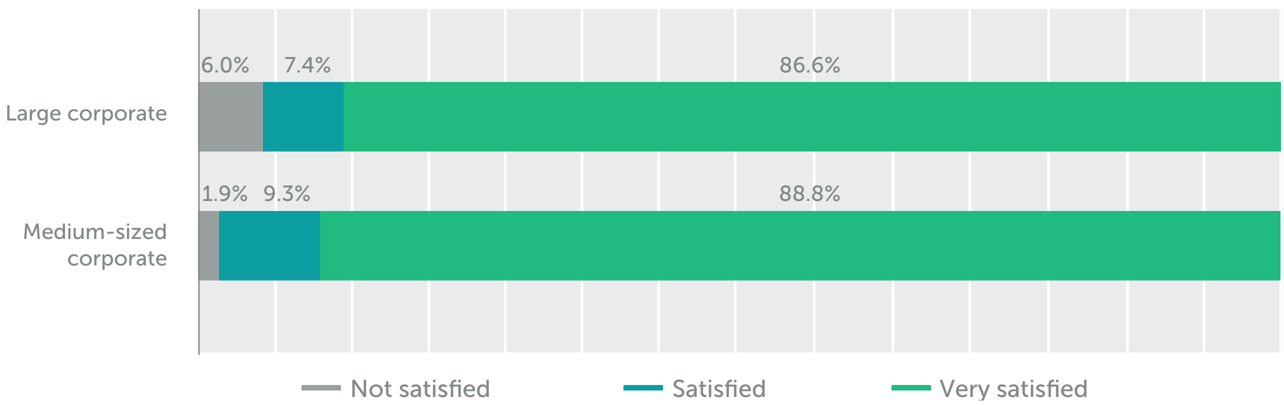
Do the measures taken by the NB to respond to the Covid-19 outbreak meet your needs/ expectations? (%)



2.3 Corporate Banking

In terms of support to companies, NOVO BANCO positioned itself from the outset as a strategic partner, providing financial support to small and medium-sized enterprises through the available lines (*Capitalizar 2018-Covid-19 Credit Line* and industry-specific lines of Support to the Economy), responding to requests for loan moratoria, and developing the '*NB Empresas – Antecipação Fundos Lay-off*" (to receive in advance the funds provided by the Social Security Institute for the payment of salaries by companies using the simplified lay-off scheme). The Bank also strongly focused on the digital transformation of processes, investing in remote relationship and signature tools so as to continue to address the needs of its clients quickly but in compliance with the social distancing restrictions imposed in the COVID context.

Customer Service - Corporate (%)



Trade Finance is another business area where the Bank stands out, providing a wide range of products and specialised advice designed to support international trade. In January 2020 NOVO BANCO was once again elected the 'Best trade finance bank' in Portugal by the Global Finance international magazine, based on its activity in 2019. In June 2020, NOVO BANCO was also elected "Best Sub-custodian Bank 2020" in Portugal by Global Finance".

Creating a value proposition for the Corporate segment that is innovative, competitive and profitable, and bolsters NOVO BANCO's role as the reference bank for companies in Portugal, remains one of the Bank's priorities, and the customers' voice gives a crucial contribution to attaining this goal.

In 2020, Corporate Banking obtained approximately 2,400 replies to customer service satisfaction surveys. The results show that 89% of the Medium-sized corporate clients and 87% of the Large corporate clients are very satisfied with the Bank's service, which proves that the Bank's activity matches the needs and expectations of its clients.

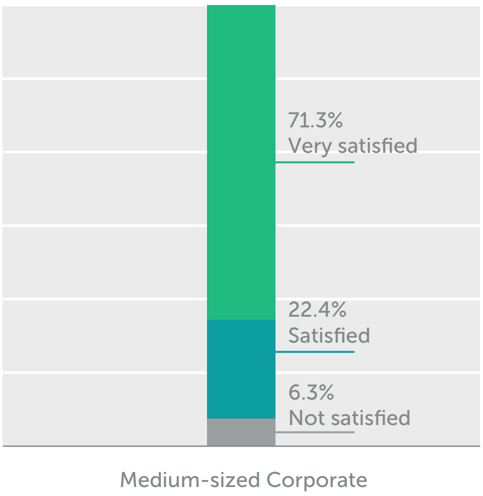
2.3.1 Medium-sized companies

In 2020 the confidence index was 75%. Global satisfaction continued to improve, with the percentage of very satisfied clients standing at 75% in 2020, which compares with 69% in 2019. The Net Promoter Score is currently 24.

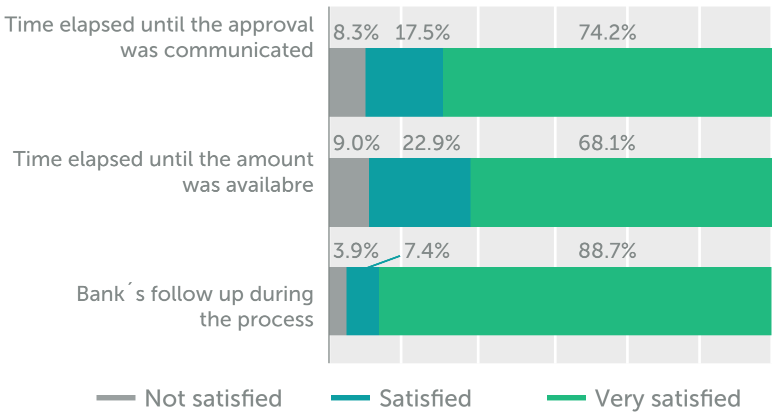
Also, in the Medium-sized Companies segment, the Bank evaluates the customers' experience after taking out a loan. The resulting data is shared not only with the commercial areas, but also with the marketing areas, and are used to support the introduction of innovations and the launch of new products and services.

In June and July, the Bank conducted surveys to assess how the measures and solutions adopted in the context of Covid-19 measured up to the clients' needs and expectations, where 93% of the corporate clients responded that they were in line or above their expectations. It should be noted that 71% of these clients were very satisfied with the support provided by NOVO BANCO in this period. Of those surveyed, about 37% had resorted to a specific Credit Line, or a Moratorium, or both, and of these, 89% were very satisfied with the Bank's follow-up during the process.

How do you rank your satisfaction with the support provided by NOVO BANCO during this period in which we are living? (%)



How do you rank your satisfation with each of the following aspects of the Covid-19 Lines to which you resorted? (%)



2.3.2 Large companies

In the Large Companies segment, clients answer a very detailed annual questionnaire that aims to assess the various items that count towards their choice of NOVO BANCO as their Bank.

In 2020, the confidence index of these clients was 74%, which compares with 64% in 2019. As to global satisfaction, 64% of the clients are very satisfied with the Bank. Additionally, 67% of the clients are very satisfied with customer service and 87% are very satisfied with the service provided by their Account Manager.

2.4 New technological experiences

Its digital transformation is one of NOVO BANCO's top priorities, emerging this year in an even more demanding context in terms of speed in response to the clients' new needs and expectations. The aim is to have an agile organisation, focused on the client and its needs.

The digital offer covers all the different segments of the bank.

In 2020 we launched NB smarter, the new mobile app.

For retail customers, NOVO BANCO offers the NB smart app and the NB smarter mobile solutions (the latter is the new mobile app launched at the end of 2020), the NBnet homebanking service and the NB app tablet.

To its corporate clients, NOVO BANCO offers the NBnetwork internet banking service, this year further reinforced with the NBnetwork+, a digital financial management solution for companies, pioneering in Portugal and allowing a combined view of all their bank accounts, which permits to initiate payments and has functionalities such as a Financial Calendar, the categorisation of account entries, as well as alerts and notifications, contributing to improve the operational efficiency of NOVO BANCO's clients and their digital transformation.

NBnetwork + solution won the prize for "Best Banking Project.

The NBnetwork + solution won Portugal Digital Awards 2020' prize for "Best Banking Project", which recognised NOVO BANCO's effort to deliver excellence in value creation for its clients.

As part of NOVO BANCO's digital transformation strategy, and with a view to widening the scope of this strategy, improving efficiency, and addressing environmental and social positive impacts, the following solutions stand out:

- New account opening remote solutions, using the Digital Mobile Key or by Video Call, offering a new onboarding experience that is complete, fast, intelligent, efficient, and entirely digital;
- Launch of a new app for Individual Clients (NB smarter) with a completely renewed design and customer experience, adaptable and customisable, inclusive and predictive (based on data science) and offering a wide range of services and solutions, including the aggregation of accounts with other banks;
- Reinvention of the home buying experience, from simulation to title deed. Now with a new branch platform that completes the omnichannel experience. A simpler, faster and more transparent process;

- Development of Phygital solutions aimed at i) improving the customer experience through mobility and sharing, also allowing a remote but close relationship with the bank; ii) streamlining processes through digital signatures with validation code and handwritten electronic signature, reinforcing transparency in relationships, and iii) adoption of digital processes that foster a paperless culture;
- Digital solution for loans to small businesses: automated and integrated access to credit through the NBnetwork digital channel. A totally secure process, with no need to deliver any documentation or go to the branch, with funds made available in less than 48 hours.

Throughout the year, the Bank also continued to renew its digital channels and to leverage on new data science skills:

- A new Non-Financial Offering was made available online;
- The approval circuit for personal loans requested through the digital channels was streamlined;
- The offer of more 60 Investment Funds available for subscription through the Digital Channels was expanded (Morning Star offer);
- Alternative signature solution via NBnetwork, with no need for Digital Certificates / PKI (public key infrastructure) Signatures;
- Batch payments, payments to the Social Security and sending of payment files now available through the Open Banking channel;
- Introduction of new functionalities in the app to enhance convenience for the client: new Mbway functionalities (Account division and credit card request);
- Machine Learning models introduced in money laundering prevention methods;
- Contributions to the customer days through the development of customisation models and functionalities in the channels;
- Support to business using propensity models, to activate or deactivate clients, or identify better offers.

Faced with the adverse scenario resulting from the Covid-19 pandemic, NOVO BANCO used digital transformation to support its clients:

- Launch of a regional Marketplace hosted on the novobanco.pt website to support clients in the small businesses segment implement or reinforce their digital presence;
- Improvements in applications for loans under the protocol credit;
- lines, as well as for moratoria (individual and corporate clients): the process is now more automated and access can be made directly through NOVO BANCO's website;

In 2020 we launched the Marketplace to boost local commerce.

- The process of activating the Digital Channels on NOVO BANCO's website (individual and corporate clients) was streamlined and made easier, and client/bank communication tools were promoted on the app (mail messaging, appointment of meetings and contact request);
- Development of several use cases using Artificial Intelligence to predict and model Covid-19 impacts on the national economy.

With a view to promoting digital education, in 2020, NOVO BANCO made a commitment to Lar Escola António Luis de Oliveira to support both the Foundation itself and the young people which it supports, by providing equipment and digital know-how, together with its partners.

In order to assess the impact of technological innovations on the customer experience, in 2020 approximately 42 thousand people were surveyed to assess the global satisfaction with the Bank's channels - NBSmart app, NB net, and Nbnetwork. In addition, another 3.5 thousand people were surveyed to assess the use of these channels' functionalities, to analyse the competition and to detect opportunities for improvement. In terms of customer satisfaction, the channel with the best score is NBnet, followed by NBnet and NBnetwork.

61

Net Promoter Score
NB smart app

54

Net Promotor Score
NBnet

37

Net Promotor Score
NBnetwork

As regards the intention to recommend, the NB smart app was the channel with the highest Net Promoter Score.

The year 2020 closed with 600 thousand active clients in the digital channels and more than 415 thousand active mobile clients. The goal for 2021 is therefore to continue to grow and to innovate.

The result of the ongoing digital transformation is clearly visible in customer interactions with the bank. Most of the interactions between NOVO BANCO and its individual clients already take place through the Bank's mobile channel (in December the figure was 55%, far outstripping the points of contact made through ATMs). Currently 70% of the contact points with the bank are made through the digital channels.

600 thousand

DIGITAL ACTIVE CLIENTS

415 thousand

MOBILE CLIENTS

Mobile clients' interaction has seen exponential growth over the last five years, having in 2017 surpassed online interactions. In 2015, only 7% of NOVO BANCO's clients used this channel, with 2018, 2019 and, of course, 2020 being the years of strongest growth.

2.5 Customer protection

The protection of customers can only be properly safeguarded if NOVO BANCO's activity is adequately protected. Therefore, and in accordance with the best market practices and legal and regulatory requirements, the Bank ensures the confidentiality, integrity and availability of information.

Customer protection is present in all the Bank's activities, including the safety of the client, the security of the transactions carried out, and the protection of the personal data of clients and remaining account holders. To ensure privacy and the correct treatment of personal data, the Bank has developed a set of procedures and internal rules, as well as a Privacy Policy, and its website provides detailed information on the treatment of personal data.

To prevent, detect and react to the new cyber threats arising from digitisation, leading to increased attention and stronger technical control.

The Bank invests in the strengthening of its software and continuously warns its clients about the latest fraud attempts issuing security advice for safe Internet browsing and safeguarding the security of transactions and personal data, in the various channels (namely e-mail, direct channels, PC, smartphone, tablet).

During 2020, in the context of the pandemic, NOVO BANCO also stepped up information security, including in its annual plan different communication activities to raise awareness among the employees to topics such as cyber security and social engineering.

In 2020 we reinforce the digital protection of our customers

Given the key role played by all the employees in the prevention of cyber risks, the Bank provided tips on security that may come useful both in the professional context and in the personal and family context, thus contributing to enhance security and resilience in the global cyberspace.

The digital channels, which permit to view all contents very quickly and practically, at any time and from anywhere, were also much focused in the communication campaign. The digital channels are indeed essential to ensure confidence in the ecosystem in the context of teleworking.

In 2020 the Bank received no complaints originating from the National Data Protection Commission (CNPD). The only complaint, received in 2019, has been solved with no consequences for the Bank.

NOVO BANCO seeks to satisfy the needs of its clients, allowing them to fulfil their dreams, build up and strengthen their business, always aiming for a long-term relationship, based on trust, the security of their assets and the privacy of their data.

Our Employees 3.0

Title: **Projetos futuros**
Author: **Jorge Esteves da Costa**

Being aware that good results stem from a diversified, and inclusive human capital, bringing different life experiences, NOVO BANCO bases its relationship with all its employees on the Talent & Merit pillar of its strategic plan, as well as on other sound governance policies and general principles, which aim to respond to five challenges:

- Attract and Retain talent;
- Promote gender equality, equal opportunities and respect for diversity;
- Promote the conciliation of professional, personal and family life;
- Address social work / internal social responsibility needs; and
- Watch over health, well-being and safety at work.

Total staff	2018	2019	2020	2020 vs 2019
Total NOVO BANCO Employees in Portugal	**4 382**	**4 326**	**4 321**	**- 0.1%**
Women	2 274	2 272	2 313	1.8%
Men	2 108	2 054	2 008	-2.2%

94%
UNIONISED EMPLOYEES

98%
EMPLOYEES COVERED BY COLLECTIVE WAGE AGREEMENT

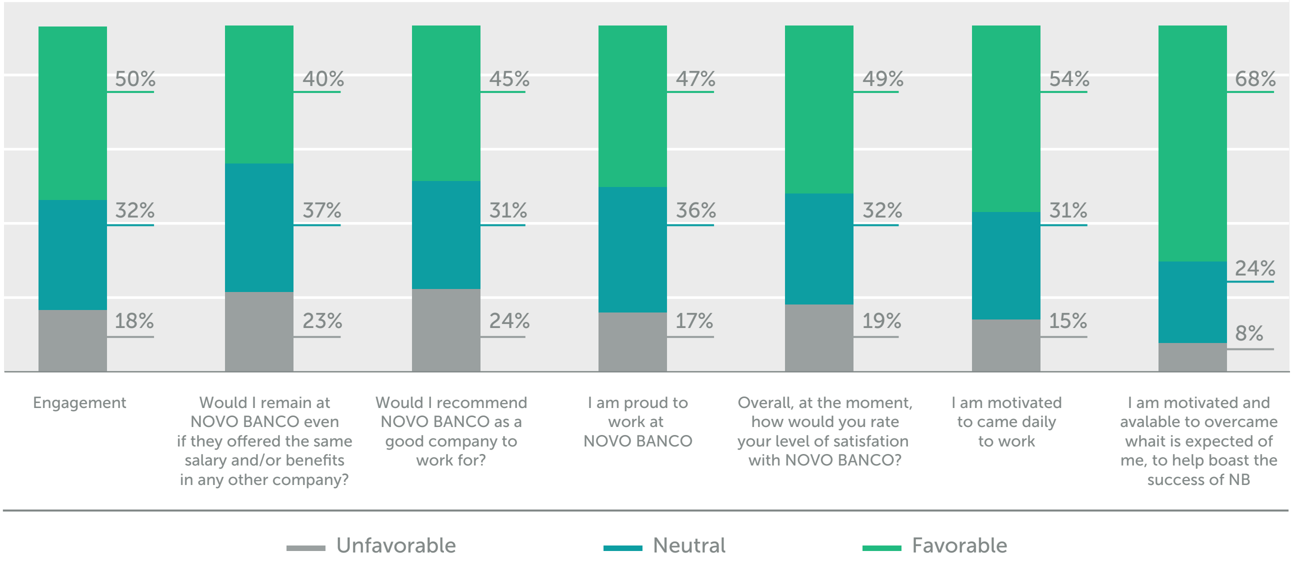
53.5%
WOMEN

46.5%
MEN

3.1 Listening to the employees

To implement its human capital strategy, NOVO BANCO seeks to follow the best fair-process practices in decision-making, focusing not only on results, but deploying a fair and reasoned process with strong engagement of the employees, in order to deliver results. The Bank thus endeavours to be aware of the needs and difficulties experienced by employees throughout their life cycle and to meet their expectations, so as to contribute to their full development, and allow them to fully unlock their potential and maintain their motivation. In 2020 NOVO BANCO once again conducted the half-yearly Engagement Survey, one of its main tools to sound the organisational climate of the Bank - which had a participation rate of around 79%, as well as the Internal Customer Satisfaction Survey and the Psychosocial Risk Questionnaire.

Engagement Results (%)



Sounding and keeping in touch with the employees became even more important in 2020, especially when teleworking took on a prominent role in the performance of each employee's duties. In this context, the Bank made available new communication channels, such as the "We are NOVO BANCO" platform, based on SharePoint technology, to bring news to the employees and ensure that all relevant information was disclosed in real time, and the Yammer social network, which put everyone in contact with each other in a new form of communication marked by greater proximity, participation and collaboration. These new communication channels proved to be an essential factor in an adverse scenario, by promoting integration, union and motivation within the NOVO BANCO team.

3.2 Attracting Talent and Merit

NOVO BANCO uses a set of means and initiatives to capture new talent and retain existing talent from within the personal and professional development of all its employees. This model is deployed in four stages:

3.2.1 Capturing talent to NOVO BANCO

In 2020 there were two internship programmes aimed at attracting young talent at the beginning of their professional careers, seeking not only to address the Banks' staff recruitment and rejuvenation needs, but also to give young professionals career opportunities and the possibility to establish themselves in regions where labour supply is scarcer:

- **Talent Attracts Talent Programme** – annual programme of paid internships lasting 6 or 12 months for young graduates or with a master's degree, to be carried out not only in the central departments but also in the commercial areas. In 2020, 58 young people were integrated into the Bank's staff, of whom 33 came from the second edition of this programme and 25 from the NB Retail Banking Programme (an exclusive programme for the Commercial Network of the North Commercial Department). The third edition of the Talent Attracts Talent Programme received a further 49 young graduates.

- **NB UP Programme-** programme with the duration of one month for young people attending national higher education institutions. The programme allows these students to have working experience during the summer holidays and is also paid. In 2020, 117 young people participated in this internship.

3.2.2 Internal mobility

NOVO BANCO encourages the career development of each employee throughout his or her professional career. To this end the Bank has in place, among other tools, an internal mobility programme that enhances the Bank's human capital, enabling its employees to embrace new challenges and opportunities for individual development and progress. In 2020, 19 employees were given the opportunity to change their jobs. By enabling and contributing to the development of a more motivating working environment, the Bank contributes to the retention of talent.

3.2.3 Performance Assessment

The Performance Management Process, which covers all employees and is included in the Employee Portal (called "My Portal"), offers a personal development programme where each employee can define his or her own objectives in terms of continuous improvement in the performance of their functions. Performance Evaluation, carried out annually, is based on two aspects:

- fulfilment of objectives;
- skills and behaviour observed (general, specific and technical).

It is an important tool in the alignment between the organisational strategy and the performance of each employee/team, supporting a constructive and continuous dialogue between each Employee and his or her line manager.

We launched the AppRH, a new mobile for employees

Download Transforming Our World - Sustainable Development Goals - Full Size PNG Image - PNGkitIn line with the new operating models and evolution of NOVO BANCO, which are based on modernisation and digitisation, AppRH was launched in 2020. AppRH is a new mobile tool for fast and intuitive access to "My Portal", the Bank's Employees Portal, from the employees' private smartphones, which allows executing the task involved in the Performance Assessment process. Employees can also access other personal data through this app, such as details of their holidays and absences, as well as general data of the Bank, search other employees' professional contacts, and view and browse through the Bank's organisational chart.

We launched the AppRH, a new mobile for employees

3.2.4 Valuing employee development

By continually reinforcing the knowledge of its employees, NOVO BANCO promotes their retention, also contributing to the recognition of the diverse talent possessed by its staff and guaranteeing they have the decisive skills required to attain the challenging objectives it proposes to achieve.

Aware of the current environment of deep changes and huge challenges faced by the financial sector, the Bank seeks innovative solutions that enhance the contribution of its employees, continuing to invest consistently in the design and implementation of distinctive and motivating training, enabling the improvement of performance, and the development and evolution of NOVO BANCO's employees.

To ensure that employees had access to adequate training, approximately 288.5 thousand euros were invested in training, averaging 45.1 hours per employee, with a special focus on:

- Regulatory Training | Markets and Financial Instruments Directive (MiFID II), IDD - New Insurance and Reinsurance Distribution Law, Mortgage Credit Marketing Directive; Prevention of Money Laundering and Financing of Terrorism and Information Security;
- Continuous professional training|: New Investment Advisory Platform (provided to 425 employees working in NB360 segment);
- Training designed for the New Distribution Model: the implementation of this new Model, which is included in one of NOVO BANCO's strategic transformation pillars, entails a set of initiatives intended to give the Clients a new experience, both inside and outside the branch, and using all the forms and channels(digitals, remotes and in person) with which the Bank relates to its clients.

We provide more than 194 thousand hours of training to our employees

Because the practical learning at NOVO BANCO is highly valued the on-the-job training is also provided at the 20 School branches all over the country, although this year it is being provided remotely due to the pandemic. Based on the concept of learning by doing, this is a pioneering project in Portuguese banking, which over the years has broadened its scope of action and is now responsible for:

- the initial training framework for new employees;
- the reinforcement of skills of current employees;
- the development of appropriate skills to support functional mobility;
- the monitoring of current employees returned from extended leaves;
- support in the implementation of strategic projects.

During 2020, 210 employees attended school branch training, 53 of whom were part of the group of employees who joined the Bank via the "Talent attracts Talent" programme.

Included in the various tools to attract and retain talent, in 2020 the Bank made 712 promotions on merit, 16 promotions due to change of job and 66 promotions on the basis of seniority, making a total of 794 promotions.

3.3 Promoting gender equality, equal opportunities and respect for diversity

NOVO BANCO's relationship with all its employees is based on two fundamental policies: the Human Rights Policy and the Policy of Non-Discrimination and Equal Opportunities. These policies tackle issues such as equal opportunities, diversity, respect for freedom of association, rejection of forced and child labour, discrimination, any form of harassment and, in general, respect for the Employee as a Person. NOVO BANCO complies with the legislation, rules and regulations in force and develops its activity in full compliance with its Equality and Non-Discrimination Policy and Human Rights Policy, defined based on:

- the United Nations Global Compact Principles;
- the Universal Declaration of Human Rights;
- The Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises;
- European and National Legislation on Gender Equality and Harassment prevention.

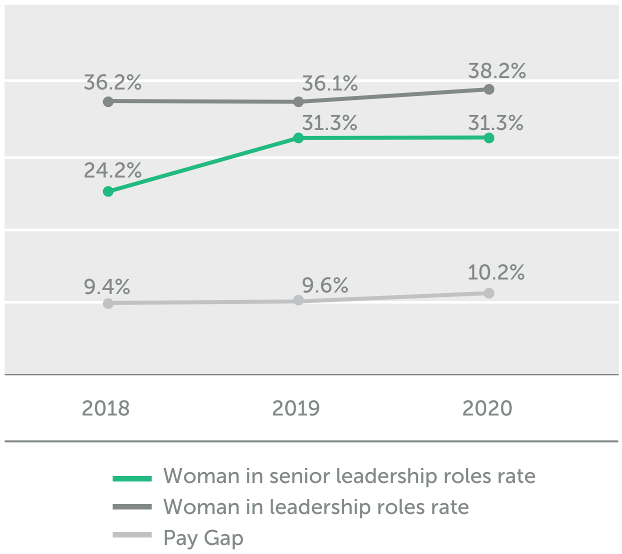
Diversity and gender equality are an integral part of human capital management, with gender parity already a reality in NOVO BANCO, where women account for 53.5% of the workforce. However, the Bank is strongly committed to further reinforcing women representation at top management level. Although there has clearly been a positive evolution, there is still a way to go (namely in terms of closing the wage gap).

Gender equality is part of the NOVO BANCO Social Dividend model, a model created in 2017 of commitment to give back to the community and the employees. The model comprises four programmes, one of which, #NB Equal Gender, measures and sets targets for three indicators: percentage of women in top jobs, percentage of women in management positions and gender pay gap.

The DCH (Human Capital Department) produces an internal Gender Equality report where various Human Capital Management processes are monitored by gender (e.g., admissions, exits, performance evaluation, distribution of each functional group, vocational training, use of work and life benefits, etc).

The Bank actively participates in the iGen Forum for Gender Equality, and in 2020 the working group of which it is part produced a book (to be launched in the first half of 2021) aimed at raising awareness among children and young people to the need for a fairer world in terms of gender equality.

#NB Equal Gender



We actively participate in iGen working group producing a book that aims to raise awareness among young people about a more equal world

In 2020, the representation of the female gender increased in management and administrative functions.

Employees by Gender Professional Category	2018	2019	2020	2020 vs 2019
Total	**4 382**	**4 326**	**4 321**	**-0.1%**
Men	2 108 (48.1%)	2 054 (47.5%)	2 008 (46.5%)	- 2.2%
Women	2 274 (51.9%)	2 272 (52.5%)	2 313 (53.5%)	1.8%
Management	**435 (9.9%)**	**375 (8.7%)**	**382 (8.8%)**	**1.9%**
Men	278 (63.9%)	245 (65.3%)	236 (61.8%)	-3.7%
Women	157 (36.1%)	130 (34.7%)	146 (38.2%)	12.3%
Heads of Department	**441 (10.1%)**	**546 (12.6%)**	**484 (11.2%)**	**-11.4%**
Men	261 (59.2%)	314 (57.5%)	271 (56.0%)	-13.7%
Women	180 (40.8%)	232 (42.5%)	213 (44.0%)	-8.2%
Specific	**1 889 (43.1%)**	**2 070 (47.9%)**	**2078 (48.1%)**	**-0.4%**
Men	882 (46.7%)	925 (44.7%)	931 (44.8%)	-0.6%
Women	1 007 (53.3%)	1 145 (55.3%)	1 147 (55.2%)	0.2%
Administrative	**1 598 (36.5%)**	**1 322 (30.6%)**	**1 366 (31.6%)**	**3.3%**
Men	672 (42.1%)	559 (42.3%)	559 (40.9%)	0
Women	926 (57.9%)	763 (57.7%)	807 (59.1%)	5.8%
Auxiliary	**19 (0.4%)**	**13 (0.3%**	**11 (0.3%)**	**-15.4%**
Men	15 (78.9%)	11 (84.6%)	11 (100%)	0
Women	4 (21.1%)	2 (15.4%)	0 (0%)	-100%

3.4 Promoting the reconciliation of professional, personal and family life

The balance between the professional, personal and family life of its employees deserves a special attention from NOVO BANCO and it is also a talent acquisition and retention tool. The Bank therefore integrated the "# NB Work & Life" programme, a set of initiatives that promote conciliation and flexibility at work, into the Social Dividend Model. Under this programme, the employees may enjoy the following benefits:

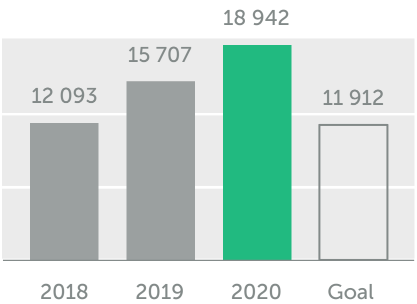
- **Holiday purchase -** possibility to purchase up to 5 additional holiday days per year;
- **Leave on special days -** the employee's birthday; afternoon on the birthday of dependent children and/or stepchildren up to the age of 18, first day of classes for the 1st to 5th school year of dependent children and/or dependent stepchildren;
- **Early Friday / Late Monday -** Half-day leave (Friday afternoon or Monday morning), compensated by additional work during the week;
- **Home Office -** remote work, for greater flexibility in terms of workplace and working hours;
- **Take Away** - the employees can buy and take home low-cost and nutritionally balanced meals.

In 2020, Home Office/Telework took on a particular importance due to the pandemic situation. The fact that the Bank had created this benefit and established the rules and instruments on its use prior to the outbreak of Covid-19 was crucial for the success of Telework in this context.

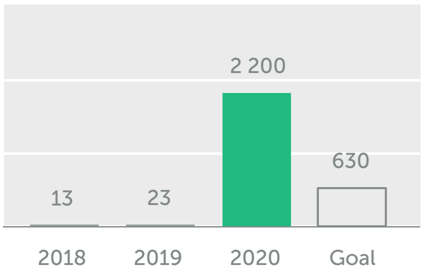
The results obtained in each of these initiatives show their importance for the employees and justify their maintenance.

NB Work& Life

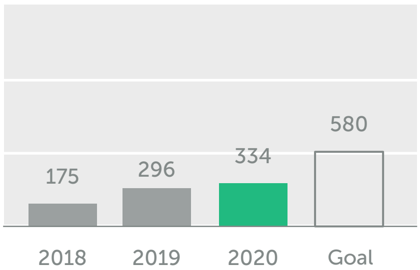
Employees Leave on Special Days



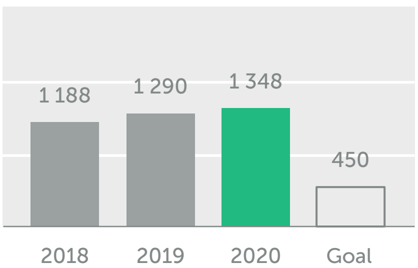
Employees in Home Office



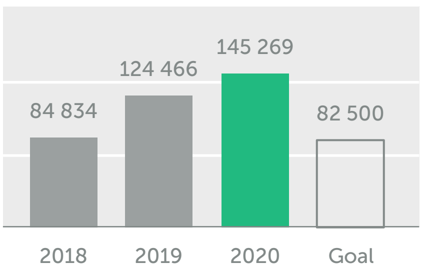
Employees Purchase of Holidays



Employees Early Friday/Late Monday



Takeaway Meals



3.5 Addressing social work needs - internal social responsibility

NOVO BANCO has a strong concern for the social well-being of its employees. Therefore, it offers a set of benefits that go beyond monetary retribution and aim to strengthen employees' relationship with NOVO BANCO, personal satisfaction and savings. These benefits, attributed within the scope of the internal social responsibility programme, take the form of:

- Education support for children of employees in active service;
- Support to retired employees;
- Christmas presents for employees and their children and dependent stepchildren;
- Special conditions in NOVO BANCO's commercial offer.

In 2020, due to the impossibility of holding the traditional employee Christmas dinner and in order to keep the Christmas spirit alive, the Bank instead gave each of its employees a basket composed exclusively of Portuguese products produced by NOVO BANCO's client companies, in line with its positioning in support of the national economy, as featured in its external communication: "This is the Portugal that does and this is the Bank that helps doing".

In addition to the benefits enjoyed under the Banking Sector Collective Bargaining Agreement, namely birth support allowance, child allowance and study allowance, NOVO BANCO also provides a series of social supports aimed at the education of its employees' children, as well as providing for the basic necessities for its retired employees, such as charges for internment in homes, day centres, home support, among others.

In 2020 we gave 2,990 Christmas presents to the children of the employees.

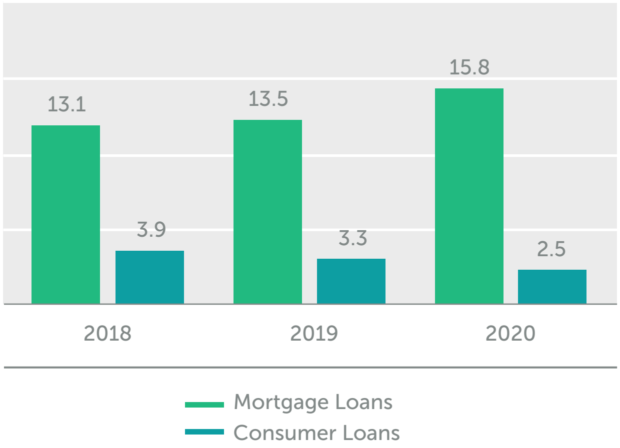
Employee Benefits	2018	2019	2020	2020 vs 2019
Education support				
Early childhood benefits	391	435	434	0.2%
	506 000 €	532 000 €	509 440	-4.2%
School grants	208	210	262	24.8%
	164 800 €	164 100 €	192 835€	17.5%
Support to children and youths with special needs	78	73	81	11.0%
	90 000 €	90 000 €	79 940€	-11.2%
Support to retired employees				
Expenses with senior residences, day-care centres, home support, medicines and other basic necessities.	66	66	60	-9.1%
	126 900 €	126 900 €	108 640€	-14.4%

In 2020, approximately 92.6% of the employees who applied for the social support provided by the Bank were granted that support.

O NOVO BANCO also has four canteens where working and retired employees can have lunch and order take away meals. These canteens serve low-cost nutritionally balanced meals, with 3 to 4 options to choose from every day, each coming with the respective nutrient information sheet (nutrition traffic light). In addition to providing free meals, the aim is also to encourage each employee to make responsible choices in terms of healthy eating. Awareness-raising initiatives sometimes also take place in the canteen areas. In 2020, despite the significant increase in teleworking the Bank maintained its canteens and bars in full operation, and increased the take-away component, all in full compliance with the social distancing and hygiene rules imposed under COVID 19.

The employees, including retired employees up to 65 years old, also benefit from special conditions in mortgage and consumer loans. In 2020, new loans to employees totalled €18.3 million, from a total loan portfolio of circa €75.5 million. Aware of the difficulties caused by the pandemic, the Bank granted moratoria on mortgage loan payments (Purchase, Works or Construction of Own Permanent Housing) and Consumer Loan payments to its employees experiencing a fall in income.

Loans to employees
(€mn)



3.6 Looking after health, well-being and safety at work

The physical, psychological and social well-being of its employees is essential for the Bank, which to this end has in place a health and well-being policy based on five lines of action:

1. **Communicate and raise awareness** enhancing continuous and relevant communication about the Bank's path and strategy, as well as providing contents in various formats about health and well-being, encouraging employees to make conscious and healthy choices;
2. **Diagnose and prevent** risk situations early, so as to act preventively;
3. **Dynamise and promote** moments of focus on certain topics to increase employee involvement and accelerate positive results;
4. **Offer and provide** benefits aligned with best practices in healthy habits that contribute positively to the holistic well-being of employees;
5. **Reconcile and flexibilise** practices for a balance between professional, personal and family life.

Due to the pandemic, the challenge of "Looking after health, well-being and safety at work" became a paramount issue for NOVO BANCO's Human Capital. In a first step, resources focused on emergency response, where the priority was to protect people and implement measures aimed at providing a sense of security. As many employees as possible were put in telework, while safeguarding the activity and safety of the organisation.

Since banking activity has a social and society support component, a set of operational services had to be kept running, even during the State of Emergency, and therefore the Branches were always open to the public. Hence the Bank always kept a significant part of its staff working In Office. In the Commercial Network, about two thirds of the workforce was always present (commercial functions do not allow for full teleworking) and in the Central Departments this figure was around 25%. The Employees were therefore in one of three working contexts:

As part of our Covid-19 Prevention effort, we provided our employees around 1 494 hours of health and safety training.

- Always in Office;
- Always in Telework (priority for risk groups and pregnant women);
- Rotation between thus Office and Telework.

For those who remained in Office, ensuring their protection and comfort was the priority, thus they were provided with all the personal protection equipment items (masks, disinfectant gel, acrylics, etc). The canteens and takeaway service were kept in operation, parking spaces were available, and remote communication tools were ensured. An effective communication plan was deployed to ensure greater proximity as well as information on how to manage the natural anxiety and fears caused by the situation at hand.

In addition, the employees impacted by Covid (infected or in isolation) were accompanied by the Bank's occupational physicians, as a complement to the NHS.

After the first months of the pandemic and once the response to the emergency had been ensured, an everyday approach to this context that was set to continue for an indefinite period of time was sought. The activities that had been suspended - namely, General and Family Medicine, Psychology, Psychiatry and Nutrition consultations, and the so-called "Meu Lado B"(My W Side- W of Well-Being) programme - were resumed, with adjustments to the situation. The purpose of the "Meu lado B" programme is to provide a holistic wellbeing to the Employees, through a set of initiatives - the Wellbeing experiences - deployed at 8 levels: Health, Food, Physical Exercise, Emotional Management, Family and Home, Interpersonal Relations, Personal Image, Culture and Leisure. A series of workshops, Conversations with Experts, and Lectures on these themes were made available in virtual format.

In addition to access to loan moratoria, a package of benefits was also made available to address possible financial needs experienced by Employees' families, including the possibility of prepaying 50% of the Christmas allowance, access to loans under special conditions to purchase IT equipment or pay for other education needs, access to Family Coaching sessions and psychological support. It should also be noted that during the initial state of emergency the Bank took care to minimise the impact of confinement on Employees and, among others, complemented the salary of Employees at home to care for children under 12.

At the end of the year, the Bank rewarded the employees who had been at the forefront of the emergency response by granting them two days of leave to be taken during 2021.

In terms of occupational health, the Bank also has clinical posts that offer a range of services in privileged support conditions to employees, both in preventive and curative terms.

Health Services	2018	2019	2020	2020 vs 2019
Occupational Health - Occupational Medicine				
Medical Exams	2 808	2 731	1 437	- 47.4%
General Practice Consultations				
Curative Medicine consultations and prescriptions	18 966	10 296	9 444	- 8.3%
Consultations in other medical specialities				
Psychology Consultations and Psychiatric Consultations	1 043	1 061	751	-29.2%
Nutrition Consultations	820	945	348	-63.2%
Nursing				
Total procedures (treatments, vaccination, medication, ECG)	7 373	8 984	5 760	-35.9%
Risk Prevention and Control Programmes				
Cardiovascular screening	2 319	2 314	1 064	-55.4%
Cancer screening	739	727	338	-53.5%
Vision screening	2 696	2 601	1 161	- 55.4%
Executive Check-up (senior executives)	286	306	82	-73.2%

In 2020 the number of occupational health examinations was significantly lower than in previous years. This is explained by the suspension of regular medical examinations between the end of March and the beginning of September due to the pandemic. During this period only onboarding and one-off examinations were performed.

In 2020 the absenteeism rate was 4.9%, which compares with 2.6% in 2019.

To provide the best response to the pandemic and maintain adequate working conditions, in 2020 NOVO BANCO provided appropriate and useful information to all its employees through different channels and took measures adjusted to both the commercial network and the central departments in order to minimise the transmission of the new coronavirus, namely the setting of conduct and social etiquette rules and the provision of personal protection of equipment.

For employees in telework, NOVO BANCO designed a set of tips and good practices for easier adaptation to this new working environment, not only in terms of individual good practices, but also covering team management and security, in order to ensure healthy working conditions and protect the physical and mental health of everyone.

In the area of occupational safety in the specific context of the pandemic, in 2020 NOVO BANCO conducted audits of the Central Buildings, where the larger number of employees is concentrated, the canteens and some branches, in order to check that the procedures and practices put in place in the context of the pandemic were being followed. In terms of safety and security at work, NOVO BANCO continues to assess the risks inherent to conditions in the workplace and the functions performed.

Our Sustainable Business 4.0

Title: O Momento
Author: Ana Ferreira

Sustainability is present in the manner in which NOVO BANCO manages its activity. The incorporation of environmental and social criteria in business expansion viewing the progressive transition to a low carbon economy, recognising the duty to support the community in which it operates, is an objective which NOVO BANCO proposes to achieve.

4.1 Listening to the stakeholders

Adjusting products and services to customer needs, new market trends and regulatory requirements has been the basis for the redefinition of NOVO BANCO's offer, which is increasingly more attuned to environmental, social and ethical concerns. The results obtained through the materiality matrix questionnaire and other channels at the disposal of the various stakeholders permitted to assess the concerns considered as material concerning the approach in which the Bank carries out its activity, including its value chain.

4.2 Sustainable products and services

The Bank is aware that the manner in which it carries out its business has an impact, not only on the community where it operates, but also at a wider level, i.e., on the Planet. For this reason, it always seeks to take into account not only the economic perspective, but also environmental and social ones, contributing to the construction of more ecological society based on equal opportunities.

The Bank's strategic plan designate a sustainable purpose, concerned with developing a business that promotes sustainability. New technologies contribute to reducing the direct impact of banking on the environment, but the indirect impact will also have to be reduced. Therefore, and in order to build a strong and lasting relationship with the clients and respond to their concerns about climate change, which were further increased by the Covid-19 pandemic, in 2019 the Bank signed the "Letter of Commitment for Sustainable Financing in Portugal", and in 2020 pursued its strategy of increasing the offer of products with environmental, social and social responsibility considerations.

In 2020, NOVO BANCO thus restructured its service accounts aimed at the day-to-day financial management of its clients and adjusted them to their new needs, while linking the 100% NB Account and 360º NB Account to social responsibility causes reflecting social, cultural and environmental concerns. When opening a NB 100% or NB 360º account, clients can choose which of the projects supported by NOVO BANCO they wish to follow:

SEMEAR (Sow) Project	Social inclusion programme for young people and adults with intellectual and developmental difficulties organised by the BIPP Association. The programme provides certified training, and development of skills for employability and professional integration, in the processing and production of components from organic farming. This programme minimises the limitations of these young people and adults by encouraging them to develop their full potential and become autonomous.
Este Espaço Que Habito (This space I Inhabit) Project	This project is promoted by the PHOTOGRAPHIC EXPRESSION MOVEMENT (MEF) in 5 Educational Centres hosting young people in compulsory internment, and uses photography as a technical and personal expression means to search for and develop one's own identity based on the spaces photographed. The project is developed in partnership with the Ministry of Justice and the Youth Justice Services.
Recreational Toys Recycling Project	Developed by ZERO WASTE LAB, the project aims to help with the problem of what to make with discarded plastic toys. It promotes the recycling and circulation of plastic and other toy materials for new purposes and raises the awareness of and educates citizens about the problems arising from the increase in waste production.

More information at https://www.novobanco.pt/site/cms.aspx?labelid=causas

4.2.1 NB 18.25 Account and NB26.31 Account

We have already neutralized the equivalent to 2 290 round-trip single flights between Lisbon and London.

In the context of transition to a low-carbon economy, the Bank aims to contribute to the promotion of sustainable investment practices in Portugal, and in so doing help accelerate the process of transition to a carbon neutral economy by 2050. In this context and also to build a strong and lasting relationship with its clients, the Bank restructured the NB 18.31 account by adapting it to the needs of younger age groups and providing for the neutralisation of its carbon emissions. These accounts, designed to have a low environmental impact, are totally carbon neutral. This is due to the fact that they are online accounts and therefore have very low emissions, and because these emissions are neutralised in accordance with the PAS 2050:2008 methodology, which analyses the entire life cycle of products and services, to calculate the emissions produced. These accounts neutralise unavoidable emissions by supporting the Soil & More project, a green waste composting project in South Africa that not only reduces carbon emissions but also contributes social and economic benefits for local communities and sustainable development and Kamuthi project, a photovoltaic solar park project to replace the production of energy from coal plants. The NB 18.31, NB 18.25 and NB 26.31 accounts have an estimated carbon impact of about 944g CO2eq/year. At 31 December 2020, NOVO BANCO had 138,862 NB 18.31, NB 18.25 and NB26.31 Accounts with offset emissions, which corresponds to the neutralisation of 1 498 tonnes of CO2, of which 152 in 2020. These accounts have already permitted to neutralise the equivalent of emissions from 2,290 single return flights between Lisbon and London.

4.2.2 ESG and NOVO BANCO ECO Structured Products

The Bank continued to strengthen its commitment to the marketing of structured products whose remuneration is indexed to the share performance of companies that stand out for leading social and governance changes towards environmental goals. The selection of companies to integrate these products is subject to a rigorous assessment process and criteria, which was further strengthened in 2020 not only in line with the Bank's risk policy, but also with industry-sector exclusion criteria (companies producing or selling tobacco, or engaged in coal mining and nuclear energy are not eligible), and criteria governing the exclusion of companies engaging in practices involving violations of human and labour rights, including child and/or forced labour. When manufacturing, construction, transport, tourism, agriculture and forestry, electricity, gas and oil companies are at stake, the Bank undertakes to assess their environmental and social performance, and will not include companies with:

- **air pollutant activity:** > 50% of turnover, or
- **Reduced the weight of their air polluting activity in the last 5 years by:** < 5%, or
- **Have no defined environmental objectives.**

The nine ESG structured savings products subscribed in 2020 represent an investment of €116.8 million, making up a cumulative investment of €268 million in subscriptions as at 31 December.

The ESG and NOVO BANCO ECO Structured Products account for 77.39% of the total structured product portfolio that NOVO BANCO makes available to its clients.

NOVO BANCO received the "Best Performance Distributor, Portugal" award, given by SRP (Structured Retail Products), of the Euromoney Group, seeing internationally recognized its Structured Products offer.

4.2.3 Credit products

The mortgage loans offer also has an environmental component whereby the client may benefit from a spread reduction when buying a property with A+, A or B certification. In 2020, there were 39 loans granted based on this criterion.

The 'Casa Eficiente' 2020 line (Efficient Home line) continues to be part of the offering, providing favourable conditions in transactions that promote the improvement of the environmental performance of private residential buildings.

NOVO BANCO also offers its small and medium company's customers the Credit Line for Decarbonization and Circular Economy, a credit line to finance the implementation of sustainable projects. This line of financing allows the investment in existing equipment by other more innovative, modern and efficient ones, investment in renewable sources for self-consumption in the production process or in circular strategies for any stage of the product / service life cycle, the implementation of monitoring, control and performance devices that allow optimizing the conditions of use, energy consumption and consumption of raw materials, among many others projects.

4.3 Financial Inclusion

The adaptation of products to the needs of customers also involves the progressive integration of social concerns. NOVO BANCO intends to increasingly adapt its products to the new realities of its clients. Accordingly, its saving products permit to build up a nest according to each family's budget. In line with this positioning, the Bank has designed a package of Micro Savings solutions comprising three products, namely Planned Savings, Micro Savings and the Targeted Savings Smart app, under which a cumulative amount of €1 059 million in savings were reached in 2020.

This encouraged clients to adopt saving behaviours, through the regular deposit of small amounts, the rounding up of bills, or similar practices.

Planned Saving	Permits to build up savings from as low as 10 euros per month through the subscription of a monthly plan in which the clients set the amount and the time of month of deposits, thus adjusting savings to the family budget.	226 thousand subscriber clients €1,039 million in savings
Micro Saving	This solution allows any client to start saving money by small amounts through the rounding up of debits of day-to-day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a savings account.	Used by ca. 42 thousand clients €8.2 million in savings
NB smart app (Targeted savings)	Launched in 2017, this is an exclusive product for Clients who have installed the NB smart app: once the Client has defined his/her saving objectives (how much and for how long he/she wants to save) the NB smart app traces the path to reach this objective.	8.3 thousand subscriber clients €11.2 million in savings

These products account for 4.7% of NOVO BANCO's total portfolio of saving products.

To expand the reach of financial services and consequently achieve wider social inclusion, the Bank offers the Minimum Banking Services Account, a current account providing a debit and a credit card, with an annual maintenance fee of €4.12. This account is intended for:

- individuals who hold no other current account in any other institution, or who hold only one current account which is converted into a Minimum Banking Services Account;
- persons who hold other current accounts, but wish to open a minimum banking services account in which one of the holders is over 65 years old or is dependent on others.

In 2020 the Bank had 9.7 thousand Minimum Banking Services accounts.

Given the increasing digitisation of services and the difficulties experienced by older people in using digital channels, during the pandemic NOVO BANCO launched digital and financial literacy actions to teach people a clear and simple way of going to the Bank without actually having to go to a branch.

4.4 Suppliers

The management of a sustainable business extends to the Bank's entire value chain, including its suppliers. As a relevant buyer of products and services in the market, NOVO BANCO has set up a supplier relationship model (around €268 million invoiced to NOVO BANCO in 2020), which is based on a commitment to follow good international practices and principles. This model, which is based on the recognition of the importance of the economic, environmental and social impacts produced by this group of stakeholders, is based on two main pillars:

- **Code of conduct,** which determines that the process of supplier evaluation and selection is strict and carried out in accordance with the highest standards of transparency and ethics;
- **Supplier Relationship Principles** - these principles aligned with the OECD guidelines for multinational companies and the United Nations Global Compact, setting the minimum requirements, not only for suppliers but also for the Bank, with regard to business practices, health and safety at work, ethics and environmental management. Supplier selection principles are based on:
  - Fairness - equal treatment, without privileges or cronyism, and always seeking to avoid conflicts of interest;
  - Transparency and Ethics - adequate disclosure of information;
  - Quality and Efficiency as criteria for selecting the best suppliers.

The signature of the Global Compact ten principles, issued by the United Nations as a result of a corporate citizenship initiative launched by Secretary-General Kofi Annan, and announced on 31 January 1999 at the World Economic Forum, were the basis for the design of the set of Supplier Relationship Principles residential buildings and the integration of sustainability in the Bank's value chain.

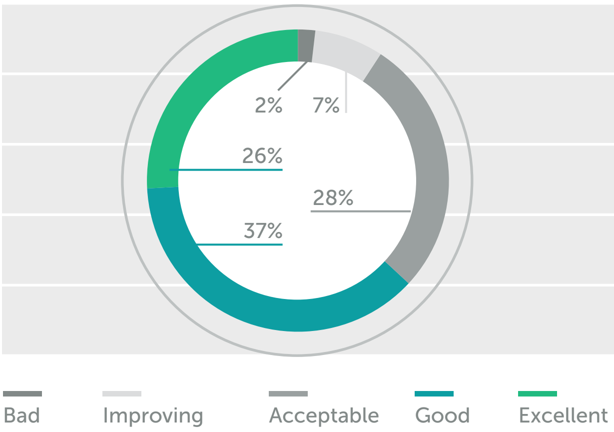
Group NOVO BANCO's suppliers are invited to subscribe to these principles, which imply the adoption of consistent conduct, namely with regards to the environment, employment conditions and ethics.

A responsible and consistent attitude in the selection of suppliers starts with the total availability with which all presentations and proposals from the most varied entities that intend to provide services or supply goods are received. To this end, the Supplier Portal (https://fornecedores.novobanco.pt/) is the place where any supplier, actual or potential, may introduce itself and register. In addition to providing the prime sourcing basis for market consultation processes, the database of registered entities allows for an easier and faster detection, assessment and comparison of the suppliers' characteristics, technical skills and commercial propositions.

The quality of this information permits to select the best propositions, i.e., the suppliers best capable of meeting the Group's needs and service requirements. The degree of suppliers' coverage, in terms of billing, that had completed their registration or were in the process of registering (pre-registered) in the Portal was 92% at 31 December 2020.

For a more rigorous selection of this group of Stakeholders and based on the information provided, NOVO BANCO calculates the "sustainability scoring", which takes into account ethical, labour, hygiene and safety at work, and environmental aspects. Around 26% of NOVO BANCO's suppliers registered in the Portal have a score of excellent and 91% have a positive score cumulatively, which compares with 83% in 2019.

Sustainability Score (%)



In 2020 we increased by 15% the number of suppliers with sustainability scoring; of these, 63% have an excellent or good scoring.

Maintaining a professional relationship with suppliers also implies responsible action, namely guaranteeing payment periods of 30 days, in line and in compliance with good market practices. This includes giving suppliers access to their current account, free of charge and at all times, simply by logging into the supplier's account on the Supplier Portal.

In line with its stance of support to the Portuguese economy, in 2020 the Bank increased its preference for domestic suppliers, which represented 88.2% of the total.

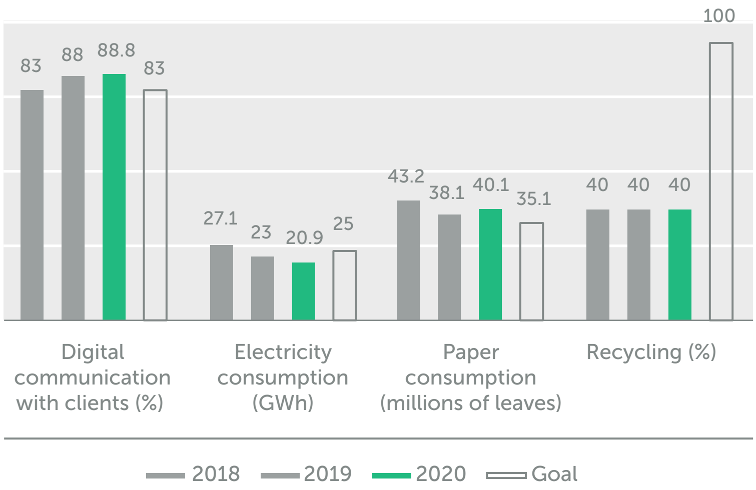
In 2020 the Bank's supplier management model earned the EIPM (European Institute of Purchasing Management) award in the 'Master of Business Continuity' category, an independent recognition that attests to the Bank's good performance in terms of organisation, innovation and respect for the environment and society.

4.5 Environmental impact

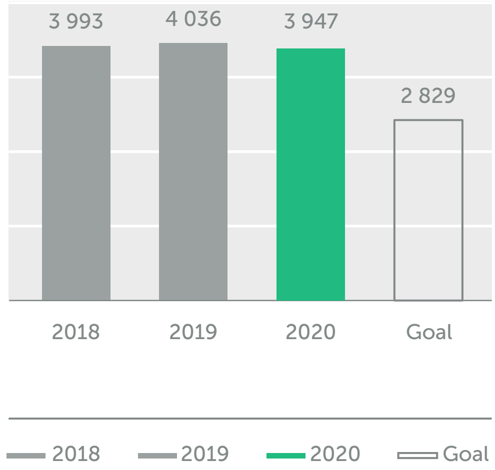
The reduction of the direct environmental impact resulting from NOVO BANCO's activities, achieved through the implementation of various measures that promote the reduction of consumption, including the consumption of electricity and paper, among others, is part of the Bank's environmental responsibility. Given its importance, the NOVO BANCO Social Dividend model comprises a commitment to give back to society and the Bank's employees (see pages 148 and 149), is included. Comprising 4 programmes, one of which is #NB Environment, it sets goals and monitors 5 indicators, viewing the consolidation of environmentally responsible management.

In 2020 electricity consumption was reduced by around -8.6% compared to 2019.

#NB Environment



#NB Environment
Cars CO_2 emissions (ton)



Of the five objectives, two have already been achieved – 88.8% of communications with clients is digital and electricity consumption has decreased to 21 GWh.

4.5.1 Environmental performance

NOVO BANCO has promoted different initiatives to improve its environmental performance, investing heavily in raising the awareness of its employees to the need to promote and integrate in their daily routines, an ethical and responsible management of the resources provided by the Bank.

Paper, in particular, has been under focus, as one of the most widely used consumables in the financial sector, whose rationalisation, both internally and externally, remains a must for the Bank. To this end, dematerialisation operations involving digitisation of processes have been carried out and will be further stepped up, while at the same time the Bank promotes actions to raise awareness among its employees, and to change their habits, both in the central departments and in the branch network.

46kg
PAPER/EMPLOYEE

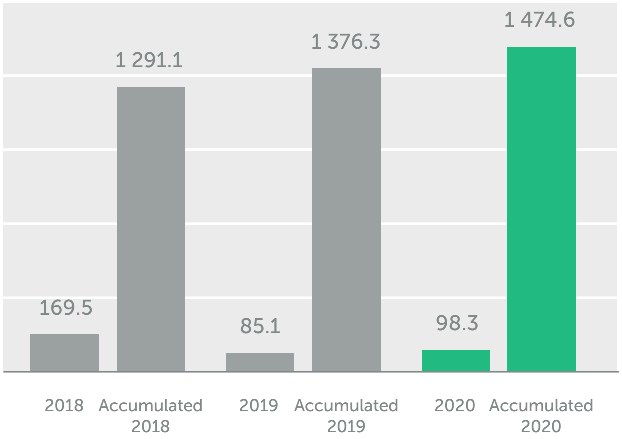
Through the Phygital project we will continue to reduce paper

In 2020, the Bank started its Phygital project, currently in a pilot phase, which involves the digitalisation of some processes and their formalisation through a digital signature and will help promote a paperless organisation with a paperless culture. The Bank expects that once the project has been rolled out to the entire commercial network and all the use cases have been completed, it will permit to reduce printing by approximately 8,5 million sheets of paper, the equivalent of 41 tons of paper.

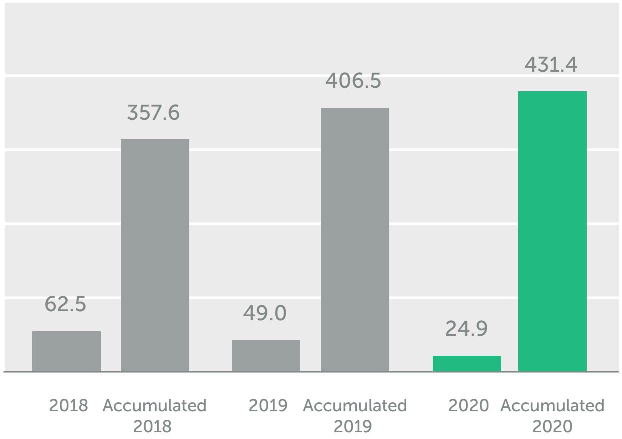
In 2020 the Bank used 199.6 tonnes of white paper and 109.8 tonnes of finishing forms and account statements, a year-on-year increase of 6% and 16% respectively.

As regards its external communication, and in addition to the account statements, NOVO BANCO also sends most other banking documents to its clients in digital format (credit card statements, deposit certificates, account entry notices, statements of securities and investment funds' portfolio movements and position, entry notices, integrated billing notices, and sundry notices). 88.8% of client communications are now digital, surpassing the 83% target set for 2020.

Accounts with digital statement (Million)



Credit card accounts with digital statements (Million)



In 2020, new measures for waste collection were implemented. For easy and adequate waste management, new containers were placed in all the Bank's central buildings, cafeterias and bars, differentiated according to the type of waste:

- Yellow container placed near the pantries, for packages;
- Green Covid-19 container, placed at the entrance to buildings, canteens and bars, for masks, gloves and tissues;
- Black container next to pantries and coffee machines, for undifferentiated rubbish.

The Bank continued to separate waste and promote its reuse and recycling, namely:

- paper and cardboard are separated, safely destroyed and sent for recycling;
- toner cartridges are recycled through Lexmark;
- waste separation in the clinical units.

Environmental performance	2018	2019	2020	2020 vs 2019
White paper				
Internal use (tonnes)	215.3	188.8	199.6	5.8%
Internal use (tonne/employee)	0.049	0.043	0.046	7.0%
Energy				
Total electricity				
Total electricity consumption (GJ)	97 456	82 138	75 098	-8.6%
Electricity consumption (kWh)	27 071 205	22 816 220	20 860 668	-8.6%
Total electricity consumption (kWh/employee)	6 178	5 274	4 828	-8.5%
Water				
Water consumption from public supply network (m^3)	56 552	56 145	45 394	-19.1%
Water consumption per employee (m^3/employee)	12.9	13.0	10.5	-19.1%

Environmental performance	2018	2019	2020	2020 vs 2019
Trips				
Vehicles gasoline consumption (litres)	840	21 140.4	840	- 96.0%
Vehicles gasoline consumption (GJ)	28	693	28	-96.0%
Vehicles diesel consumption (litres)	1 520 591	1 506 128	1 484 134	- 3.4%
Vehicles diesel consumption (GJ)	54 668	54 148	53 358	- 3.4%
Number of vehicles	832	866	868	0.2%
Number of flights	615	762	331	-56.6%
CO_2 Emissions				
Direct emissions (Scope 1)	4 012.8	4 039	3 948.4	-2.2%
Indirect emissions (Scope 2)	9 089.0	5 828	4 240.6	-27.2%
Indirect emissions (Scope 3)	6 183.5	6 430.0	4 609.7	-28.3%
Total (Scopes 1, 2 and 3)	19 285.0	16 297.1	12 798.7	-21.5%
Total (Scopes 1, 2 and 3/employee)	4.4	3.7	3.0	-18.9%

Being aware that there is a direct relationship between energy consumption and CO2 emissions, NOVO BANCO monitors and calculates its direct and indirect emissions (Scope 1, 2 and 3) according to the guidelines of the Inter-governmental Panel on Climate Change (IPCC), and the WRI/WBCSD Greenhouse Gas Protocol. In 2020, the total CO_2 emissions decreased by 22% compared to 2019.

4.5.2 New Distribution Model

In 2020, the Bank rolled out a new distribution model, which included the redefinition of two branches and paid special attention to environmental responsibility, not only under the Phygital project but also involving the dematerialisation of promotional communication to the clients. The branches' redesign was based on a choice of environmentally certified materials and companies, namely wood furniture with PEFC certification, which attests that the wood is sourced from sustainably managed forests.

Digital and lighting equipment were also chosen with a focus on energy efficiency. Through its New Distribution Model, the Bank makes available, in its Master and / or Full Service branches, bicycle parking supports produced exclusively with 30 kg of recycled plastic, promoting ecological mobility to its customers and employees.

The New Distribution Model has environmental concerns

Our Responsible Conduct 5.0

Title: Transparência
Author: Joao Diogo Ribeiro

For NOVO BANCO it is essential to conduct its activity with the firm resolve to give a positive contribution to the entire ecosystem within which it operates. This performance requires not only correctness in financial performance, but also a responsible performance that integrates social, environmental and ethical concerns in the interaction with all stakeholders. NOVO BANCO manages its business based on a governance model steered by integrity and policies and principles that ensure an effective and prudent management and the commitment to give back to society the fruit of its activity.

5.1 Governance Model

NOVO BANCO's entire activity is based on a strong and solid governance structure that enables effective, responsible and transparent decision making, in accordance with the provisions of the law and NOVO BANCO's corporate documents and regulations, which are published on the Bank's corporate governance website.

The Bank's statutory governing bodies - General Meeting, General and Supervisory Board, Executive Board of Directors, Monitoring Committee, Statutory Auditor and Company Secretary - are appointed for 4-year terms and may be re-elected once or more than once. Decision-making may be monitored by the different Committees of the General and Supervisory Board and Executive Board of Directors.

More information on NOVO BANCO’s governance model is provided in chapter 6 CORPORATE GOVERNANCE of the Management Report.

5.2 Giving back to the community

In the Covid-19 pandemic context, NOVO BANCO considered that it had to reinforce its role as an active agent in the ecosystem to which it belongs, with a particular focus on "reviving the economy" and supporting the community. Under the slogan "The economy is all of us", the Bank put its experience and knowledge at the service of the players and decision-makers of the economic future of the country and shared with its clients and society in general, specialised and technical information, which it considered could support decision-making in the pandemic context and in the preparation for the post-Covid.

This led to the development of several initiatives, such as:

NB Marketplace	A free-of-charge online shopping platform where the products and services of some of the Bank's small business clients are made available to the population at large. Under this concept, NOVO BANCO helps its small business clients to open a new sales channel, and in turn to buy products from local suppliers, thus supporting the local community and economy.
GPS	Publication featuring macroeconomic updates, trends in consumer behaviour patterns, financial markets outlook, among others.
Open to Information and the economy	"Open to Information", a cycle of daily conversations at TSF, a Portuguese radio station in 3 editions where employees of the Bank shared forecasts and economic scenarios, among others, for different sectors of activity, and for consumption and new habits, thus placing their knowledge at the service of society. "Open to the economy", a cycle of twelve webtalks in partnership with ECO, a Portuguese newspaper where the various dimensions and effects of Covid-19 in different economic contexts were reviewed.
Summits	During the pandemic, the Bank continued its unprecedented project to highlight regional entrepreneurs, businesses and other relevant entities, through Regional and Sector-specific Summits. During 2020, it held 4 Summits, 3 in webinar format, supporting companies that persevere and reinvent themselves, despite the adversities, setting an example to the rest of the business community.

5.2.1 Social Dividend

In 2020, the first edition Corporate Social Responsibility (CSR) programme - a commitment to give back made by NOVO BANCO to society and its employees -, created in 2017 and known as the Social Dividend model, came to an end. Composed of 4 programmes - #NB Equal Gender/#NB Work & Life/#NB Environment/#NB Social Responsibility -, with specific goals to be achieved by 2020, for four years it had a reference role in the Bank's CSR structure.

In 2020, the goal of 200 points for 2020 were surpassed in 2 points. Several initiatives achieved very good results, namely: leaves on special days, Home Office, Early Friday/Late Monday, take away meals, percentage of digital communication to customers, electricity consumption, and cultural patronage.

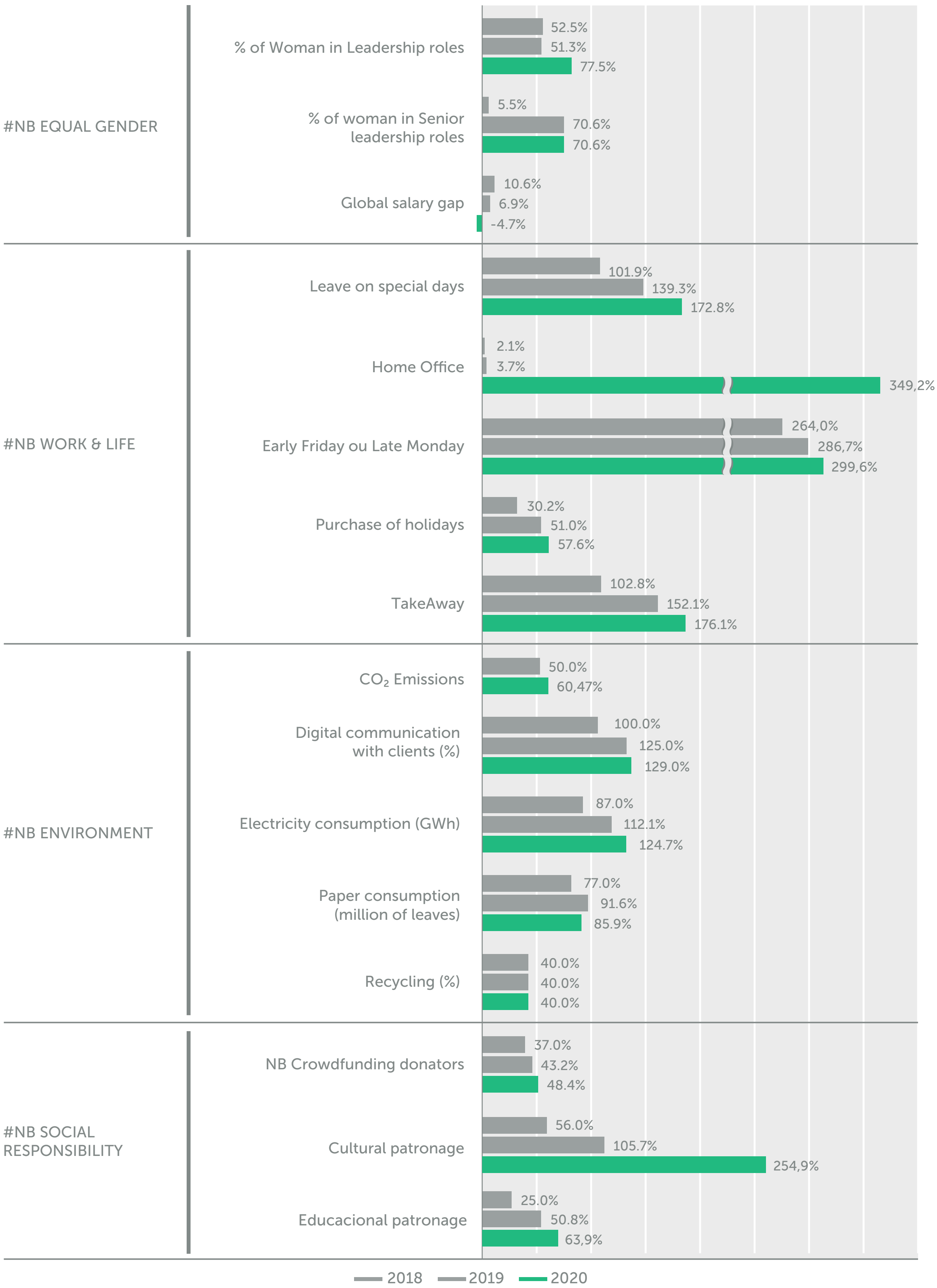
The Social Dividend model includes the #NB Social Responsibility programme, which monitors 3 indicators, and under which the NOVO BANCO Revelação initiative had a very good performance. Participation in the other initiatives was reduced, given the current context. In the case of the Mathematics Olympics, this involved postponing the final phase of its 38th edition to September, holding just one test instead of the usual two, and holding it in five different locations due to social distancing requirements.

The #NB Social Responsibility programme gave continuity to the Corporate Social Responsibility architecture, with the aim of helping devise solutions for important issues within the community in which the Bank operates. This programme is deployed in three areas, namely:

- Cultural patronage, to promote and spread culture throughout the country;
- Solidarity, promoting solidarity initiatives or under partnerships with a diverse range of private social solidarity institutions ("IPSS") and NGOs;
- Financial Inclusion, in close collaboration with the Portuguese Mathematics Society.

In 2020, given the adverse context created by the pandemic, the Bank focused its activity on helping the community and showing the utmost sense of social responsibility through a number of different initiatives.

Social Dividend
(% of objective reached)



5.2.2 NOVO BANCO Solidary

The NOVO BANCO Solidary programme, through which the Bank aims to help overcome financial, social and emotional needs, on its own or in partnership with IPSS and/or NGOs, saw its scope of action enlarged in 2020 due to the social, health and financial fragility of the community and their needs arising from the Covid-19 situation, which the Bank sought to respond to by joining efforts in various incentives:

"Amigos são para as ocasiões" (A friend in need is a friend indeed) Project

NOVO BANCO has joined AMI, a long-standing partner, in its "A friend in need is a friend indeed" project, a fund-raising initiative calling on voluntary work to help the beneficiaries of this association, namely elderly people living alone, single-parent families with minor children and people at risk or with chronic diseases, which in the Covid- 19 context became even more vulnerable, suffering from social exclusion and having no family support network. In this campaign the Bank helped around 390 beneficiaries of the AMI association during two months, in seven Portuguese cities, through the delivery of approximately 920 baskets containing food, hygiene and health items to meet the needs of each beneficiary for 15 days. 170 volunteers cooperated in this initiative. The results of this campaign were positive, and none of the AMI's beneficiaries at risk was contaminated by COVID 19.

SOS COVID-19 Account

NOVO BANCO has joined a fund-raising initiative of Associação Empresarial de Portugal (AEP) in partnership with the Ordem dos Médicos (Portuguese Medical Association) to assist health professionals and to build an infectious disease unit at S. João Hospital, in Porto. To this end, an account was opened at NOVO BANCO to collect the donations, to which the Bank contributed with €30 thousand. In addition, given the increase in requests for food support from users of the National Health Service, part of the money raised with this campaign was donated to the Food Bank against Hunger.

Acquisition of Ventilators

NOVO BANCO joined the Portuguese Association of Banks and its member banks in an effort to reinforce the means at the disposal of health professionals to treat citizens infected by Covid -19. The funds raised were donated to the National Health Service for the acquisition of 100 fans and 100 monitors.

Global Response to Covid-19

NOVO BANCO joined the "Global Response to Covid-19" initiative, through which Portugal will contribute €10 million to accelerate the development, production and equitable access to Covid-19 vaccines, diagnostics and treatments. Launched in April 2020, this campaign, which brought together European and global organisations and foundations from the health, retail, banking and other industry sectors, committed to the development of solutions to combat Covid-19, raised to €7.5 billion to finance diagnosis, therapies, treatment and vaccine development activities aimed at finding solutions to fight Covid-19.

Despite the context, the bank maintained some of its solidarity initiatives, such as the NOVO BANCO Christmas campaign, which this year had a new focus, namely helping the national economy.

At the Bank, Christmas began with the usual solidarity initiative which every year gathers the employees around a common cause. In 2020, the Bank selected the "Barrete de Natal Solidário" (Christmas Solidarity Bonnet) campaign, of the Salvador Association, a fund-raising campaign aimed at supporting people with reduced mobility. In exchange for a donation of 2 euros, each employee received a Christmas Bonnet. Around 1,100 employees participated in the initiative, raising among them approximately €4,500.

The novelty of NOVO BANCO's 2020 Christmas campaign was the Christmas basket offered to its employees, made up entirely of Portuguese products produced by NOVO BANCO's client companies, in line with its positioning of support to the national economy, under the motto "This is Portugal that does, and This is the Bank that helps you to do", in which the Bank assumes a clear positioning of support and encouragement of the national businesses that contribute to the country's development. In this manner the Bank enhanced its support to the community by helping small businesses to further their capacity to innovate, reinvent and turn difficulties into opportunities.

In 2020, the Bank launched a page in its website aimed at its clients, employees and society where it publishes advice, recommendations and the initiatives taken in the context of Covid-19, all with the intent of being of help in the present situation.

5.2.3 Cultural Patronage

Even in the context of a pandemic, NOVO BANCO pursued its strategy of cultural patronage, namely focusing on its NOVO BANCO Cultura programme, under which it lent works from its collection to various Museums. In 2020, the Bank lent 24 works, increasing to 75 the number of its works now on permanent exhibition in 33 Museums around the country. The Bank also published a platform with a road map to various regions and museums in the country, where the works of the NOVO BANCO Painting Collection can be visited.

In terms of photography, the NOVO BANCO Photography Collection was included in the study group of the International Association of Corporate Collections (IACCCA), affording recognition to the techniques and practises used in the Bank's collection. Comprising approximately 1,000 works by more than 300 artists of 38 nationalities from all over the world, NOVO BANCO's Contemporary Photography Collection is one of the corporate collections in Europe that has won more awards.

Two exhibitions featuring works from the Photography Collection were opened this year, namely Vick Muniz's show at the Nova School of Business and Economics and the "Solar Territory" Exhibition at the Faro Museum.

In 2020, the exhibition of the 2019 edition of the REFLEX photo competition, of the Cais Association - an initiative supported by the Bank since its first edition - was inaugurated at the Estufa Fria, Lisbon. The competition, under the theme 'World with Future Exhibition' received more than 150 applications, and around 370 photographs, which aimed to portray positive and sustainable initiatives aimed at counteracting the uncertain future arising from climate change and the scarcity of resources, translating into photography the small and big actions that can make a difference at the environmental level and that prove that change is possible if we expand our gestures.

Our Performance 6.0

Title: **Plantar o Futuro**
Author: **Marta Vieira Pereira**

NOVO BANCO manages its business by constant monitoring financial and non-financial data, which allows it to gauge its performance, not only financial, but also at social, environmental and corporate governance level. Monitoring social, environmental and corporate governance indicators over time is essential for the Bank to assess its progress and adjust its action plan in order to achieve the best results.

6.1 Social Indicators

Total staff	2018	2019	2020	2020 vs 2019
Total NOVO BANCO Employees in Portugal	**4 382**	**4 326**	**4321**	**-0.1%**

Employment contract	2018	2019	2020	2020 vs 2019
Permanent	**4 268**	**4 130**	**4 093**	**-0.9%**
Women	2 210	2 153	2 176	1.1%
Men	2 058	1 977	1 917	-3.0%
Fixed-term	**49**	**84**	**146**	**-73.8%**
Women	30	54	85	57.4%
Men	19	30	61	103.3%
Temporary	**49**	**59**	**34**	**- 42.4%**
Women	27	39	23	-41.0%
Men	22	20	11	-45.0%
Internships	**14**	**51**	**47**	**-7.8%**
Women	7	26	29	11.5%
Men	7	25	18	-28.0%
Other	**2**	**2**	**1**	**-50.0%**
Women	0	0	0	0
Men	2	2	1	-50.0%

Approximately 95% of NOVO BANCO's employees work on permanent employment contracts, which gives them greater professional stability, and only 3.4% work on fixed-term contracts.

Staff Turnover (%)	2018	2019	2020	2020 vs 2019
Total	**3.9**	**5.8**	**7.4**	**1.6 p.p.**
Gender				
Women	4.0	6.2	6.8	0.6 p.p.
Men	3.8	5.2	8.0	2.8 p.p.
Age bracket				
< 30 years old	36.4	63.0	45.3	-17.7 p.p.
30 to 50 years old	2.8	3.0	3.0	-
> 50 years old	2.8	5.6	9.6	4 p.p.

New hires and new hires rate (%)	2018	2019	2020	2020 Absolute values	2020 vs 2019
Total	**2.7**	**6.7**	**7.3**	**317**	**0.6 p.p.**
Gender					
Women	2.7	7.6	6.8	138	-0.5 p.p.
Men	2.7	5.7	8.0	179	2.3 p.p.
Age bracket					
< 30 years old	50.3	94.1	45.3	178	-48.4 p.p.
30 to 50 years old	1.2	2.5	3.0	114	0.5%
> 50 years old	0.3	0.6	9.6	24	9.0 p.p.

Admissions and resignations	2018		2019		2020		2020 vs 2019	
	Admissions	Resignations	Admissions	Resignations	Admissions	Resignations	Admissions	Resignations
Gender	**130**	**469**	**267**	**323**	**317**	**322**	**18.7%**	**-0.3%**
Women								
Women	70	259	113	164	138	185	22.1%	12.8%
Men	60	210	154	159	179	137	16.2%	-13.8%
Age bracket								
< 30 years old	81	43	163	71	178	82	9.2%	15.5%
30 to 50 years old	45	180	95	137	114	65	20.0%	-52.6%
> 50 years old	4	246	9	115	25	175	117.8%	-52.2%

Training hours / employee	2018		2019		2020		2020 vs 2019	
	Total	Average per employee	Total	Average per employee	Total	Average per employee	Total	Average per employee
Total	**275 183**	**62.7**	**200 545**	**46.4**	**194 924**	**45.1**	**-2.8%**	**-10.6%**
Gender								
Women	135 039	61.6	109 365	48.1	107 522	46.5	-1.7%	-3.3%
Men	140 143	64.1	91 181	44.4	87 403	43.5	-4.1%	-2.0%
Professional Category								
Management	25 377	58.3	16 807	44.8	7 822	20.5	-53.5%	-54.2%
Heads of Department	38 697	87.7	17 107	31.3	22 048	45.6	28.9%	45.7%
Specific	120 150	63.6	77 811	37.6	86 432	41.6	11.1%	10.6%
Administrative	90 916	56.9	88 820	67.2	78 622	57.6	-11.5%	-14.3%
Auxiliary	42	2.2	0	0	0	0	-	-

Employee distribution by gender and professional categories	2018	2019	2020	2020 vs 2019
Total	**4 382**	**4 326**	**4 321**	**- 0.1%**
Men	2 108 (48.1%)	2 054 (47.5%)	2 008 (46.5%)	-2.2%
Women	2 274 (51.9%)	2 272 (52.5%)	2 312 (53.5%)	1.8%
Management	**435 (9.9%)**	**375 (8.7%)**	**382 (8.8%)**	**1.9%**
Men	278 (63.9%)	245 (65.3%)	236 (61.8%)	-3.7%
Women	157 (36.1%)	130 (34.7%)	146 (38.2%)	12.7%
< 30 years old	0 (0.0%)	3 (0.8%)	1 (0.3%)	0.3%
30 to 50 years old	287 (66.0%)	249 (66.4%)	261 (68.3%)	68.3%
> 50 years old	148 (34.0%)	123 (32.8%)	120(31.4%)	31.4%
Heads of Department	**441 (10.1%)**	**546 (12.6%)**	**484 (11.2%)**	**-11.4%**
Men	261 (59.2%)	314 (57.5%)	271 (56.0%)	-13.7%
Women	180 (40.8%)	232 (42.5%)	213 (44%)	-8.2%
< 30 years old	0 (0.0%)	0 (0.0%)	0 (0.0%)	-
30 to 50 years old	357 (81.0%)	424 (77.7%)	362 (74.8%)	-17.1%
> 50 years old	84 (19.0%)	122 (22.3%)	122 (25.2%)	0.0%

Employee distribution by gender and professional categories	2018	2019	2020	2020 vs 2019
Specific	**1 889 (43.1%)**	**2 070 (47.9%)**	**2 078 (48.1%)**	**0.4%**
Men	882 (46.7%)	925 (44.7%)	931 (44.8%)	0.6%
Women	1 007 (53.3%)	1 145 (55.3%)	1 147 (55.2%)	0.2%
< 30 years old	60 (3.2%)	112 (5.4%)	152 (7.3%)	35.7%
30 to 50 years old	1 551 (82.1%)	1 601 (77.3%)	1 550 (74.6%	-3.2%
> 50 years old	278 (14.7%)	357 (17.2%)	376 (18.1%)	5.3%
Administrative	**1 598 (36.5%)**	**1 322 (30.6%)**	**1 366 (31.6%)**	**1.1%**
Men	672 (42.1%)	559 (42.3%)	559 (40.9%)	0.0%
Women	926 (57.9%)	763 (57.7%)	807 (59.1%)	5.8%
< 30 years old	86 (5.4%)	104 (7.9%)	134 (9.8%)	28.8%
30 to 50 years old	1 093 (68.4%)	812 (61.4%)	820 (60%)	1.0%
> 50 years old	419 (26.2%)	406 (30.7%)	413 (30.2%)	1.7%
Auxiliary	**19 (0.4%)**	**13 (0.3%)**	**11 (0.3%)**	**-15.4%**
Men	15 (78.9%)	11 (84.6%)	11 (100%)	0.0%
Women	4 (21.1%)	2 (15.4%)	0 (0.0%)	-100%
< 30 years old	1 (5.3%)	1 (7.7%)	0 (0.0%)	- 100%
30 to 50 years old	9 (47.4%)	5 (38.5%)	4 (40.0%)	-20%
> 50 years old	9 (47.7%)	7(53.8%)	6 (60.0%)	16.7%

Health in the workplace	2018	2019	2020	2020 vs 2019
Cardiovascular screenings	2 319	2 314	1 064	-55.4%
Cancer screening				
Mammography	151	140	70	- 50.0%
PSA screenings	588	587	268	-54.3%
Vision screening	2 696	2 601	1 161	55.4%
Executive Check-ups	286	306	82	73.2%

Parental Leave	2018		2019		2020		2020 vs 2019	
	Men	Woman	Men	Woman	Men	Woman	Men	Woman
Employees entitled to parental leave	4 382		4 326		4 321		-0.1%	
Employees who took parental leave	84	138	81	124	72	122	-11.1%	-1.6%
Employees who returned to work after parental leave ended	84	88	80	83	71	92	-11.3%	.10.8%
Return to work rate	100%	63.8%	98.8%	66.9%	98.6%	75.4%	-0.2 p.p.	5.5 p.p.

Health and Safety Indicators	2018	2019	2020	2020 vs 2019
Work related accidents	**22**	**54**	**29**	**-26.3%**
Men	7	37	17	-35.3%
Women	15	17	37	-46.3%
Occupational diseases	**0**	**0**	**0**	**-**
Men	0	0	0	-
Women	0	0	0	-
Deaths	**0**	**0**	**0**	**-**
Men	0	0	0	-
Women	0	0	0	-
Accident rate	**3.0%**	**7.7%**	**4.1%**	**- 3.7p.p.**
Men	1.9%	5.0%	3.2%	- 1.8 p.p.
Women	4.0%	10.2%	4.9%	- 3.9 p.p.
Lost days rate	**0.1%**	**0.1%**	**0.0%**	
Men	0.03%	0.06%	0.03%	0.03 p.p.
Women	0.19%	0.11%	0.09%	0.02 p.p.
Absenteeism rate	**2.3%**	**2.6%**	**4.9%**	**2.3 p.p.**
Men	1.8%	2.0%	3.2%	1.2 p.p.
Women	2.7%	3.2%	6.3%	3.1 p.p.

Health and safety training	2018	2019	2020	2020 vs 2019
Number of hours of health training	181	81	113	39.5%
Number of hours of safety training	1 257	81	1 381	1 650.2%

6.2 Environmental Indicators

Environmental Indicators - Materials consumed	2018	2019	2020	2020 vs 2019
White paper				
Internal use (tonnes)	215.3	188.8	199.6	5.76%
Internal use (tonne/employee)	0.049	0.043	0.046	7.0%
Forms - printing and finishing area (tonnes)	**116.4**	**94.6**	**109.7**	**16.0%**
IT and electronic consumables				
Toner cartridges (units)	41	13	3	-82.1%
Ink cartridges (units)	245	23	36	52.6%
Bands (units)	4 237	484	1 061	119.0%
DVD/CDRom (units)	2 340	735	1 630	121.7%
Batteries	2 742	1 499	2 402	60.2%
Total IT and electronic consumables	**5 641**	**2 754**	**5 218**	**86.3%**

Environmental Indicators - Energy	2018	2019	2020	2020 vs 2019
Total electricity				
Total electricity consumption (GJ)	97 456	82 138	75 098	-8.6%
Electricity consumption (kWh)	27 071 205	22 816 220	20 860 668	-8.6%
Data Centre				
Electricity consumption (GJ)	27 495	5 076*	na	-
Electricity consumption (kWh)*	7 637 400	1 409 929*	na	-
Electricity consumption (kWh/employee)	6 178	5 274*	4 828	-8.5%
Natural gas**				
Natural gas consumption (GJ)	256	na	na	-
Natural gas consumption (N.m3)	6 663	na	na	-
Propane gas**				
Propane gas consumption (GJ)	70	na	na	-
Propane gas consumption (kg)	1 485	na	na	-
Diesel***				
Generator diesel consumption (litres)	400	1 135	400	-65%
Generator diesel consumption (GJ)	14	41	14	-66%
Vehicles diesel consumption (litres)	1 520 591	1 506 128	1 484 134	- 3.4%
Vehicles diesel consumption (GJ)	54 668	54 148	53 358	-1.5%
Gasoline				
Vehicles gasoline consumption (litres)	840	21 140.4	840	96.0%
Vehicles gasoline consumption (GJ)	28	693	28	96.0%
Total energy consumption (GJ)	152 493	137 021	128 498	-6.2%
Trips				
Number of vehicles	832	866	868	0.2%
Number of flights	615	762	331	-56.6%

Na - non applicable
*Includes Data Centre up to July 2019
** In 2019 NOVO BANCO decommissioned its canteen at Carnaxide and therefore ceased to consume propane gas.
*** Diesel consumption in 2019 is an estimate based on the number of hours generators were operating. In 2018 only the consumption of two generators had been reported, which explains the increase in 2019.

Environmental Indicators - Emissions (tCO2e)*	2018	2019	2020	2020 vs 2019
Direct emissions (Scope 1)	**4 012.8**	**4039.0**	3 948.4	-2.3%
Emissions from trips in company cars	3 993	4036.0	3 947.3	-0.6%
Emissions from natural gas and butane gas kitchen equipment	18.7	0	0	0.00%
Emissions from emergency generators	1.1	3.0	1.1	-64.6%
Indirect emissions (Scope 2)**	**9 089.0**	**5 828**	**4 240.6**	**-4.8%**
Emissions from the production of electricity purchased (market-based method)	9 089.0	5 828	4 240.6	-4.8%
Emissions from the production of electricity purchased (Location based method)	9 800	5 336	3 524.9	-36.6%
Total (Scopes 1 and 2)	**13 101.8**	**9 867.1**	**8 189.0**	**-17.1%**
Indirect emissions (Scope 3)	**6 183.5**	**6 430.0**	4 609.7	-28.3%
Emissions from Employees' business trips. including flights	323.8	405.3	139,2	-65.7%
Emissions from employees' home/ work daily trips***	5 696.0	5 973.0	4 323.1	-27.6%
Emissions from wastewater treatment***	52.4	51.7	38.9	-24.8%
Emissions in the life cycle of paper consumed ***			93.9	-
Emissions in the paper recycling process ***			3.6	-
Emissions from water consumption ***			12.0	-
Total (Scopes 1. 2 and 3)	**19 285.0**	**16 297.1**	**12 798.7**	**-21.5%**

*See methodological notes in GRI table.
**Scope 2 calculation by location-based method since 2018 only. The Total (A1+A2) was calculated using the Market-Based approach.
*** Activities whose emissions started to be calculated in 2020

Environmental Indicators - Water consumption	2018	2019	2020	2020 vs 2019
Water consumption from public supply network (m^3)	56 552	56 145	45 394	-19.1%
Water consumption per employee (m^3/employee)	12.9	13.0	10.5	-19.1%

Environmental Indicators - Waste management	2018	2019	2020	2020 vs 2019
Paper sent for recycling (tonnes)	434.2	265.6	106.1	-60.1%
Cardboard sent for recycling (tonnes)	60.3	10.6	61.3	476.0%
Toner cartridges (units)	41	13	8 300	-
Ink cartridges (units)	245	23	na	-
Bands (units)	4 273	484	na	-
DVD/CDRom (units)	2 340	735	na	-
Batteries	2 742	1499	na	-
Total IT and electronic consumables collected (units)	**9 641**	**2 754**	**na**	-

About this Report 7.0

Title: **Complementariedade**
Author: **Paulo Gil**

This report describes the manner in which NOVO BANCO approaches sustainability in the management of its activity, in its involvement with employees and clients, in carrying out sustainable business and in ensuring responsible conduct. It also details the sustainability performance over the last three years, therefore the data presented concern only to the NOVO BANCO scope.

This report was drawn up in accordance with the Global Reporting Initiative (GRI) model, standard option. The GRI table is available in the Bank's website, at: NOVO BANCO/Institutional/Sustainability/Sustainability Report. This report, which under the terms of Article 508-G of the Commercial Companies Code constitutes the Non-Financial Statement of NOVO BANCO, is also drawn up for compliance with the legal requirements introduced by Decree-Law no. 89/2017, of 28 July.

Ernst & Young, Audit & Associados, SROC, SA carried out an independent review for a limited level of assurance of reliability, non-financial and sustainability information contained in the 2020 Sustainability Report, regarding its sustainability performance, considering that the acceptable indicators were reported in accordance with the GRI sustainability reporting standards and Decree-Law No. 89/2017, as can see on pages 197 and 198.

The 2020 Sustainability Report complements and details the information contained in the 2020 Annual Report, providing evidence that sustainability is an integral part of the Bank's strategy.

In order to continue to progress and improve its performance, NOVO BANCO takes into account the concerns and suggestions of its stakeholders. To this end, any questions, comments or suggestions may be sent to the following email address:

sustentabilidade@novobanco.pt

7.1 Methodological Notes

SOCIAL INDICATORS	
Staff Turnover	((Number of admissions + resignations/ 2) total employees) 2
New hires rate	New hires in 2020/total number of employees in 2020
Accident Rate	Number of accidents at work/Hours worked*1000000
Absenteeism Rate	Number of absences (without maternity / paternity leave)/Possible working hours*100
Return to Work Rate	* Employees who returned to work after parental leave ended and remained in service after 12 months, based on the number of returns in 2020
Average training hours per gender	Total number of training hours per gender/Total number of employees in each gender
Average training hours per professional category	Total number of training hours per professional category/Total number of employees in each category
Remuneration Ratio	Ratio of average base remuneration and total average remuneration between women and men, by function category - (remuneration for women / remuneration for men) * 100
Pay gap	Sum of the gap weighted by functional group) / (Average value of male salary).
Social Dividend #NB Equal Gender and #NB Work & Life	Amount reached in December 2020 - baseline value 2016/target set for 2020 - baseline value 2016 The methodology for the Home office, Early Friday/ Late Monday and purchase of holidays initiatives was changed in 2109. In the previous methodology, no account was taken of the employees who used the initiatives, regardless of the year in which the benefit was used. From 2020 and with the new methodology only repetitions within the same year are excluded. This new calculation formula is justified by the extended monitoring period of the indicators.
Branches located in low density areas.	Number of branches located in the 165 low-density municipalities identified by Deliberation 55/2015 of the Interministerial Commission for Coordination, Portugal 2020
ENVIRONMENTAL INDICATORS	
Electricity	Amount calculated directly from EDP records and billing
Generators diesel	*** Diesel consumption in 2020 is an estimate based on the number of hours generators were operating.
Natural gas	The amount calculated corresponds to the total invoices for the year 2018 and 2017. In 2019 the Bank ceased to consume natural gas.
Propane gas	The amount calculated corresponds to the total invoices for the year 2018 and 2017. In 2019 the Bank ceased to consume natural gas.
Water	Estimate based on real water consumption in 100% of the central buildings and 48% of the branches.
Social Dividend | NB Environment	Amount reached in December 2020 - baseline value 2016/target set for 2020 - baseline value 2016

Energy	The following formula was used to calculate direct energy consumption (fuel consumption) in GJ: Fuel consumption (l) * PCIX * Density X/1000, using the following conversion factors:
PCI diesel (road) **Density of diesel (generators)** **PCI Propane gas (LPG) and Natural gas** **Electricity**	42.8 GJ/t (Source: Order No. 17313/2008 (SGCIE) 0.84 (Source: DGEG 2017, data for 21-09-2019) 46.65 GJ/t (Source: APA 2013 - https://apambiente.pt/_zdata/DPAAC/CELE/tabela_PCI_FE_FO_2013.pdf) conversion:1 kWh = 0.0036 GJ (Source: International Energy Agency and GRI)
CO_2 Emissions Scope 1	The following formula was used to calculate direct energy consumption (fuel consumption) in GJ: Fuel consumption (l) * PCIX * Density X/1000, using the following conversion factors: - PCI diesel (generators) - 43.07 GJ/ (Source: APA - Fuel density values to be used under the EU ETS) - Diesel density (generators) - 0.837 kg/l (Source: APA - Fuel density values to be used under the EU ETS) - It also includes the following emission factors and parameters used to calculate Greenhouse Gas (GHG) emissions: - Passenger car, petrol, engine capacity < 1 400 cm3 - 0.173 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) - Passenger car, petrol, engine capacity ≥ 1 400 and < 2 000 cm3 - 0.215 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) - Passenger car, petrol, engine capacity ≥ 2 000 cm3 - 0.299 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) - Passenger car, diesel, engine capacity < 2 000 cm3 - 0.181 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) - Passenger car, diesel, engine capacity ≥ 2 000 cm3 - 0.245 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) - Hybrid Car - 0.143 kg CO2e/km (Source: APA - NIR 2020) - Electric car - 0.022 kg CO2e/km (consumption of 13.3 kW/100 km) (Source: APREN, 2020)
CO_2 Emissions Scope 2	In calculating the transformation of indirect electricity consumption to GJ the following conversion factor was used: 1 kWh= 0.0036 GJ. The following formula was used to calculate electricity consumption: Emission = Consumption X * Emission factor (EF)X It also includes the following emission factors and parameters used to calculate GHG emissions: - Mainland electricity production - market based method - 0.266 kg CO2e/kWh (Source: EDP Sustainability Report 2019) - Mainland electricity production - location-based method - 0.162 kg CO2e/kWh (Source: APREN, energy mix 2020) - Electricity production in Madeira - location and market method - 0.510 kg CO2e/kWh (Source: EE Madeira 2019)
CO_2 Emissions Scope 3	The calculation includes emissions from employee commuting, from home/work/home (HWH) commuting, using the following formula: Emission = Journey (km) X * FEX It also includes the following emission factors and parameters used to calculate GHG emissions: - Diesel Car - 0.200 kg CO2e/km (Source: APA - NIR 2020) - Petrol Car - 0.205 kg CO2e/km (Source: APA - NIR 2020) - LPG Car - 0.195 kg CO2e/km (Source: APA - NIR 2020) - Hybrid Car - 0.143 kg CO2e/km (Source: APA - NIR 2020) - Electric car - 0.022 kg CO2e/km (consumption of 13.3 kW/100 km) (Source: APREN 2020) - Bus - 0.103 kg CO2e/km (Source: DEFRA 2020); 1.420 kg CO2e/km (Source: STCP 2011) and 0.115 kg CO2e/km (Source: Carris 2019) - Underground - 0.0467 kg CO2e (Source: Metro Lisboa 2016) and km, 0.040 kg CO2e/km (Source: Metro do Porto 2018)

CO_2 Emissions Scope 3	- Train - 0.0157 kg CO2e/km (Source: CP 2019) and 0.021 kg CO2e/km (Source: Fertagus 2013/2014) - Ferry - 0.190 CO2e/km (Source: Transtejo+Soflusa, 2014) - Motorbike (petrol) - 0.129 kg CO2e/km (Source: APA - NIR 2020) - Motorbike (electric) - 0.015 kg CO2e/km (Consumption of 9 kW/100 km) (Source: APREN 2020) - Aircraft Emission = Trip (Km) X * FEX * Take-off Factor * RFI2 - It also includes the following emission factors and parameters used to calculate GHG emissions: - Aircraft, Domestic Flight FE CO2 - 0.17147 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) - Aircraft, Short Haul Flight FE CO2 - 0.09700 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) - Aircraft, Long Haul FE CO2 - 0.11319 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017)
CLIENT INDICATORS	
Customer service	The weight of customers very satisfied with the service is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Global satisfaction	The weight of customers very satisfied with the Bank is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Confidence	The confidence index corresponds to the average of responses on a scale of 0 to 10, with the average being converted into an index of 0 to 100
Net Promoter Score	The Net Promoter Score is calculated based on the recommendation intention, as the difference between the % of promoters and the % of detractors The % of promoters corresponds to the % of responses of 9 to 10 on a scale of 0 to 10 The % of detractors corresponds to the % of responses of 0 to 6 on a scale of 0 to 10
Very Satisfied Clients	The weight of very satisfied clients is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Complaint rate per 1000 active clients	Number of existing complaints divided by the number of active clients, with active clients considered as those that used the Bank's service in the last 3 months.

7.2 Global Reporting Initiative (GRI) Table

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
ORGANISATIONAL PROFILE						
102-1	Name of the organisation	AR - page 2				
102-2	Main brands, products, and services	SR - pages 120-123; 138-141 MR - pages 13-14; 45-51 Institutional website, product and corporate				
102-3	Location of headquarters	AR - page 2				
102-4	Number of countries where the organisation operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report.	MR - pages 13-14; 45-51 The 2020 Sustainability Reports covers only the scope of NOVO BANCO in Portugal.				
102-5	Ownership and legal form	FS- page 205				
102-6	Markets served: - geographic locations where products and services are offered; - sectors served; - types of customers and beneficiaries	MR - 13-14; 45-51 The 2020 Sustainability Reports covers only the scope of NOVO BANCO in Portugal.				
102-7	Scale of the organisation: - total number of employees; - total number of operations; - net sales; - total capitalisation broken down in terms of debt and equity; - quantity of products or services provided	SR - pages 109; 126; 131; 154 MR - pages 11-14; 20; 34-45; 45-51 Notes to the financial statements- pages				
102-8	Total number of employees by employment contract (permanent and temporary), by gender and region	SR - pages 131; 153-156 MR - pages 12; 20	8	6		
102-9	A description of the organisation's supply chain, including its main elements as they relate to the organisation's activities, primary brands, products, and services	SR - pages 141-142				
102-10	Significant changes to the organisation's size, structure, ownership, or supply chain during reporting period	MR - pages 54-55				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-11	Precautionary Principle or approach	RM - pages 57-61				
102-12	A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes, or which it endorses.	SR - page 112				
102-13	A list of the main memberships of industry or other associations, and national or international advocacy organizations	SR - page 112				
STRATEGY						
102-14	A statement from the most senior decision-maker of the organisation (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy for addressing sustainability.	AR- pages 6-7				
102-15	A description of key impacts, risks, and opportunities	SR - pages 113-114 MR - pages 30-32; 57-69				
ETHICS AND INTEGRITY						
102-16	Values, principles, standards, and norms of behaviour.	SR – page 147 MR- pages 18-19; 71-81	16	10		
102-17	A description of internal and external mechanisms for: seeking advice about ethical and lawful behaviour, and organisational integrity; reporting concerns about unethical or unlawful behaviour, and organisational integrity.	SR - pages 147-149 MR - pages 81-93 Institutional website	16	10		
CORPORATE GOVERNANCE						
102-18	Governance structure of the organization, including committees of the highest governance body. Committees responsible for decision making on economic, environmental, and social topics.	SR - pages 147-149 MR-pages 18-19; 71-81 Institutional website				
102-19	Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees.	SR - pages 147-149				
102-20	Executive-level responsibility for economic, environmental, and social topics.	Chairman of the Executive Board of Directors SR - pages 147-149 AR Institutional website				
102-21	Consulting stakeholders on economic, environmental, and social topics	SR - pages 113-114; 116-117; 119-123 Institutional website	16			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-22	Composition of the highest governance body and its committees	MR - pages 18-19 Institutional website	5, 16			
102-23	Whether the chair of the highest governance body is also an executive officer in the organisation. If the chair is also an executive officer, describe his or her function within the organisation's management and the reasons for this arrangement.	MR - pages 18-19 Institutional website	16			
102-24	Nomination and selection processes for the highest governance body and its committees and criteria used for nominating and selecting highest governance body members-	MR - pages 71-81 Institutional website - NOVO BANCO Articles of Association	5, 16			
102-25	Processes for the highest governance body to ensure conflicts of interest are avoided and managed.	MR - page 82 Institutional website, Conflicts of Interest Policy	16			
102-26	Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental, and social topics.	The CEO based on objectives defined for 2020 (which are monitored through an action plan and the coordination of teams appointed for the implementation of the Social Dividend model) controls this model on a quarterly basis. This model ensures the alignment of sustainability performance across the Bank's various operations, through coordination of the initiatives with the officers appointed in each operation.				
102-27	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics.	Sustainability issues are submitted to the Chairman of the Executive Board of Directors whenever justified. The Social Dividend model is submitted quarterly. The social dividend aims to give back to the bank's employees and the community in general what the bank generates with its activity. Through quarterly monitoring, it assesses the Bank's environmental and social performance against the targets set for 2020.	4			
102-28	Processes for evaluating the highest governance body's performance with respect to governance of economic, environmental, and social topics	The performance assessment processes, with regard to the identification of risks and opportunities in economic, social and environmental issues, are identified and managed by the Executive Board of Directors, Committees, Commissions, Departments and subsequently submitted to the highest hierarchical governance body and to the Chairman of the Executive Board of Directors. For more information see MR – pages 77-89				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-29	Highest governance body's role in identifying and managing economic, environmental, and social topics and their impacts, risks, and opportunities – including its role in the implementation of due diligence processes.	MR - pages 77-89	16			
102-30	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental, and social topics	MR - pages 57 -65; 77-89				
102-31	Frequency of the highest governance body's review of economic, environmental, and social topics and their impacts, risks, and opportunities	The CEO analyses the performance of the Social Dividend model on a quarterly basis; this model that assesses 17 environmental and social indicators.				
102-32	The highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered	The AR and the Sustainability Report are approved by the Executive Board of Directors and the General and Supervisory Board.				
102-33	Process for communicating critical concerns to the highest governance body.	MR - pages 77-89				
102-34	Total number and nature of critical concerns that were communicated to the highest governance body.	SR - pages 109; 113-114 MR - pages 77-89 Institutional website - supervision committees and Whistle-blowing Policy				
102-35	a. Remuneration policies for the highest governance body and senior executives for the following types of remuneration: • Fixed pay and variable pay, including: - performance-based pay, equity-based pay, bonuses, and deferred or vested shares; - Sign-on bonuses or recruitment incentive payments; • Termination payments; - Clawbacks; - Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees. b. How performance criteria in the remuneration policies relate to the highest governance body's and senior executives' objectives for economic, environmental, and social topics.	MR - pages 86-89 Institutional website, Remuneration Policies				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-36	Process for determining remuneration.	MR - pages 86-89 Institutional website, Remuneration Policies				
102-37	Stakeholders' opinions with regard to remuneration are requested and taken into account, including through voting on remuneration policies and proposals, when applicable.	SR - pages 113-114; 116-117; 126-127; 132-133 MR- pages 86-89 Institutional website, Remuneration Policies				
102-38	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	Median annual total compensation for all employees (excluding the highest-paid individual); 33 014.8 CEO total annual remuneration: €367 457 Ratio of the CEO total annual compensation to the median annual total compensation for all employees (excluding the highest-paid individual) 11.3%				
102-39	Ratio of the percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	The wage increase in 2020, as per the Collective wage agreement, was + 0.30%. Change 2019/2020 Average remuneration – 0.5%				
STAKEHOLDER INVOLVEMENT						
102-40	List of stakeholder groups	SR - pages 113-115				
102-41	Percentage of total employees covered by collective bargaining agreements	SR - pages 113-115	8	3		
102-42	Identifying and selecting stakeholders	SR - pages 113-115				
102-43	Approach to stakeholder engagement	SR - pages 113-115				
102-44	Key topics and concerns raised	SR - pages 113-115				
REPORTING PRACTICE						
102-45	Entities included in the consolidated financial statements	MR- pages 45-51				
102-46	Defining report content and topic boundaries	SR - pages 113-114				
102-47	List of material topics	SR - pages 113-114				
102-48	Restatements of information	The 2020 Sustainability Report details the performance over the last three years for the NOVO BANCO scope, therefore the data presented in this report for 2018 and 2019 concern only NOVO BANCO and were recalculated for this scope.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-49	Changes in reporting	The 2020 Sustainability Report details the performance over the last three years for the NOVO BANCO scope, therefore the data presented in this report for 2018 and 2019 concern only the NOVO BANCO scope.				
102-50	Reporting period	1 January to 31 December 2020				
102-51	Date of most recent report	2020				
102-52	Reporting cycle	Annual				
102-53	Contact point for questions regarding the report	sustentabilidade@novobanco.pt				
102-54	Claims of reporting in accordance with the GRI Standards	"Core option"				
102-55	5 GRI content index	SR - pages 162-196				
102-56	A description of the organisation's policy and current practice with regard to seeking external assurance for the report.	SR - page 161				
ECONOMIC INDICATORS TOPIC: ECONOMIC PERFORMANCE						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders and will become the basis of its Sustainability Strategy, alongside the commitments assumed and the objectives defined. NOVO BANCO is also in the process of selecting the SDGs to which its strategy and medium-term plan will be aligned.				
103-2	The management approach and its components	The Strategic Plan defined for the 2019-2021 three-year period, on which the management approach has been based, was designed to put in place the necessary conditions for NOVO BANCO to transition from a restructuring bank into a growth bank prepared for the future. To this end, the Bank is defining a new distribution model, streamlining its technological and process infrastructure, rejuvenating and enhancing its human capital, and fine-tuning its risk model, electing as cross-cutting priorities optimisation, digitisation and differentiation.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-3	Evaluation of the management approach	NOVO BANCO has over the years promoted several initiatives with economic impacts. The Bank's activity has been shaped by and developed in accordance with the objectives established in the Strategic Plan, which resulted in the growth of the recurrent credit portfolio, with a reduction in the cost of risk, in significant improvements in commercial banking income, and in the continuous reduction of operating costs, despite the strong increase in investment. The Bank monitors the indicators defined for this topic on a monthly basis.				
201-1	Direct economic value generated and distributed	Banking Income: €812.2 million MR - page 52 Economic Value Generated: €812.2 million MR - page 52 General and administrative expenses €144.0 million MR - page 96 Staff Costs: €223.6 million MR - page 96 Payments to providers of Capital - Shareholders - There was no distribution of dividends Taxes: €13.4 million MR - page 96 Community Investments: €0.5 million in donations Economic Value Distributed: €381.4 million Economic Value Retained €430.8 million	2, 5, 8, 9			
201-2	Financial implications and other risks and opportunities due to climate change	With regard to climate change, NOVO BANCO offers its clients a number of environmental products, namely the NB 18.31, NB 18.25 and NB 26.31 account, as well as structured products with environmental concerns. It is also concerned with dematerialising client communications and reducing the direct environmental impact of its activity. The Bank has recently signed commitments concerning the decarbonisation of the economy. SR - pages 139-140	13			
201-3	Defined benefit plan obligations and other retirement plans	SR - pages 132-136				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
201-4	Financial assistance received from government	FS - pages 203; 204; 424; 440				
TOPIC: MARKET PRESENCE						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy based on this matrix, the commitments assumed and the objectives defined, and is also selecting the SDGs that will be aligned to its strategy and medium-term plan.				
103-2	The management approach and its components	The Strategic Plan defined for the 2019-2021 three-year period, on which the management approach has been based, was designed to put in place the necessary conditions for NOVO BANCO to transition from a restructuring bank into a growth bank prepared for the future. To this end, the Bank is defining a new distribution model, streamlining its technological and process infrastructure, rejuvenating and enhancing its human capital, and fine-tuning its risk model, electing as cross-cutting priorities optimisation, digitisation and differentiation. The Bank develops its activity with a strong focus on the Iberian market.				
103-3	Evaluation of the management approach	NOVO BANCO has over the years promoted several initiatives with economic impacts. The Bank's activity has been steered by the objectives established in the Strategic Plan, translating into the growth of the recurrent credit portfolio, with a reduction in the cost of risk, a significant improvement in commercial banking income, and the continuous reduction of operating costs, despite the strong increase in investment. The Bank monitors the indicators defined for this topic on a monthly basis.				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	For the professional categories that are representative of its workforce, NOVO BANCO pays a minimum salary that is higher than the national minimum wage (the lowest salary paid by NOVO BANCO is 1.39% times higher than the national minimum wage).	5, 7, 8	6		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
202-2	Proportion of senior management hired from the local community	The Sustainability Report is restricted to NOVO BANCO and its activity in Portugal. Local hiring is an integral part of the Bank's hiring practices. Priority is always given to local employees, so as to build a sustained and competent workforce, with possibilities for career advancement, moving on to leadership positions. Consequently, management positions are mostly held by local employees and non-local employees are few. At national level and taking into account senior management - Executive Board of Directors - employees of Portuguese nationality and women employees represent 33.3% and 16.7% of the workforce	8	6		
TOPIC: INDIRECT ECONOMIC IMPACTS						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Investment in the community as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives with indirect economic impacts.				
103-3	Evaluation of the management approach	The Bank monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
203-1	Infrastructure investments and services supported	SR - pages - 118-124; 138-141 MR - pages 45-51	2, 5, 7, 9, 11			
203-2	Significant identified indirect economic impacts of the organisation, including positive and negative impacts	SR - pages 118-124; 138-141 MR - pages 45-51	1, 2, 3, 8, 10, 17			
TOPIC: PROCUREMENT PRACTICES						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is building its Sustainability Strategy and considers the Selection of suppliers with environmental, social and ethical criteria as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives in this area, having namely designed a sustainability scoring for the process of registration of suppliers in its Supplier Portal SR - pages 141-142				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-3	Evaluation of the management approach	The Bank monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
204-1	Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation	NOVO BANCO Group acquires its regular consumption products, such as stationery, equipment and specialised services for mainland Portugal and Islands, from national companies. Around 82.2% of the expenses refer to national suppliers vs 11.8% from international suppliers. Taking into account the Covid-19 context, in 2020 the Bank reduced its payment period to suppliers to 22 days, from 23 days in 2019.	12			
TOPIC: ANTI-CORRUPTION						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is building its Sustainability Strategy and considers Corporate ethics and ethics in the relationship with stakeholders as a material topic.				
103-2	The management approach and its components	NOVO BANCO focuses on the prevention, detection, reporting and management of situations involving risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness.				
103-3	Evaluation of the management approach	The Bank monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
205-1	Total number and percentage of operations assessed for risks related to corruption	NOVO BANCO SR - page 109 MR - pages 81-89	16	10		
205-2	Communication and training about anti-corruption policies and procedures	SR - page 109 MR - pages 84-85	16	10		
205-3	Confirmed incidents of corruption and actions taken	During 2020 no instances of corruption came to the attention of NOVO BANCO concerning operations.	16	10		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
ANTI-COMPETITIVE BEHAVIOUR						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Corporate ethics and ethics in the relationship with stakeholders as a material topic. The survey carried out in order to build the materiality matrix included questions to the Bank's peers. The Bank also assumed commitments in terms of Sustainable Financing in partnership with the main financial players, which involved the development of common approaches and not anti-competitive behaviour.				
103-2	The management approach and its components	NOVO BANCO has over the years participated in several initiatives in the area of sustainable financing, in partnership with its peers. In 2019 the Bank signed the "Letter of Commitment for Sustainable Finance in Portugal", which aims to contribute to the promotion of sustainable investment practices in the country, with the purpose of accelerating the process of transition to a carbon neutral economy by 2050, in full partnership with its peers. The Bank also participates in another two working groups on Sustainable Finance, promoted respectively by the Portuguese Association of Banks and the Portuguese Association of Investment and Pension Funds and Asset Management Firms.				
103-3	Evaluation of the management approach	The Bank monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
206-1	Number of legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant.	There is no record of any legal action regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation involving the Bank in 2020.	16			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
ENVIRONMENTAL INDICATORS TOPIC: MATERIALS						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Recycling and the Circular Economy as an important topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing its direct environmental impact, namely through its NB Environment programme, integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
301-1	Materials used by weight or volume	SR - pages 109; 142-145;158-159	8,12	7,8		
301-2	Percentage of recycled input materials used to manufacture the organisation's primary products and services.	NOVO BANCO does not monitor this type of materials.	8,12	8		
301-3	Percentage of reclaimed products and their packaging materials for each product category	The Bank's activity does not allow reclaiming products, therefore this indicator is not reported.	8,12	8		
TOPIC: ENERGY						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Eco-efficiency in the Bank's branches, buildings and operations as a material topic. Energy, along with paper, is the resource most consumed by the Bank, and as such has deserved special attention.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing its direct environmental impact, namely through its NB Environment programme, integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
302-1	Energy consumption within the organisation	SR - pages 142-144; 149; 158	7, 8, 12, 13	7,8		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
302-2	Energy consumption outside of the organisation	NOVO BANCO does not monitor this consumption.	7, 8, 12, 13	8		
302-3	Energy intensity	SR - pages 142-144; 149; 158	7, 8, 12, 13	8		
302-4	Reduction of energy consumption	SR - pages 142-144; 149; 158	7, 8, 12, 13	8,9		
302-5	Reductions in energy requirements of products and services	SR - pages 142-144; 149; 158	7, 8, 12, 13	8,9		
TOPIC: WATER						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Eco-efficiency in the Bank's branches, buildings and operations as a material topic.				
103-2	The management approach and its components	Given the scarcity of this resource, NOVO BANCO has over the years promoted several initiatives aimed at reducing its direct environmental impact in terms of water consumption.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
303-1	Water withdrawal by source	SR - pages 144; 159	6	7,8		
303-2	Water sources significantly affected by withdrawal of water	NOVO BANCO's operations are located in urban or urbanised areas, with all water consumed coming from the public supply system. Therefore, any impacts associated with water management upstream of its activity are outside NOVO BANCO's sphere of influence.		8		
303-3	Water recycled and reused	NOVO BANCO has no systems for water recycling and reuse.	6, 8, 12	8		
BIODIVERSITY						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers climate change as a material topic. Climatic change affects biodiversity, however this topic is not included in the indicators monitored.				
103-2	The management approach and its components	Non applicable				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-3	Evaluation of the management approach	Non applicable				
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NOVO BANCO's operations are located in urban or urbanised areas, therefore any environmental impacts directly linked to its activity are naturally limited.	6, 14, 15	8		
304-2	Significant impacts of activities, products, and services on biodiversity	NOVO BANCO's operations are located in urban or urbanised areas, therefore any environmental impacts directly linked to its activity are naturally limited.	6, 14, 15	8		
304-3	Habitats protected or restored	NOVO BANCO's operations are located in urban or urbanised areas, therefore any environmental impacts directly linked to its activity are naturally limited.	6, 14, 15	8		
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	NOVO BANCO's operations are located in urban or urbanised areas, therefore any environmental impacts directly linked to its activity are naturally limited.	6, 14, 15	8		
TOPIC: EMISSIONS						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Eco-efficiency in the Bank's branches, buildings and operations as a material topic. Sustainable Financing is considered a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing its direct environmental impact, namely through its NB Environment programme, integrated in its Social Dividend model. NOVO BANCO measures and monitors the CO_2 indicators. In 2019, within the scope of its commitment to reduce CO_2 emissions, the Bank signed the 'Business Ambition for 1.5ºC' letter, a document recently issued by the United Nations Global Compact. With this signature, the Bank assumes its commitment to preserve the planet and contribute to limit the temperature increase to 1.5ºC by 2050, and undertakes to submit a scientific project to reduce the CO_2 emissions resulting from its activity.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
305-1	Direct (Scope 1) GHG emissions	SR - pages 143-144; 149, 159	3, 12, 13, 14, 15	7, 8		
305-2	Energy indirect (Scope 2) GHG emissions	SR - pages 109; 143-144; 149, 159	3, 12, 13, 14, 15	7, 8		
305-3	Energy indirect (Scope 3) GHG emissions	SR - pages 143-144; 149, 159	3, 12, 13, 14, 15	7, 8		
305-4	GHG emissions intensity	SR - pages 143-144; 149, 159	13, 14, 15	8		
305-5	Reduction of GHG emissions	SR - pages 109; 143-144; 149, 159	13, 14, 15	8, 9		
305-6	Emissions of ozone-depleting substances (ODS)	There have been no recharges of gases with the potential to destroy the ozone layer since 2015, as these are prohibited under Regulation (EC) No. 1005/2009, on substances that deplete the ozone layer. Moreover, NOVO BANCO had been gradually replacing equipment that emit ozone-depleting gases, when such exist.	3, 12	7, 8		
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SOx and NOx emissions linked to NOVO BANCO's activity result from combustion associated with transportation, emergency generators and boilers. However, due to the reduced expression of these activities within the Bank's typical activity, these emissions are immaterial and therefore are not accounted for.	3, 12, 14, 15	7, 8		
EFFLUENTS AND WASTE						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Recycling and the Circular Economy as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing its direct environmental impact, namely through its #NB Environment programme, integrated in its Social Dividend model.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
306-1	Water discharge by quality and destination	NOVO BANCO has implemented no regular monitoring processes for effluents produced at its facilities. Discharge is classified as a typical domestic discharge, taking into account that all the Bank's facilities are in urban areas with basic sanitation infrastructures.	3, 6, 12, 14	8		
306-2	Waste by type and disposal method	NOVO BANCO monitors only the disposal method for the most frequent types of waste produced, namely paper, cardboard and consumables, however it does not yet have a data systematisation system allowing it to collect data and report on the total waste produced by type and disposal method.	3, 6, 12	8		
306-3	Significant spills	Not applicable to the activity of NOVO BANCO.	3, 6, 12, 14	8		
306-4	Hazardous waste transported. Hazardous waste imported. Hazardous waste exported. Hazardous waste treated. Percentage of hazardous waste shipped internationally.	Not applicable to the activity of NOVO BANCO.	3, 12	8		
306-5	Water bodies affected by water discharges and/or runoff	NOVO BANCO's operations are located in urban or urbanised areas, therefore any environmental impacts directly linked to its activity are naturally limited.	6, 14, 15	8		
ENVIRONMENTAL COMPLIANCE						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Corporate ethics and ethics in the relationship with stakeholders as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing its direct environmental impact, namely through its #NB Environment programme, integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
307-1	Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations	In 2020 there were no instances of non-compliance with environmental laws and/or regulations, nor were any fines paid in connection therewith.	16	8		
TOPIC: SUPPLIERS ENVIRONMENTAL ASSESSMENT						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers the Selection of suppliers with environmental, social and ethical criteria as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives to ensure a judicious selection of its suppliers, based on the information provided. The Bank calculates the suppliers' 'sustainability scoring', which takes into account environmental, ethical, labour, hygiene and safety in the workplace aspects of its suppliers.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
308-1	New suppliers that were screened using environmental criteria	SR - pages 109; 141-142		8		
308-2	Negative environmental impacts in the supply chain and actions taken	SR - pages 109; 141-142		8		
TOPIC: EMPLOYMENT						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Attracting and developing talent as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives concerning the development of programmes that ensure human capital management focused on talent acquisition and retention, the rejuvenation of teams and the unlocking of the potential of the more experienced employees, using methodologies and programmes aimed at individual development, a balance between professional and personal life, and the creation of a circle of knowledge and sharing.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
401-1	Total number and rate of new employee hires during the reporting period, by age group, gender and region.	SR - pages 109, 154	5, 8	6		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	NOVO BANCO does not usually hire part-time employees, or only on an exceptional basis. In this context, benefits are granted under equal circumstances to all the Bank's employees and subsidies are attributed based on the employee's income. Trainees and temporary workers are not entitled to these benefits. SR - pages 132-136	8			
401-3	Total number of employees that were entitled to parental leave, by gender and return to work and retention rates of employees that took parental leave, by gender	SR - page 157	8	6	Taxa de Retenção não reportada	
LABOUR/MANAGEMENT RELATIONS						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Attracting and developing talent as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives concerning the development of programmes that ensure human capital management focused on talent acquisition and retention, the rejuvenation of teams and the unlocking of the potential of the more experienced employees, using methodologies and programmes aimed at individual development, a balance between professional and personal life, and the creation of a circle of knowledge and sharing.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
402-1	Minimum notice periods regarding operational changes and whether the notice period and provisions for consultation and negotiation are specified in collective agreements	NOVO BANCO informs its employees of any relevant facts pertaining to their career management in accordance with the established notice periods, seeking compliance with clause 27 of the Collective Wage Agreement, which stipulates that workplace transfers are subject to an advice notice of at least 30 days.	5	3		
TOPIC: OCCUPATIONAL HEALTH AND SAFETY						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Health, safety in the work place and a balance between personal and professional life as a material topic. The physical, psychological and social well-being of its employees is essential for the Bank, which to this end has in place a health and well-being policy based on five lines of action.				
103-2	The management approach and its components	The physical, psychological and social well-being of its employees is essential for the Bank, which to this end has in place a health and well-being policy based on five lines of action: 1. Communicate and raise awareness; 2. Diagnose and prevent: 3. Encourage and promote; 4. Offer and provide; 5. Reconcile and flexibilise: practices for a balance between professional, personal and family life.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
403-1	Percentage of workers whose work, or workplace, is controlled by the organisation, that are represented by formal joint management-worker health and safety committees.	NOVO BANCO has no formal safety commissions, however it engages its employees in the definition and implementation of safety practices and the prevention of occupational hazards. The national legislation requires a minimum guarantee of hygiene, health and safety conditions. NOVO BANCO goes beyond the requirements of the law, annually reporting its practices and results in the management of hygiene, health and safety of all its employees.	8			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by gender	SR - page 157	8			
403-3	Workers with high incidence or high risk of diseases related to their occupation	NOVO BANCO is not aware of a high incidence or high risk of diseases related to their occupation amongst its employees.	8			
403-4	Health and safety topics covered in formal agreements with trade unions	NOVO BANCO has entered into Company-level Agreements with all the trade unions represented in the institution, which enshrine the obligations of Occupational Medicine and hygiene and safety in the workplace. In addition to the legally mandatory consultations and exams, the Bank has in place other measures. SR - pages 133-136	8			
TOPIC: TRAINING AND EDUCATION						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Attracting and developing talent as a material topic. The Bank consistently invests in the design and implementation of distinctive and motivating training, enabling the improvement of performances, and the development and evolution of its employees.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives and programmes to ensure that human capital management is focused on talent attraction and retention.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
404-1	Average hours of training that the organisation's employees have undertaken during the reporting period, by gender and employee category	SR - pages 109; 128 ;155	4, 5, 8	6		
404-2	Programas para a gestão de competências e aprendizagem contínua que apoiam a continuidade da empregabilidade dos funcionários e para a gestão de carreira	SR - pages 128; 134-136	8			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
404-3	Percentage of employees receiving regular performance and career development reviews	NOVO BANCO's Performance Management Model, based on the continuous management of employee performance and development, is integrated in the Employee Portal, called "My Portal". The Performance Management Process covers all employees and includes a personal development programme where each employee can define his or her objectives in terms of continuing improvement in the performance of their functions. At the closing date of this report the 2020 performance assessment had not been concluded.	5, 8	6		
TOPIC: DIVERSITY AND EQUAL OPPORTUNITIES						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Gender diversity and gender equality as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives within its #NB Equal Gender programme, which monitors three indicators and aims to develop a fair and gender-equal model, having for the purpose defined specific objectives for 2020.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and annually reports the results in its website and Sustainability Report.				
405-1	Percentage of individuals within the organisation's governance bodies in each of the following diversity categories: Gender, Age group, Other indicators of diversity where relevant (such as minority or vulnerable groups).	SR - pages 109; 130-131; 147 -149; 153-156 MR - page 18 - 20	5, 8	6		
405-2	Ratio of basic salary and remuneration of women to men for each employee category	Management: - Heads of Department: 94% / 86% - Technical staff: 96% / 95% - Administrative: 94% /89% - Total: 90% /82%	5, 8, 10	6		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: NON-DISCRIMINATION						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Gender equality and Human Rights as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing discrimination negative impacts, namely through its #NB Equal Gender programme, integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	NOVO BANCO has over the years promoted several initiatives within its #NB Equal Gender programme, which monitors three indicators with the aim of making the bank fairer and more gender-equal, having for the purpose defined specific objectives for 2020.				
406-1	Total number of incidents of discrimination and corrective actions taken	In 2020 no incidents or lawsuits came to the attention of NOVO BANCO concerning discrimination on grounds of race, colour, gender, religion, public opinion or social class.	5, 8, 16	6		
TOPIC: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING						
103-1	Explanation of the material topic and its Boundary	At NOVO BANCO, the majority of the employees is covered by collective bargaining agreements and perform their activity in accordance with the obligations established therein.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives viewing non-discrimination, and in this context meets often with the Workers' Committee and the Trade Unions.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	In 2020, NOVO BANCO was not aware of any instances of non-compliance with laws and regulations for breaches of the right to freedom of association and collective bargaining, or the payment of fines in connection thereof, within its value chain.		3		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: CHILD LABOUR						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Human Rights as a material topic.				
103-2	The management approach and its components	NOVO BANCO only employs adults (in accordance with the labour legislation). The Bank assumes unconditional respect for the United Nations Declaration of Human Rights and the requirements of the International Labour Organisation. NOVO BANCO's Human Rights Policy reflects its endorsement and commitment to the Global Compact Principles. The compliance and audit functions and the mechanisms in place for the anonymous reporting of irregularities minimise the risk of any such occurrences within the Bank and in connection to its employees.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
408-1	Operations and suppliers at significant risk for incidents of child labour	During 2020 no instances came to the attention of NOVO BANCO concerning operations and suppliers at significant risk for incidents of child labour.	8, 16	5		
TOPIC: FORCED OR COMPULSORY LABOUR						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Human Rights as a material topic.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-2	The management approach and its components	NOVO BANCO complies with the legislation, rules and regulations in force and develops its activity in full compliance with its Equality and Non-Discrimination Policy and Human Rights Policy, defined based on: - the United Nations Global Compact Principles; - the Universal Declaration of Human Rights; - The Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises; - the Core Conventions of the International Labour Organization (ILO).				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	During 2020 no instances came to the attention of NOVO BANCO concerning operations and suppliers at significant risk for incidents of forced or compulsory labour.	8	4		
TOPIC: SECURITY PRACTICES						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Human Rights as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives in this area for compliance with the legislation in force.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
410-1	Security personnel trained in human rights policies or procedures	In 2020 NOVO BANCO did not provide training in human rights policies or procedures to its security personnel.	16	1		
TOPIC: RIGHTS OF INDIGENOUS PEOPLES						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Human Rights as a material topic.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-2	The management approach and its components	NOVO BANCO does not promote initiatives in this regard as its activity is developed in urban or urbanised areas.				
103-3	Evaluation of the management approach	Non applicable				
411-1	Total number of identified incidents of violations involving the rights of indigenous peoples during the reporting period and remediation action taken	NOVO BANCO's operations are located in urban or urbanised areas, therefore there are no instances of violation of the rights of indigenous people.	2	1		
TOPIC: HUMAN RIGHTS ASSESSMENT						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Human Rights as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at reducing negative impacts arising from Human Rights issues, namely through its #NB Equal Gender programme, integrated in its Social Dividend model. The development of a culture of respect for human beings is part of NOVO BANCO's standards of excellence: respect for employees, respect in the manner we deal with clients, suppliers and other stakeholders, respect in the relationships established with the communities in the locations where the Bank operates. The Bank has a Human Rights policy that can be consulted on its website.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
412-1	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Non applicable		1		
412-2	Employee training on human rights policies or procedures	In 2020 NOVO BANCO did not provide training on this topic.		1		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All NOVO BANCO Group's suppliers are covered by its Principles for Suppliers, which require compliance with Human Rights obligations. These criteria are included in the agreements entered into with all suppliers (100%). The certification of suppliers requires answering mandatory response questions concerning human rights policies and practices. The Bank visits all its material suppliers to check their supply capabilities and their compliance with the requirements of the Principles for Suppliers. In 2020 the Group found no instance of non-compliance with these principles by its material Suppliers, namely through its visits to their facilities. Should any cases of violation of human rights occur, NOVO BANCO undertakes to investigate them and reserves the right to terminate the agreement with the Supplier in question if it finds evidence of non-compliance with Human Rights obligations.		2		
TOPIC: LOCAL COMMUNITIES						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Investment in the community as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives under its Corporate Social Responsibility programme, which aims to help devise solutions for important issues within the community in which the Bank operates. This programme is deployed based on three pillars, namely: culture, financial literacy and solidarity. These pillars are an integral part of the NB Social Responsibility programme, included within the Bank's Social Dividend Model.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
413-1	Operations with local community engagement, impact assessments, and development programmes	SR - pages 138-139; 147-151		1		
413-2	Operations with significant actual and potential negative impacts on local communities	NOVO BANCO is not aware of any operations having negative impacts on local communities.	1, 2	1		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: SUPPLIERS SOCIAL ASSESSMENT						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers the Selection of suppliers with environmental, social and ethical criteria as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives addressing its value chain, namely endorsing the Principles of Relationship with Suppliers, and calculating the "sustainability scoring", which takes into account environmental, ethical, labour, hygiene and safety in the workplace aspects of its suppliers.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and website.				
414-1	New suppliers that were screened using social criteria	SR - pages 109; 141-142	5, 16	2		
414-2	Negative social impacts in the supply chain and actions taken	In 2020 NOVO BANCO was not aware of any impacts at this level.	5, 16	2		
TOPIC: PUBLIC POLICY						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Corporate ethics and ethics in the relationship with stakeholders as a material topic.				
103-2	The management approach and its components	NOVO BANCO manages its activity in full compliance with the legislation in force.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
415-1	Political contributions	Political contributions by companies are not permitted under Decree Law No. 19/2003, of 20 June, and NOVO BANCO complies with these provisions.	16	10		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: CUSTOMER HEALTH AND SAFETY						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Security of the financial assets, and physical and digital security of the client as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives across all client security activities, namely with respect to the clients' safety, the security of transactions, and the safeguard of the personal data of clients and other data subjects.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
416-1	Assessment of the health and safety impacts of product and service categories	The Bank's facilities comply with all existing rules for secure and private customer service. NOVO BANCO conducts its relationship with clients in accordance with the new General Data Protection Regulation, guaranteeing privacy and security in the treatment of customer data. More information may be found in Indicator 418-1.				
416-2	Total number of incidents of non-compliance concerning the health and safety impacts of products and services	In 2020 there were no penalties and/or fines applied to NOVO BANCO in relation to the General Data Protection Regulation (GDPR).	16			
TOPIC: LABELLING OF PRODUCTS AND SERVICES						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Customer satisfaction and service quality, and financial products and services as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives aimed at providing clear and transparent information about its products and services to its clients. Products disclosure is subject to prior approval by the competent supervision authority.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
417-1	Requirements for product and service information and labelling and percentage of significant product or service categories covered by and assessed for compliance with such procedures.	NOVO BANCO provides clear information about each product or service offered, including about their characteristics and specific conditions. This information and underlying processes are subject to strict internal controls in terms of the Bank's internal audit and quality control, as well as strict external controls, through the supervision conducted by the Bank of Portugal, the CMVM and the external audits to the Bank's processes.	12, 16			
417-2	Número total de incidentes resultantes da não conformidade com os regulamentos e códigos voluntários relativos à informação e rotulagem de produtos e serviços, discriminados por tipo de resultado	In 2020 no incidents of non-compliance with voluntary procedures and voluntary codes concerning product and service information or labelling of NOVO BANCO were identified.	16			
417-3	Total number of incidents of noncompliance with regulations and/or voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of result	In 2020 no incidents of non-compliance with voluntary procedures and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by NOVO BANCO were identified.				
TOPIC: CUSTOMER PRIVACY						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is building its Sustainability Strategy and considers Security of the financial assets, and physical and digital security of the client as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives to ensure it performs its activity in accordance with best market practices and the legal and regulatory requirements. The Bank ensures the confidentiality, integrity and availability of the information.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
418-1	Total number of substantiated complaints received concerning breaches of customer privacy	In 2020, there were no sanctions and/or fines imposed on NOVO BANCO related to the General Data Protection Regulation (NDPC).	12			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: SOCIOECONOMIC COMPLIANCE						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Corporate ethics and ethics in the relationship with stakeholders as a material topic.				
103-2	The management approach and its components	NOVO BANCO has over the years promoted several initiatives to ensure it performs its activity in accordance with best market practices and the legal and regulatory requirements.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
419-1	Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area	In 2020 NOVO BANCO was convicted and fined for 8 infractions for breaches of the duty of bank secrecy, duty of information and in administrative proceedings which resulted in three sanctions.in the amount of 23 500 euros.	16			
FINANCIAL SUPPLEMENT INDICATORS TOPIC: PORTFOLIO OF PRODUCTS						
103-1	Explanation of the material topic and its Boundary	NOVO BANCO's materiality matrix, which contains the sustainability topics, results from the dialogue with the stakeholders NOVO BANCO is developing its Sustainability Strategy and considers Customer Satisfaction and Service Quality, as well as Financial products with social and environmental concerns as material topics.				
103-2	The management approach and its components	NOVO BANCO has been enhancing its customer experience monitoring model with a view to offering the best experience to its clients. Knowing the clients' expectations throughout their life cycle permits to identify opportunities for improvement, using a robust model for monitoring the customer experience based on several action pillars. The Bank has also reinforced its offering and services based on environmental criteria.				
103-3	Evaluation of the management approach	NOVO BANCO monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
Management Approach	Policies with specific environmental and social components applied to business lines.	SR - pages 138-141	10			
	Procedures for assessing and screening environmental and social risks in business lines.	SR - pages 138-141	10			
	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	NOVO BANCO has in place several mechanisms to regulate customer monitoring. In cases which may be considered more sensitive, prevention and monitoring plans are negotiated, and the situations are monitored, resorting, when necessary, to external experts.				
	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	NOVO BANCO provides adequate training to its employees on the marketing of products with environmental and social concerns.				
	Interactions with clients/ investees/business partners regarding environmental and social risks and opportunities	SR - pages 112-114; 118-123; 126-127; 127-138	10			
FS6	Percentage of the portfolio for business lines by specific region, size (e.g., micro/SME/ large) and by sector	MR - páginas 12-14	1, 8, 9			
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR - pages 138-141	1, 8, 9, 10, 11			
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	SR - pages 138-141				
TOPIC: AUDIT						
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	No audits strictly dedicated to the implementation of environmental and social policies are carried out. NOVO BANCO annually assesses the practices implemented and the quantitative data through an external independent verification of its AR and Sustainability Report.	10			
TOPIC: ACTIVE OWNERSHIP						
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	SR - pages 109 -112	10			
FS11	Percentage of assets subject to positive and negative environmental or social screening	Non applicable	10			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
FS12	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting	NOVO BANCO's equity holdings in other companies are always aimed at obtaining profitability in the long term. Having said that, the Bank's stance as a shareholder takes into account the relevant principles to ensure consistent ethical, social and environmental management.				
TOPIC: LOCAL COMMUNITIES						
FS13	Access points in low-populated or economically disadvantaged areas by type	Despite the downsizing carried out, NOVO BANCO still has a large network of branches across the country and has 53 branches in low populated areas. NOVO BANCO has been investing in the digitisation of its services, which has permitted greater coverage and easier contact with its clients, wherever they are.				
FS14	Initiatives to improve access to financial services for disadvantaged people	NOVO BANCO's branch network is equipped with access ramps and lifting platforms. It also provides lowered ATMs with Braille keyboards. his equipment is being installed if and when necessary, as the branch network is refurbished. The aim is to gradually extend these access improvements to all NOVO BANCO's branches and services.		1, 10		
TOPIC: LABELLING OF PRODUCTS AND SERVICES						
FS15	Policies for the fair design and sale of financial products and services	All the financial products and services are designed in compliance with the legal requirements, the regulators' guidelines and the policies of the institution. NOVO BANCO regularly reports to its regulators proof of its respect for and compliance with politics and rules of conduct, externally and internally. The internal and external audits to the Bank's procedures verify whether its procedures comply with the requirements issued by the Bank of Portugal and the Portuguese Insurance Institute.	10			
FS16	Initiatives to enhance financial literacy by type of beneficiary	SR - pages 148-150	1, 8, 10			

AR Annual Report
MR Management Report
SR Sustainability Report
FS Financial Statements and Final Notes

NOVO BANCO
NOVO BANCO Group

7.3 Independent Limited Assurance Report

Ernst & Young
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(Free translation from the Original Independent Limited Assurance Report in Portuguese. In case of any discrepancy, the Portuguese version always prevails)

Independent Limited Assurance Report of the Sustainability Report

To the Board of Directors of
Novo Banco, S.A.

Introduction

1. We were contracted by the Board of Directors of Novo Banco, S.A. to proceed with the independent review of the "Sustainability Report 2020", hereinafter the "Sustainability Report",included in the "Report and Accounts 2020" relating to the sustainability performance from 1 January to 31 December 2020.

Responsibilities

2. The Board of Directors is responsible for preparing the "Sustainability Report" and to maintain an appropriate internal control system that allows the information presented to be free of material misstatements due to fraud or error.

3. It is our responsibility to issue a limited assurance report, professional and independent, based on the procedures performed and described in the "Scope" section below.

Scope

4. Our review procedures have been planned and executed in accordance with the International Standard on Assurance Engagements (ISAE 3000, Revised) – "Assurance engagements other than Audits and Reviews of Historical Financial Information", for a limited level of assurance.

5. The procedures performed in a limited assurance engagement vary in timing and nature from, and are less in extent than for, a reasonable assurance engagement, therefore, the assurance provided by these procedures is lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our independent review procedures comprised the following:

   - Conducting interviews with Management, in order to understand how the information system is structured and assess their level of knowledge of the topics addressed in the report;
   - Review of the processes, criteria and systems adopted to collect, consolidate, report and validate the data for the year 2020;
   - Review, on a sample basis, of the data calculated by Management, and of quantitative and qualitative information disclosed in the report;
   - Confirmation on how collection, consolidation, validation and report procedures are being implemented in selected operating units;
   - Verification of the conformity of the information included in the "Sustainability Report" with the results of our work.

6. Regarding sustainability reporting standards of the Global Reporting Initiative – GRI Standards, we performed a review of the self-evaluation made by Management of the adopted option to apply the GRI Standards and conformity with Article 66B of the Portuguese Companies Act (Código das Sociedades Comerciais) (disclose of non-financial information).

Quality and independence

7. Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable and we comply with the independence and ethical requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics and the Code of Ethics of the Order of Chartered Accountants (OROC).

Conclusion

8. Based on our work, nothing has come to our attention that causes us to believe that the systems and procedures for the collection, consolidation, validation and reporting of the "Sustainability Report" are not operating appropriately and the information disclosed is not free from relevant material misstatements. Additionally, nothing has come to our attention that causes us to believe that the "Sustainability Report" do not include all the required data and information as defined by the Article 66B of the Portuguese Companies Act.

Lisboa, March 25, 2021

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(signed)

Manuel Ladeiro de Carvalho Coelho da Mota - ROC nº 1410
Registered with the Portuguese Securities Market Commission under license nr. 20161020

Financial Statements and Final Notes

Title: White Cars
Author: Pedro Biu

NOVO BANCO

Consolidated income statement for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019 *
Interest Income	5	743 707	720 519
Interest Expenses	5	(188 573)	(208 087)
Net Interest Income		**555 134**	**512 432**
Dividend income	6	16 478	9 866
Fees and comission income	7	313 823	352 136
Fees and comission expenses	7	(47 305)	(49 254)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	8	88 472	61 553
Gains or losses on financial assets and liabilities held for trading	9	(91 611)	(59 945)
Gains or losses on financial assets mandatorily at fair value through profit or loss	10	(364 000)	(253 729)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	10	-	106
Gains or losses from hedge accounting	11	(11 641)	(1 924)
Exchange differences	12	(2 414)	38 716
Gains or losses on derecognition of non-financial assets	13	(3 416)	11 516
Other operating income	14	120 732	132 574
Other operating expenses	14	(230 294)	(364 505)
Operating Income		**343 958**	**389 542**
Administrative expenses		(398 769)	(408 323)
Staff expenses	15	*(245 606)*	*(246 393)*
Other administrative expenses	17	*(153 163)*	*(161 930)*
Contributions to resolution funds and deposit guarantee	18	(35 048)	(34 707)
Depreciation	25, 27	(33 072)	(30 341)
Provisions or reversal of provisions	32	(186 423)	(41 407)
Commitments and guarantees given		*(22 116)*	*56 596*
Other provisions		*(164 307)*	*(98 003)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	22	(755 070)	(540 437)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	24	(4 192)	337
Impairment or reversal of impairment on non-financial assets	27, 29, 30	(245 778)	(273 634)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	24	9 430	1 470
Profit or loss before tax from continuing operations		**(1 304 964)**	**(937 500)**
Tax expense or income related to profit or loss from continuing operations		(1 082)	(45 790)
Current tax		*8 639*	*(8 815)*
Deferred tax		*(9 721)*	*(36 975)*
Profit or loss after tax from continuing operations		**(1 306 046)**	**(983 290)**
Profit or loss before tax from discontinued operations	30	(33 345)	(83 175)
Profit or loss for the period		**(1 339 391)**	**(1 066 465)**
Attributable to Shareholders of the parent		**(1 329 317)**	**(1 058 812)**
Attributable to non-controlling interests	35	**(10 074)**	**(7 653)**
		(1 339 391)	**(1 066 465)**
Basic earnings per share (in Euros)	19	(0,14)	(0,11)
Diluted earnings per share (in Euros)	19	(0,14)	(0,10)
Basic earnings per share of continuing activities (in Euros)	19	(0,13)	(0,11)
Diluted earnings per share of continuing activities (in Euros)	19	(0,13)	(0,10)

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The accompanying explanatory notes are as integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019
Net profit / (loss) for the period		(1 339 391)	(1 066 465)
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***(127 689)***	***(107 623)***
Actuarial gains / (losses) on defined benefit plans	a)	(124 331)	(107 341)
Other comprehensive income from associates accounted for using the equity method	a)	(2 048)	897
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(12 193)	1 692
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	10 883	(2 871)
Items that may be reclassified to results		***6 580***	***209 412***
Foreign exchange differences	a)	(1 518)	31
Financial assets at fair value through other comprehensive income	a)	8 098	209 381
Total other comprehensive income/(loss) for the period		**(1 460 500)**	**(964 676)**
Attributable to non-controlling interest		**(10 074)**	**(7 653)**
Attributable to Shareholders of the Bank		**(1 450 426)**	**(957 023)**

a) See Statement of Changes in the Consolidated Equity

The accompanying explanatory notes are as integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019
ASSETS			
Cash, cash balances at central banks and other demand deposits	20	2 695 459	1 854 081
Financial assets held for trading	21	655 273	748 732
Financial assets designated at fair value through profit or loss	22	960 962	1 314 742
Financial assets at fair value through other comprehensive income	22	7 907 587	8 849 896
Financial assets at amortised cost	22	25 898 046	27 141 460
Securities		2 229 947	1 622 545
Loans and advances to banks		113 795	369 228
Loans and advances to customers		23 546 405	25 149 687
Derivatives – Hedge accounting	23	12 972	7 452
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	63 859	52 540
Investments in subsidiaries, joint ventures and associates	24	93 630	92 628
Tangible assets		779 657	889 152
Tangible fixed assets	25	187 052	188 408
Investment properties	26	592 605	700 744
Intangible assets	27	48 833	26 378
Tax assets	28	775 498	900 095
Current Tax Assets		610	1 628
Deferred Tax Assets		774 888	898 467
Other assets	29	2 944 292	3 378 492
Non-current assets and disposal groups classified as held for sale	30	1 559 518	40 255
TOTAL ASSETS		**44 395 586**	**45 295 903**
LIABILITIES			
Financial liabilities held for trading	21	554 791	544 825
Financial liabilities designated at fair value through profit or loss	31	-	102 012
Financial liabilities measured at amortised cost	31	37 808 767	39 673 649
Deposits from banks		10 102 896	9 849 623
(of which, Repurchase Agreement)		*1 625 724*	*2 168 488*
Due to customers		26 322 060	28 400 127
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 017 928	1 065 211
Other financial liabilities		365 883	358 688
Derivatives – Hedge accounting	23	72 543	58 855
Provisions	32	384 382	307 817
Tax liabilities	28	14 324	17 980
Current Tax liabilities		9 203	11 873
Deferred Tax Liabilities		5 121	6 107
Other liabilities	33	417 762	586 066
Liabilities included in disposal groups classified as held for sale	30	1 996 382	1 942
TOTAL LIABILITIES		**41 248 951**	**41 293 146**
EQUITY			
Capital	34	5 900 000	5 900 000
Accumulated other comprehensive income	35	(823 420)	(702 311)
Retained earnings	35	(7 202 828)	(6 115 245)
Other reserves	35	6 570 154	5 942 501
Profit or loss attributable to Shareholders of the parent		(1 329 317)	(1 058 812)
Minority interests (Non-controlling interests)	35	32 046	36 624
TOTAL EQUITY		**3 146 635**	**4 002 757**
TOTAL LIABILITIES AND EQUITY		**44 395 586**	**45 295 903**

The accompanying explanatory notes are as integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the period attributable to shareholders of the Bank	Non-controlling interests		Total
							Other Comprehensive Income	Other	
Balance as at 31 December 2018		**5 900 000**	**(790 884)**	**(4 682 300)**	**4 872 841**	**(1 412 642)**	**(25 258)**	**60 604**	**3 922 361**
Other Increase / (Decrease) in Equity		**-**	**(13 216)**	**(1 432 945)**	**1 069 660**	**1 412 642**	**(1)**	**8 932**	**1 045 072**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 412 642)*	-	*1 412 642*	-	-	-
Reserve of Contingent Capital Agreement		-	-	-	*1 037 013*	-	-	-	*1 037 013*
Transactions with non-controlling interests		-	-	-	-	-	-	*(1 746)*	*(1 746)*
Other movements		-	*(13 216)*	*(20 303)*	*32 647*	-	-	-	*(872)*
Other changes in non-controlling Interests		-	-	-	-	-	*(1)*	*10 678*	*10 677*
Total comprehensive income for the period		**-**	**101 789**	**-**	**-**	**(1 058 812)**	**(7 653)**	**-**	**(964 676)**
Changes in fair value, net of tax		-	*211 207*	-	-	-	-	-	*211 207*
Foreign exchange differences, net of tax		-	*31*	-	-	-	-	-	*31*
Remeasurement of defined benefit plans, net of tax		-	*(107 341)*	-	-	-	-	-	*(107 341)*
Other comprehensive income appropriated from associated companies		-	*897*	-	-	-	-	-	*897*
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	*(2 871)*	-	-	-	-	-	*(2 871)*
Reserves of impairment of securities at fair value through OCI		-	*4 336*	-	-	-	-	-	*4 336*
Reserves of sales of securities at fair value through OCI		-	*(4 470)*	-	-	-	-	-	*(4 470)*
Net profit / (loss) for the period		-	-	-	-	*(1 058 812)*	*(7 653)*	-	*(1 066 465)*
Balance as at 31 December 2019		**5 900 000**	**(702 311)**	**(6 115 245)**	**5 942 501**	**(1 058 812)**	**(32 912)**	**69 536**	**4 002 757**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 087 583)**	**627 653**	**1 058 812**	**-**	**5 496**	**604 378**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 087 584)*	*28 772*	*1 058 812*	-	-	-
Reserve of Contingent Capital Agreement	35	-	-	-	*596 315*	-	-	-	*596 315*
Other movements		-	-	*1*	*2 566*	-	-	*5 496*	*8 063*
Total comprehensive income for the period		**-**	**(121 109)**	**-**	**-**	**(1 329 317)**	**(10 074)**	**-**	**(1 460 500)**
Changes in fair value, net of tax	35	-	*12 729*	-	-	-	-	-	*12 729*
Foreign exchange differences, net of tax		-	*(1 518)*	-	-	-	-	-	*(1 518)*
Remeasurement of defined benefit plans, net of tax	16	-	*(124 331)*	-	-	-	-	-	*(124 331)*
Other comprehensive income appropriated from affiliates		-	*(2 048)*	-	-	-	-	-	*(2 048)*
Credit risk changes of financial liabilites at fair value, net of tax	35	-	*10 883*	-	-	-	-	-	*10 883*
Reserves of impairment of securities at fair value through OCI	35	-	*(1 852)*	-	-	-	-	-	*(1 852)*
Reserves of sales of securities at fair value through OCI	35	-	*(14 972)*	-	-	-	-	-	*(14 972)*
Net income of the period		-	-	-	-	*(1 329 317)*	*(10 074)*	-	*(1 339 391)*
Balance as at 31 December 2020		**5 900 000**	**(823 420)**	**(7 202 828)**	**6 570 154**	**(1 329 317)**	**(42 986)**	**75 032**	**3 146 635**

The accompanying explanatory notes are as integral part of these consolidated financial statements.

Consolidated cash flow statement for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019
Cash flows from operating activities			
Interest received		727 929	723 210
Interest paid		(239 957)	(217 305)
Fees and commissions received		314 412	367 940
Fees and commissions paid		(47 304)	(53 456)
Recoveries on loans previously written off		30 181	31 372
Contributions to the pension fund		(269 419)	(1 535)
Contributions to resolution funds and deposit guarantee		(35 048)	(34 707)
Cash payments to employees and suppliers		(392 640)	(449 187)
		88 154	**366 332**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		915 128	(297 651)
Financial assets mandatorily at fair value through profit or loss		(453 921)	(248 408)
Financial assets designated at fair value through profit or loss		173	85 964
Financial assets at fair value through other comprehensive income		802 686	(869 032)
Financial assets at amortised cost		478 647	(1 194 539)
Debt securities		*(654 460)*	*(185 695)*
Loans and advances to banks		*64 756*	*54 090*
Loans and advances to customers		*1 068 351*	*(1 062 934)*
Financial liabilities at amortised cost		(2 696 827)	1 491 918
Deposits from banks		*(655 784)*	*1 781 604*
Due to customers		*(2 041 043)*	*(289 686)*
Derivatives - Hedge accounting		(3 151)	(2 225)
Other operating assets and liabilities		840 403	122 956
Net cash from operating activities before corporate income tax		**(38 708)**	**(544 685)**
Corporate income taxes paid		(22 645)	(34 868)
Net cash from operating activities		**(61 353)**	**(579 553)**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies		(2 919)	(36 700)
Sale of investments in subsidiaries and associated companies		58 283	163 828
Dividends received		16 478	9 909
Acquisition of investment properties		(11 966)	-
Sale of investment properties		67 581	197 058
Acquisition of tangible fixed assets		(48 285)	(19 959)
Sale of tangible fixed assets		4 566	16 477
Acquisition of intangible assets		(26 866)	(26 439)
Sale of intangible assets		6 013	-
Net cash from investing activities		**62 885**	**304 174**
Cash flows from financing activities			
Contingent Capitalization Mechanism		1 035 016	1 149 295
Issuance of bonds and other liabilities		-	1 300 000
Repayment of bonds and other liabilities		(189 913)	(1 307 855)
Net cash from financing activities		**845 103**	**1 141 440**
Net changes in cash and cash equivalents		**846 635**	**866 061**
Cash and cash equivalents at the beginning of the period		**1 585 602**	**719 541**
Net changes in cash and cash equivalents		846 635	866 061
Cash and cash equivalents at the end of the period		**2 432 237**	**1 585 602**
Cash and cash equivalents include:			
Cash	20	149 205	179 220
Deposits with Central Banks	20	2 292 797	1 408 908
(of which, Restricted balances)		(263 222)	(268 479)
Deposits with banks	20	253 457	265 953
Total		**2 432 237**	**1 585 602**

The accompanying explanatory notes are as integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements as at 31 December 2020

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

NOTE 1 – Activity and group structure

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO focused on the banking activity, having been incorporated on the 3rd of August 2014 per deliberation of the Board of Directors of Banco de Portugal (the Central Bank of Portugal) dated 3rd of August 2014 (8 p.m.), under No. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)[1], approved by Decree-Law No. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to NOVO BANCO, S.A. (NOVO BANCO or the Bank).

As a result of the resolution measure applied, Fundo de Resolução ("Resolution Fund") became the sole owner of the share capital of NOVO BANCO, in the amount of Euro 4,900 million, which acquired the status of a transition Bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October 2017, the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively. Thus, as at 30 June 2020 and 31 December 2019, the share capital of NOVO BANCO amounted to Euro 5,900 million, represented by 9,799,999,997 nominative shares, with no nominal value.

Within the sale process, a Contingent Capital Agreement was created, which in case its capital ratios decrease below the regulatory requirements defined for NOVO BANCO, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euro 3,890 million.

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition Bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, No. 46, 4A, Lisbon. LSF Nani Investments S.à.r.l., headquartered in Luxembourg, is the parent company of the Group.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

NOVO BANCO Group (hereinafter also designated as Group or NB Group) has a retail network comprising 386 branches in Portugal and abroad (31 December 2019: 387 branches), including branches in Spain and Luxembourg, and 4 representative offices overseas (31 December 2019: 4 representative offices).

Group companies in which the Bank has a direct or indirect holding higher or equal to 20%, over which the Bank exercises control or significant influence, and that were included in the consolidation perimeter, are presented below.

1. References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

The entities directly consolidated into NOVO BANCO are the following:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Bank		
Novo Banco dos Açores, SA (NB Açores)	2002	2002	Portugal	Bank	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Eletronic Bank	100,00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100,00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100,00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100,00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt Collection	99,15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100,00%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Provision of various services	97,86%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture Capital Fund	100,00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture Capital Fund	56,78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real Estate Investment Fund	95,28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real Estate Investment Fund	91,22%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real Estate Investment Fund	55,90%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real Estate Investment Fund	95,24%	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Novimove - Fundo de Investimento Imobiliario Fechado	2004	2019	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate promotion	100,00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate promotion	95,28%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate promotion	100,00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate promotion	99,875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf Course Exploration	100,00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering sector	95,28%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	2003	2003	Portugal	Renting	50,00%	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Financial credit company	17,50% a)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	18,85%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Provision of various services	50,00% b)	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities
b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders.

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Management of shareholdings**	**100,00%**	**Full Consolidation**
GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1987	1987	Portugal	Investment fund management	100,00%	Full Consolidation
GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, 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	English Virgin Islands	Investment fund management	50,00% b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100,00%	Full Consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100,00%	Simplified integral
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Management of shareholdings**	**100,00%**	**Full Consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture Capital Fund**	**100,00%**	**Full Consolidation**
Righthour, SA	2013	2013	Portugal	Services Provider	100,00%	Full Consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Management of shareholdings	100,00%	Full Consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate investment management	100,00%	Full Consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate investment management	100,00%	Full Consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate investment management	100,00%	Full Consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate investment management	100,00%	Full Consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture Capital Fund**	**56,78%**	**Full Consolidation**
LOGI C - Logística Integrada, SA	2014	2016	Portugal	Logistic	20,74% a)	Equity method
Epedal - Indústria de Componentes Metálicos, S.A.	1981	2015	Portugal	Management of shareholdings	12,22% a)	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	38,99%	Equity method
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18,96% a)	Equity method
Ach Brito & Ca, SA	1918	2015	Portugal	Soap manufacture	8,77% a)	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engineering	8,11% a)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Management of shareholdings**	**100,00%**	**Full Consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2008	2010	Portugal	Management of shareholdings	40,00%	Equity method

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

b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders.

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

	Year incorporated	Year acquired	Registered office	% Economic Interest	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full Consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full Consolidation

(*) - Structured entities set up in the scope os securitization operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 38)

During 2020, the main changes in NOVO BANCO Group's structure were as follows:

Durante o exercício de 2020 as alterações mais relevantes ao nível da estrutura do Grupo NOVO BANCO foram as seguintes:

Subsidiaries and branches

- In April 2020, NOVO BANCO sold the entire participation and supplementary contributions of Herdade do Pinheirinho and Herdade do Pinheirinho II, recording a gain of Euro 209 thousand.
- In September 2020, Orey Reabilitação Urbana Fund was liquidated;
- In November 2020, there was a capital reduction of the NB Arrendamento Fund in the amount of Euro 2,800 thousand;
- In December 2020, Solid and R Invest Funds, as well as Sociedade Portucale, were liquidated and the holding held in Sociedade Herdade da Vargem Fresca VI is now held directly by Fungere Fund;

- In December 2020, a capital increase of NB Logística Fund was carried out in the amount of Euro 23,200 thousand;
- In December 2020, there was a capital increase of Fungepi Fund in the amount of Euro 84,079 thousand, having been subscribed by the Fungepi II and Fundes Funds (Euro 12,787 thousand and Euro 71,292 thousand, respectively), with in-kind entry of real estate;
- In December 2020, a capital increase of Fungepi II Fund was carried out in the amount of Euro 1,444 thousand, having been subscribed by Fungepi Fund and by the entities Febagri and Imoascay (Euro 963 thousand, Euro 30 thousand and Euro 451 thousands, respectively) with in-kind entry of real estate.

Associated companies

- In June 2020, FCR PME NB converted a credit granted to Nexxpro in the amount of Euro 639 thousand into supplementary contributions.
- In June 2020, FCR PME NB sold its stake in Enkrott, at the balance sheet value;
- In December 2020, FCR PME NB converted a credit granted to Nexxpro in the amount of EUR 2,280 thousand into supplementary installments;
- In December 2020, Ijar Leasing made a capital increase, and NOVO BANCO did not accompany this operation, so the Group's participation in this Company went from 24.5% to 18.85%;
- In December 2020, the PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E. has been extinct.

During the financial year of 2019, the main changes in NOVO BANCO Group’s structure were as follows:

Subsidiaries and branches

- In January 2019, the London branch was closed;
- In March 2019, the early redemption of Lusitano Project Finance No. 1, FTC;
- In September 2019, BES GMBH merged into NOVO BANCO;
- In December 2019, a capital increase was made in the Fundo Amoreiras in the amount of Euro 36,200 thousand, entirely carried out by the NB, with the holding percentage going from 94.16% to 95.24%;
- In December 2019, Fundo Fimes Oriente capital was reduced in the amount of Euro 163,815 thousand;
- In December 2019, the Cayman Islands branch was closed:
- In December 2019, BESIL was merged into NOVO BANCO;
- In December 2019, ES Plc was merged into NOVO BANCO.

Associated companies

- In March 2019, the Nexxpro, an associated company held by the FCR PME NB Fund, made a capital increase of Euro 440 thousand, which was fully subscribed by the Fund. As such, the Fund's participation percentage in this Company went from 59.58% to 68.68%;
- In August 2019, Epedal, SGPS, S.A. was merged into Epedal - Indústria de Componentes Metálicos, S.A.

During 2020 and 2019, the movements relating to acquisitions, disposals and other investments and reimbursements in subsidiaries and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2020						
	Acquisitions			Sales			
	Acquision Value	Other Investments (a)	Total	Sales Price	Other Reimbursements (a)	Total	Gains/Losses in sales/settlements
Subsidiaries Companies							
Herdade do Pinheirinho	-	-	-	14 996	-	14 996	4 284
Herdade do Pinheirinho II	-	-	-	44 744	-	44 744	(4 075)
NB Arrendamento	-	-	-	-	(2 800)	(2 800)	-
NB Logística	-	23 200	23 200	-	-	-	-
Fungepi	-	84 079	84 079	-	-	-	-
Fungepi II	-	1 444	1 444	-	-	-	-
Benagil	-	500	500	-	-	-	-
Ribagolfe	-	100	100	-	-	-	-
	-	109 323	109 323	59 740	(2 800)	56 940	209
Associated Companies							
Nexxpro	-	2 919	2 919	-	-	-	-
Enkrott	-	-	-	1 134	-	1 134	-
	-	2 919	2 919	1 134	-	1 134	-
	-	**112 242**	**112 242**	**60 874**	**(2 800)**	**58 074**	**209**

(a) Capital increases / decreases, supplementary capital, supplies, transactions involving the exchange of financial instruments and incorporation of companies.

(in thousands of Euros)

	31.12.2019						
	Acquisitions			Sales Price			
	Acquision Value	Other Investments (a)	Total	Sales Price	Other Reimbursements (a)	Total	Gains/Losses in sales/settlements
Subsidiaries Companies							
Autodril	-	60	60	-	-	-	-
Amoreiras	-	36 200	36 200	-	-	-	-
Fimes Oriente		-	-	-	(163 815)	(163 815)	-
	-	36 260	36 260	-	(163 815)	(163 815)	-
Associated Companies							
			-			-	
Nexxpro	-	440	440	-	-	-	-
	-	440	440	-	-	-	-
	-	**36 700**	**36 700**	-	**(163 815)**	**(163 815)**	-

(a) Capital increases/decreases, supplementary capital, supplies, transactions involving the exchange of financial instruments and incorporation of companies.

The subsidiaries classified under IFRS 5 as non-current assets held for sale and discontinued operations, are detailed in Note 30.

NOTE 2 – Main accounting policies

2.1. Basis of presentation

In accordance with Regulation (EC) No. 1606/2002 of 19 July 2002 of the European Council and the Parliament and Notices 5/2015 of the Bank of Portugal, the consolidated financial statements from NOVO BANCO, S.A. (the group or NOVO BANCO) were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2020.

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

The consolidated financial statements of NOVO BANCO are presented as at 31 December 2020. The accounting policies used by the Group in their preparation are consistent with those used in the preparation of the financial statements as at 31 December 2019. Changes to the most relevant accounting policies are described in the following section.

The accounting standards and interpretations recently issued, but which have not yet come into force and which the Bank has not yet applied in the preparation of its financial statements can also be analyzed in Note 47.

The consolidated financial statements are expressed in thousands of Euro, rounded to the are expressed in thousands of Euro, rounded to the nearest thousand. They have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

Changes in Accounting Estimates

The preparation of the financial statements in accordance with IFRS requires the Group to make judgments and estimates and use assumptions that affect the application of accounting policies and the amounts of income, costs, assets and liabilities. Changes in such assumptions or differences in relation to reality may have an impact on current estimates and judgments. The areas that involve a higher level of judgment or complexity or where significant assumptions and estimates are used in the preparation of the consolidated financial statements, are analyzed in Note 3.

The consolidated financial statements and the Management Report of 31 December 2020 were approved at the Executive Board of Directors' meeting held on 24 March 2021 and will be submitted to the General Assembly of Shareholders, which has the power to justifiably decide to change them. However, it is Executive Board of Directors conviction that these consolidated financial statements will be approved without changes.

2.2. Consolidation principles

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

These accounting policies have been consistently applied to all the Group companies during the financial years covered by these consolidated financial statements, with the exception of Gama Life -Companhia de Seguros Vida, S.A. (Gama Life) (formerly known as GNB - Companhia de Seguros de Vida, S.A. (GNB Vida)) which did not adopt IFRS 9 as of 1 January 2018 due to the company benefiting from the deferment period of the adoption of this standard granted to Insurance Companies, which extends until 1 January 2021, which is why its assets and liabilities recognized in discontinued operations still follow the valuation recommended in IAS 39 - Financial Instruments. The sale process of this entity was concluded in the second half of 2019.

Subsidiaries

Subsidiaries are entities (including investment funds and securitization vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity and may take possession of same by way of the power it has over the entity (de facto control) and has the ability to affect these variable returns through the power it held over the relevant activities of the entity. As provided in IFRS 10, the Group analyses the objective and the structuring of how an entity's operations are developed when assessing its control over such entity. Subsidiaries are fully consolidated from the date on which control over their activities is transferred to the Group and until the date that control ceases. Holdings of third parties in these entities are presented in the caption Non-controlling interests, except for open investment funds in which these values are presented in the caption Other liabilities, due to the high probability of their redemption.

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

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

The entity identified as acquirer or incorporator integrates the results of the entity/ business acquired as from the date of its acquisition, that is, from the date of the takeover of control.

The accounting treatment of mergers by incorporation, between entities under common control, follows the same principles - the integration of the assets and liabilities of the entity to be incorporated is carried out at the amounts presented in the consolidated financial statements of the entity that has control over the two entities, at the highest level of the Group's financial holdings chain (the "predecessor"). The difference between the carrying book value of the incorporated assets and liabilities and the amount of the financial investment is recognized as a merger reserve.

Associated companies

Associated companies are those entities over which the Group has significant influence over the company's financial and operating policies, but not its control. Generally, when the Group owns more than 20% of the voting rights but less than 50%, it is presumed to have a significant influence. Even if the Group owns less than 20% of the voting rights, it can still have a significant influence through its participation in the management of the associated company or its representation in its executive Management bodies.

Investments in associated companies are recorded in the consolidated financial statements of the Bank using the equity method of accounting from the date on which significant influence is attained by the Group and until the date that significant influence ceases. The carrying value of the investments in associated companies includes the value of the respective goodwill determined at the acquisition date and is presented net of impairment losses. The Group carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognized in prior years may be reversed, up to the limit of the accumulated losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to its fair value through the income statement when the equity method is first applied.

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

Gains or losses on disposals of shares in associated companies are recognized in the income statement even if those disposals do not result in the loss of significant influence. Dividends attributed by associated companies reduce the balance sheet value recognized by the Group.

Structured Entities (SE)

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

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

Investment funds managed by the Group

As part of its asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over their activity, according to the criteria established by IFRS 10.

Goodwill

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

Business combinations occurring after 31 December 2009 were accounted for using the purchase method. The acquisition cost includes the fair values: i) of the assets transferred, ii) of the liabilities assumed by the acquirer before the previous shareholders of the acquired, and iii) of the equity instruments issued.

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

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

In accordance with IFRS 3 – Business Combinations, positive goodwill is recognized as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the carrying book value of the investments in those associated companies, determined using the equity method. Negative goodwill is recognized directly in the income statement in the period the business combination occurs. Impairment losses of goodwill may not be reversed in the future.

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

Transactions with non-controlling interests

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

Transcription of financial statements in foreign currency

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

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

- Assets and liabilities are translated using the exchange rate prevailing at the reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;

- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognized in results as an integral part of the gain or loss on the disposal.

Balances and transactions eliminated with consolidation

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

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

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, to ensure that same are applied consistently throughout the Group.

2.3. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognized in the income statement.

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

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognized in other comprehensive income.

2.4. Derivative financial instruments and hedge accounting

Classification

The Group classifies its derivative portfolio into (i) fair value hedge and (ii) trading derivatives, which include, in addition to the trading book, other derivatives contracted for the purpose of hedging certain assets and liabilities designated at fair value through profit or loss but not classified as hedging (fair value option).

Recognition and measurement

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

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 29 and 33) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting

Classification criteria

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

i. Hedging instruments and hedged items are eligible for the hedge relationship;

ii. At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

iii. There is an economic relationship between the hedged item and the hedging instrument;

iv. The effect of credit risk does not dominate the changes in value that result from this economic relationship;

v. The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

For the cases in which the Group uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Group carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged item in the portion attributed to the hedged risk. Any ineffectiveness found is recognized in the income statement when it occurs in gains or losses of hedge accounting.

The use of derivatives is framed in the Group's risk management strategy and objectives.

Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognized in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Group may adjust the hedging operation in order to meet the eligibility criteria (rebalancing).

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument, is amortised via the income statement over the period to its maturity, using the effective interest rate method.

Cash flow hedge

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

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

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of reference interest rates, which led to the transition from EONIA (Euro OverNight Index Average) to € STR (Euro Short Term Rate), in the course of 2020, the Group changed the discount curve of its positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the implementation principle of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Group did not record any relevant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were subject to the same change (hedged and hedged items).

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Group classifies the entire contract in accordance with the policy outlined in Note 2.5.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and

c. The hybrid contract is not measured at fair value and changes in fair value are recognized in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

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

2.5. Other financial assets: placements with credit institutions, customer loans and securities

The Group initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest);
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognized in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;

- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets are acquired for the purpose of trading in the short term, they are classified as held for trading.

Initial recognition and measurement

These financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through profit or loss, where transaction costs are directly recognized in the income statement.

Deposits and loans and advances to Banks and loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterparty. Acquisitions and disposals of securities are recognized on the trade date, that is, on the date on which the Group undertakes to acquire or dispose of the asset.

Financial assets at amortised cost or accounted at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

i. The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

ii. The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Group determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Group's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Group determines whether it is part of an existing business model or if it reflects a new business model. The Group reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IFRS 16 – Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently measured at fair value with changes in the fair value recognized in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognized in reserves are reclassified to the caption Gains and losses on financial assets and liabilities designated at fair value through profit or loss. In the specific case of equity instruments, the cumulative gains/ (losses) previously recognized in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognized in profit or loss in the exercise.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest, calculated at the effective interest rate, and dividends are recognized in profit or loss.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss present the following characteristics:

- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or
- it is designated at fair value through profit or loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement.

Reclassifications

If the Group changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment

The Group record impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Debt instruments at amortised cost or at fair value through other comprehensive income are in the scope of the impairment calculation.

Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

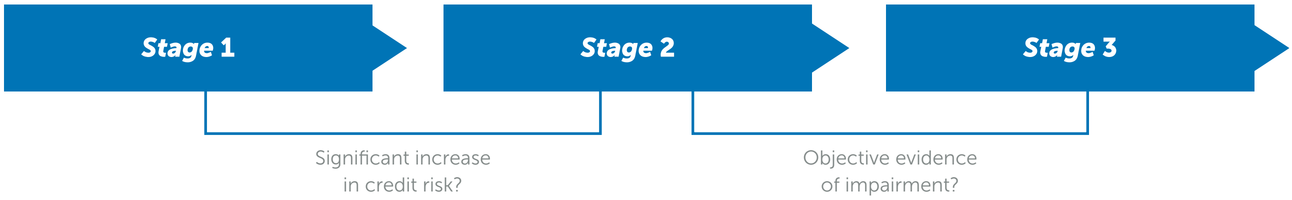
Staging

The impairment calculation approach distinguishes between the 12 months' expected credit losses - Stage 1 - and the lifetime expected credit losses. To determine expected lifetime losses, the approach considers the projection of contractual cash flows - Stage 2 - or the present value of the expected recoveries - Stage 3. Thus, the model of impairment calculation by Stage is summarized as follows:

- expected credit loss resulting from a potential loss event occurring within the next 12 months after the calculation date (Stage 1); or
- expected credit loss, resulting from all potential loss events expected over the lifetime, applied to the projection of contractual cash flows (Stage 2); or
- expected credit loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure[2] (Stage 3).

Therefore, for the determination of impairment, the classification by Stage for all exposures according to their level of credit risk, as summarized in the figure below, is made beforehand:

2. Parameters used to determine recoveries vary, mainly depending on the risk profile / nature of the exposure.



- *Stage 3*

  The process of assigning Stage to an exposure starts by checking if the Stage 3 criteria applies. If the exposure is classified as Default - according to the internal definition[1] - that exposure is classified as Stage 3.

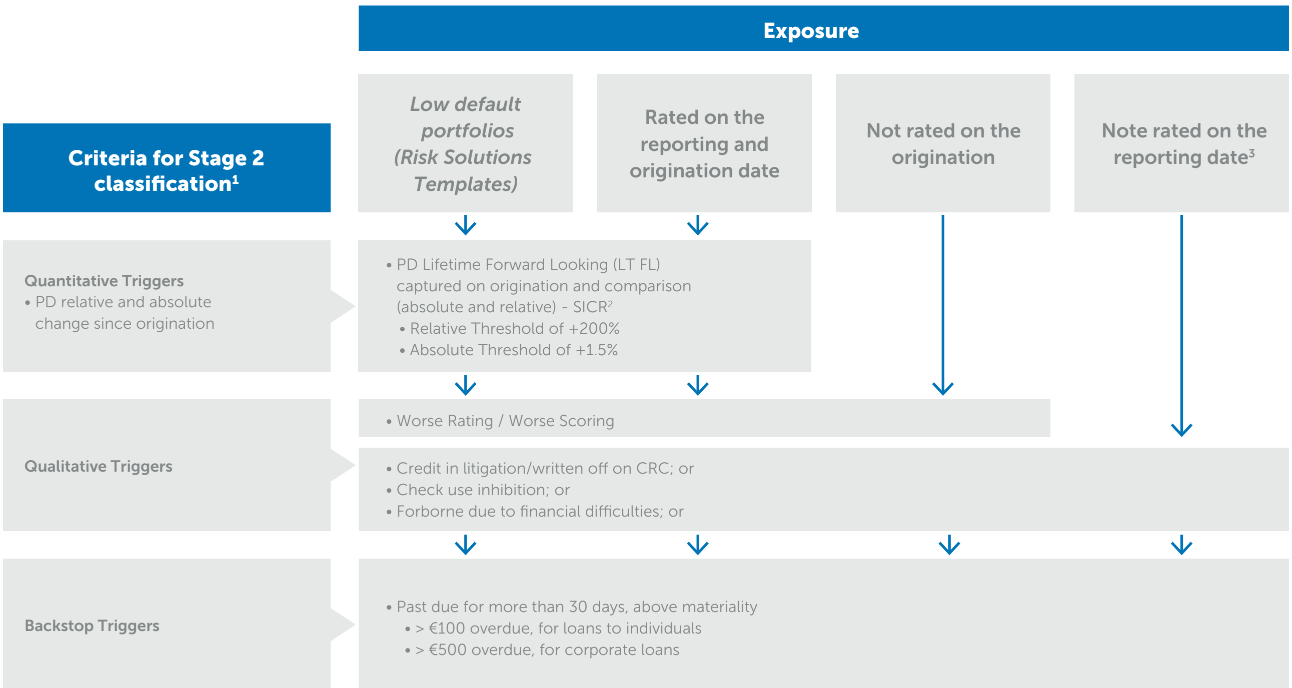
  Thus, the classification of exposures in Stage 3 is based on the occurrence of a default event, with objective evidence of loss occurring at the time from which a significant change occurs in the creditor-debtor relationship, being the creditor exposed to a monetary loss.

  Whether by measuring the specific triggers of Default, or by the Stage 3 determination indicators, the result will be the determination of Default and Stage 3 in a consistent manner, starting with the Default setting.

- *Stage 2*

  Exposures are classified as Stage 2 whenever there is a significant increase in credit risk, since initial recognition. If there is no objective evidence of loss associated with the exposure, criteria are analyzed to determine whether exposure has significantly increased its credit risk.

  The significant increase in credit risk is assessed through qualitative and quantitative evidence. Once it is verified that - at least - one of these triggers is active, the exposure is classified in Stage 2. The table below describes the criteria and respective thresholds applicable:



1. To some of the criteria presented, there are applicable concept of contamination and cure period.
2. SICR not applicable in the case the rating/scoring atribute to the contract/client represents a PD lower than 0.75 (3 x Investment Grade Rating)
3. For unrated exposures it is only applicable qualitative and backstop triggers, in order to assess if they classify as for Stage 2.

As explained in IFRS 9, the assessment of the significant increase in credit risk also involves comparing the current risk level of an exposure against the level of risk at origination.

The Group assigns an internal credit risk grade to the exposure / borrower, depending on its quality and associated with the probability of default. In assessing whether the exposure credit risk has increased significantly since initial recognition, the Group compares, at the reporting date, the lifetime probability of default with the probability of default at origination of the exposure. Depending on whether the observed variation falls above a defined threshold - relative and / or absolute - the exposure is classified in Stage 2.

In addition to this event, the Group considers other events, that if verified imply the classification in Stage 2 (e.g.: material default for more than 30 days, risk events in the financial system, internal credit risk grade above a certain threshold, among others).

- *Stage 1*

The classification of exposures as Stage 1 depends of:

i. absence of active events that qualify for Stage 3 and Stage 2, which were mentioned and described above; or

ii. the framing of these exposures under the low-credit risk exemption. These exposures, if not in Stage 3, are automatically classified in Stage 1.

The outlined vision is based not only on the requirement in IFRS 9, but also on the approach defined for capital calculation, where for these exposures a 0% risk weight is considered. Thus, entities that are not classified as default and fully comply with the conditions mentioned above are classified as low credit risk, being assigned stage 1. Each month the list of entities in these conditions is reviewed, whose majority is composed of Portuguese public debt, public debt in the Euro zone, American public debt and / or equivalent.

Segmentation

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. For each of these homogeneous risk groups, risk factors are estimated and then applied for impairment assessment purposes.

For the purpose of determining collective impairment, operations are allocated to risk sub-segments in accordance with the following definitions in the table below:

1st Segmentation	**Client Type**	
	Corporate	Individuals
2nd Segmentation	**Risk Segment**	**Product Type**
	Large Companies Real Estate Medium Companies Small Companies Start-ups Financial Institutions Sovereign	Mortgage Consumer Loans Credit Cards Other Individuals
3rd Segmentation	**Rating Notation**	**Scoring Notation**
4th Segmentation	**Collaterals - LTV**	
	Typically, Corporate segments consider the value of collateral for segmentation purposes	The mortgage segment considers the value of the financed asset for the purposes of segmentation

Scenarios

As required by IFRS 9, the impairment assessment of the Group reflects different expectations of macroeconomic developments, i.e., it incorporates multiple scenarios. In order to incorporate the effects of future macroeconomic behaviour on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios considers the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Group (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Group uses in internal and / or regulatory planning exercises;
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

Write-offs

Write-off is defined as the derecognition of a financial asset from the Group's balance sheet, which should only occur when cumulatively:

i. the total amount of the credit has been demanded, that is, the credit must be fully recognized as overdue credit. Exemptions from this requirement are extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial/ extra-judicial decision;

ii. All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered) and additional efforts to recover the asset will not be considered economically viable;

iii. The credit recovery expectations are very low, leading to an extreme scenario of total impairment– 100% impairment. This rule is only applicable for contracts without real estate collateral and if the whole contract is classified as overdue. In all other cases, it is necessary to ensure that the amount to be written off is fully impaired (at least in the month prior to the month of the write-off); and

iv. A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries at other operating income.

Derecognition

Financial assets are derecognized from the balance sheet when (i) the Group's contractual rights relating to the respective cash flows have expired, (ii) the Group has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Group having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognized in other equity is not reclassified to profit or loss, being transferred between equity items.

In the specific case of loans to customers, at the time of sale, the difference between the sale value and the book value must be 100% provisioned, and at the time of the sale, the credit sold will be derecognized against the funds / assets received. and consequent use of impairment on the balance sheet.

2.6. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognized from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognized in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognized in the balance sheet.

Short sales correspond to securities sold that are not included in the Group's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognized directly in the income statement in Gains or Losses from financial assets and liabilities held for trading.

2.7. Passivos financeiros

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or the payment of dividends.

These financial liabilities are recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities at fair value through profit or loss when:

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Group's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

The structured products issued by the Group – except for the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the abovementioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Group accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognises of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognized in the income statement.

If the Group repurchases debt securities issued, these are derecognized from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognized in the income statement.

2.8. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognized in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognized on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Group, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognized at the contract date is equal to the amount of the commission initially received, which is recognized in the income statement over the period to which it relates. Subsequent periodic fees are recognized in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Group has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.9. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

Preference shares issued are considered equity instruments if the Group has no contractual obligation to redeem these and if dividends, non-cumulative, are paid only if, and when, declared by the Group.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of the NOVO BANCO Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterparty.

2.11. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell.

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)), banks are prevented, unless authorised by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (No. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Group's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Group changed the classification of this real estate properties from Non-current assets held for sale to Other assets (and to Investment properties, in the case of assets owned by investment funds or real estate properties leased out), due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. For real estate properties recorded in the balance sheet of NOVO BANCO and of the remaining credit institutions integrating the consolidation perimeter of the Group, the amount recoverable from their immediate sale is considered to be their respective fair value. For real estate properties held by investment funds, and in accordance with Law No. 16/2015, of February 24, fair value is determined as the average between two valuations, obtained from independent entities, determined at the best price that could be obtained if it were put up for sale under normal market conditions at the time of valuation, which is reviewed at least annually or, in the case of open investment funds, with the frequency of redemption, and whenever acquisitions or disposals occur or when significant changes in the value of the real estate property occur. The market value of properties for which a promissory purchase and sale agreement was entered into corresponds to the value of that agreement.

The valuation of these real estate properties is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

i. *Market Method*
   The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the zone.

4. Definição em vigor de acordo com a aprovação da JST.

ii. *Income Method*
Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

iii. *Cost Method*
This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analyzed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Additionally, since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Group proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

Assets / liabilities of subsidiaries acquired for resale purposes reflect, essentially, assets and liabilities of subsidiaries acquired by the Group in the scope of loan restructuring operations, for which the Group's objective is their subsequent disposal within one year. Since these acquisitions arise from loan restructuring operations, they are recognized at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognized as impairment losses on loans and advances. On the acquisition of an entity meeting the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these specific cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

These subsidiaries are consolidated until their effective sale. At each balance sheet date, the net carrying book value of their assets and liabilities is compared with their fair value, less costs to sell, and impairment losses are recognized when necessary. Assets and liabilities relating to discontinued operations are recorded in accordance with the valuation policies applicable to each category of assets and liabilities, as set down in IFRS 5, according to the IAS/IFRS applicable to the respective assets and liabilities.

For purposes of determining the fair value of subsidiaries held for resale, the Group adopts the following methodologies:

- for subsidiaries which assets comprise fundamentally real estate, their fair value is determined with reference to the value of those assets, which is based on valuations performed by independent specialised entities;
- for the remaining entities, their fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with that provided for in Note 29.

2.12. Tangible fixed assets

The Group's tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with tangible fixed assets are only recognized when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of tangible fixed assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Own use properties	35 to 50
Leased building improvements	10
Computer equipment	4 to 8
Furniture and material	4 to 10
Indoor facilities	5 to 10
Safety equipment	4 to 10
Machines and tools	4 to 10
Transport material	4
Other equipment	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires its recoverable amount to be estimated and an impairment loss recognized when the book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the net carrying book value is recognized under the caption Other operating income or Other operating expenses.

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Group to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

All remaining costs associated with information technology services are recognized as an expense as incurred.

2.14. Leases

IFRS 16 – Leases

A. Lease Definition

Determining whether an Agreement Contains a Lease: The Group assesses whether a contract is or contains a lease based on the lease definition which focuses on controlling the identified asset. In accordance with IFRS 16, a contract is or contains a lease if it has the right to control the use of an identified asset, allowing to obtain substantially all the economic benefits of using it and the right to guide the use of that identified asset for a certain period of time in exchange for retribution.

The Group has adopted some practical expedients provided for in the standard in applying IFRS 16:

- Applies the exception, mentioned above, of non-recognition of assets under right of use and liabilities for short-term leases (i.e. with a lease term of 12 months or less);
- Apply the exception, mentioned above, of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- For leases in which the entity is a lessee, it was decided not to separate the non-lease components and account for the lease and non-lease components as a single lease component.

The option of not applying this standard to leases of intangible assets was also used.

B. As lessee

In accordance with IFRS 16, the Group recognizes leased assets and lease liabilities for some asset classes, i.e., these leases are on the entity's balance sheet.

Leasing contracts are recorded on the date they start, in assets and liabilities, being capitalized to the lower of the fair value of the leased assets and the minimum lease payments contracted. Rents are constituted (i) by the financial charge that is charged to the income statement and (ii) by the financial amortization of the capital that is deducted from the liability. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability in each period.

The Group leases various assets, including real estate, vehicles and IT equipment.

As previously mentioned, the Group has opted not to recognize assets under right of use and liabilities for short-term leases, with a lease term of 12 months or less, and low value asset leases (e.g. IT equipment) with a new value of less than Euro 5 thousand. The Group recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term in income statement as “Other administrative expenses – rents and rentals”.

The Group presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property.

The Group presents the lease liabilities under "Other liabilities" in the statement of financial position.

Significant judgment in determining contract lease term

The Group has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Group determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and recognized right-of-use assets.

The Group has the option, namely in real estate lease agreements, to lease assets for additional periods from 1 month to 20 years. The Group applies judgment in assessing whether it is reasonably right to exercise the renewal option. That is, it considers all the relevant factors that create an economic incentive for renewal.

Measurement and remeasurement of assets under right of use and lease liabilities

Lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve plus the Group’s risk spread, applied over the weighted average term of each lease.

The lease liability is initially recorded at the present value of the future cash flows from the lease and is subsequently measured (i) by increasing it’s carrying amount to reflect interest on it, (ii) by decreasing its carrying amount by to reflect lease payments.

An asset under right of use, initially measured at cost, must take into account the present value of the future cash flows of the lease liability, being subsequently subject to depreciation / amortization according to the lease term of each contract and to tests of impairment.

C. As lessor

In accordance with IFRS 16, lessors will continue to classify leases as financial or operational.

Financial leases
Transactions in which the risks and benefits inherent in the ownership of an asset are substantially transferred to the lessee are classified as finance leases. Financial leasing contracts are recorded in the balance sheet as credits granted for an amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in rents charged to customers is recorded as income while capital amortizations, also included in rents, are deducted from the amount of credit granted to customers. The recognition of interest reflects a constant periodic rate of return on the lessor's remaining net investment.

Operating leases
All lease transactions that do not fall under the definition of finance lease are classified as operating leases. Payments made by the Group under operating lease agreements, from the perspective of the lessee, are recorded in costs in the periods to which they relate.

2.15. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 16, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans of the Group are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semi-annually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

The Group determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan's net assets / liabilities (liabilities net of the fair value of the fund's assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds' assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognized in equity under the caption other comprehensive income.

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognized as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACTV) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Group makes payments to the funds to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Group assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) No. 29, of 8 August 2016, the Group's contributions to SAMS, correspond to a monthly fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year, recorded on a monthly basis in personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

The calculation and recognition of the Group's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits (defined benefit plan).

Career bonus

The ACT provides for the payment by the Group of a career bonus, due at the time immediately prior to the employee's retirement if he retires at the Group's service, corresponding to 1.5 of his salary at the time of payment.

These long-term service bonuses were accounted for by the Group in accordance with IAS 19, as other long-term employee benefits. The Group's liability with these long-term service bonuses were periodically estimated by the Group using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement, in Personnel Expenses.

Employees' variable remuneration and other obligations

The Group recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Group recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.16. Corporate Income tax

NOVO BANCO and its subsidiaries are subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC Code).

Corporate income tax comprises current tax and deferred tax.

Corporate income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized under deferred tax reserves (other comprehensive income). Corporate income tax recognized directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognized in the income statement when the gains or losses giving rise to said income tax are also recognized in the income statement.

Current tax

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognized in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Current tax is calculated based on taxable income for the period, which differs from the accounting result due to adjustments resulting from expenses or income not relevant for tax purposes or which will only be considered in subsequent years.

Deferred tax

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for: i) goodwill non-deductible for tax purposes; ii) differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit; iii) that do not result from a business combination, and iv) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group does not control the timing of the reversal of the timing differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of Group.

Deferred tax assets are recognized only to the extent that it is expected that there will be taxable profits in the future, which will absorb temporary deductible differences for tax purposes (including reportable tax losses).

The Group, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax with regard to the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax, with no material impact on its financial statements resulting from its application.

2.17. Provisions and Contingent liabilities

Provisions are recognized when: (i) the Group has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Group to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognized in financial expenses.

Restructuring provisions are recognized when the Group has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognized when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

2.18. Recognition of interest income and expense

Interest income and expense is recognized in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Group estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest and similar income includes interest from financial assets for which were recognized impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities at fair value through profit or loss (see Note 2.4).

2.19. Recognition of fee and commission income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 2.18.

2.20. Recognition of dividend income

Dividend income is recognized when the right to receive the dividend payment is established.

2.21. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.23. Investment properties

The Group classifies as investment properties the real estate assets held to earn rentals or for capital appreciation or both. Investment properties are initially recognized at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognized in the income statement, under the caption Other operating income and expenses, based on periodic valuations performed by independent entities specialised in this type of service. Investment properties are not depreciated.

Since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Group proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

Reclassifications to and from the caption Investment properties may occur whenever a change in respect of the use of a real estate property is verified. On the reclassification of investment properties to real estate properties held for own use, the estimated cost, for accounting purposes, is the fair value, at the date of the change in usage. If a real estate property held for own use is reclassified to investment properties, the Group records that asset in accordance with the policy applicable to real estate properties held for own use, up to the date of its reclassification to investment properties and at fair value subsequently, with the difference arising in its measurement at the date of the reclassification being recognized in revaluation reserves. If a real estate property is transferred from other assets to investment properties, any difference between the fair value of the asset at that date and the previous carrying book value is recognized in the income statement.

Subsequent expenditure is capitalised only when it is probable that the Group will obtain future economic benefits in excess of those originally estimated based on the performance of the asset.

Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income and expenses. Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income or Other operating expenses.

Investment properties recorded relate solely to non-banking activities (Investment Funds and Real Estate Companies).

NOTE 3 – Main accounting estimates and judgements used in preparing the financial statements

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Group are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

The Bank and its subsidiaries do not have projects or intentions for actions that could question the continuity of the operations.

The COVID-19 pandemic, despite the government and regulatory response measures adopted, resulted in an additional high level of uncertainty about the Portuguese and European economy and in particular banking activity, with an impact on the judgments and estimates used in the financial statements. However, the internal control policies and standards adopted by the Group allow us to consider that these judgments and estimates were made independently and appropriately as of 31 December 2020.

The relevant judgments made by management in the application of the Group's accounting policies and the main sources of uncertainty in the estimates were the same as those described in the last reporting of the Financial Statements.

3.1. Impairment of financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognized impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Group determines its business model based on how it manages the financial assets and its business objectives. The Group monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 2.5 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Group management, constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by NOVO BANCO and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with NOVO BANCO. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk

characteristics. The Group monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;

- Models and assumptions: the Group uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

3.2. Fair value of derivative financial instruments and other financial assets and liabilities at fair value

Fair value is based on listed market prices when available; otherwise fair value is determined based on similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Group uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Note 40.

3.3. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 28.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are charged with reviewing the calculation of the tax base made by the Bank during a period of four or twelve years, in the event of reportable tax losses. Thus, it is possible that there are corrections to the tax base, resulting mainly from differences in the interpretation of tax legislation. However, the Bank's Executive Board of Directors believes that there will be no significant corrections to taxes on profits recorded in the financial statements.

3.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 14 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the NOVO BANCO Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

3.5. Provisions and Contingent Liabilities

The recognition of provisions involves a significant degree of complex judgment, namely identifying whether there is a present obligation and estimating the probability and timing, as well as quantifying the outflows that may arise from past events. When events are at an early stage, judgments and estimates can be difficult to quantify due to the high degree of uncertainty involved. The Executive Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognized. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognized provisions may also be sensitive to the assumptions used, which may result in a variety of potential results that require judgment in order to determine a level of provision that is considered appropriate in view of the event in question.

The Group recognises provisions intended to cover for losses arising from commercial offers approved by the Executive Board of Directors of the Bank, when these are not opposed by Bank of Portugal. The amount of the provisions reflects NOVO BANCO's best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (i) due to variations in the assumptions used (ii) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (iii) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 32.

3.6. Investment properties, Assets received from credit recovery and Non-current assets held for sale

Investment properties are initially recognized at cost, including directly related transaction costs and subsequently at fair value. Assets received from credit recovery and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations conducted by independent entities specialized in this type of service, using the market, income or cost methods, as defined in Notes 2.11 and 2.23. The valuation reports are analyzed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

The use of alternative methodologies and different assumptions may result in a different level of fair value with respective impact on the recognized balance sheet value.

3.7. Entities included in the consolidation perimeter

For the determination of the entities to be included in the consolidation perimeter, the Group evaluates the extent to which (i) it is exposed, or has rights, to the variability of the return from its involvement with this entity, and (ii) it can seize that return through of its power. In this analysis, the Bank also considers shareholder agreements that may exist and that result in the power to take decisions that impact the management of the entity's activity. The decision that an entity should be consolidated by the Group requires the use of judgments to determine to what extent the Group is exposed to the variability of an entity's return and has the power to seize that return. In using this judgment, the Group analyses assumptions and estimates. Thus, other assumptions and estimates could lead to a different consolidation perimeter, with a direct impact on the balance sheet.

NOTA 4 – Segment reporting

NOVO BANCO Group activities are centered on the financial sector targeting corporate, institutional and private individual customers. Its decision center is in Portugal, making the domestic territory its main market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services and the commercialization of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, as at 31 December 2020, the Group has NOVO BANCO as its main operating unit - with 339 branches in Portugal (31 December 2019: 356 branches) and branches in Luxembourg and Spain (discontinued) and 4 representation offices – with NBA Açores (13 branches), Banco BEST (6 branches), GNB GA and GNB Seguros (non-life insurance segment), amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Life Insurance (December 31, 2019 only); (5) Markets; and (6) Corporate Centre. Each segment integrates the NOVO BANCO structures that directly relate to it, as well as the units of the Group whose businesses are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group is complemented, at the Board of Directors of NOVO BANCO level, by the definition of specific strategies and commercial programs for each unit.

In accordance with the commitments assumed with Directorate General for Competition – European Commission ("DGComp"), at the end of 2019 the Bank discontinued the Private Banking services.

Additionally, in 2019 NOVO BANCO derecognized the investment on Gama Life (formerly GNB Vida), after obtaining the necessary regulatory authorizations, discontinuing the information reported in the Life Insurance Activity segment.

During 2020, NOVO BANCO started the sale process of the Spanish Branch, which was reclassified to a discontinued operation.

4.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures, aggregated by criteria of risk, market / geography and nature of the products and services:

Domestic Commercial Banking

This Operating Segment includes all the banking activity developed on national territory involving corporate and private customers and using the branch network, corporate centres and other channels, and includes the following sub segments:

a. **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;

b. **Corporate and Institutional:** includes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;

c. **Private Banking:** comprises the Private banking activity integrating all the asset-side products and the fundraising activities, namely, deposits, discretionary management services, custodian services, brokerage services and insurance products.

International Commercial Banking

This Operating Segment integrates the units located abroad, which banking activities focus both on corporate and private customers, excluding the asset management business, which is integrated in the corresponding segment.

Amongst the units comprising this segment are NOVO BANCO's branches in Spain, London (closed at the beginning of 2019) and Luxembourg. The aggregation of this units in the same segment is related with the geographic criteria and with the nature of the clients, the products and the services provided.

Asset Management

This segment, which depends on the specific nature of the products and services provided, includes the asset management activities developed both in Portugal and abroad through specialised companies incorporated for the purpose. The product range includes all types of funds - investment funds, real estate funds and pension funds - as well as discretionary management and portfolio management.

Life insurance

Segment that depends on the specific nature of the products and services provided, including the activities of Companhia de Seguros Gama Life (formerly GNB Vida) that sells traditional and investment insurance contracts and retirement plans. As mentioned in Note 30, NOVO BANCO derecognized this investment in September 2019, after obtaining the necessary regulatory authorizations, discontinuing the information reported in this segment.

Markets

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

Corporate Centre

This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures that ensure the basic functions of the Group's global management, such as those linked to the Administration and Supervision, Compliance, Planning, Accounting, Risk Management and Control, Institutional Communication, Internal Audit, Organization and Quality, among others. Since the Bank is in a tax loss situation in the first six months of 2020 and 2019, the deferred taxes recognized were fully allocated to this segment.

4.2. Criteria for the allocation of activities and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed in the preparation of the internal information that is analyzed by the Executive Board of Directors of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 2, with the adoption of the following additional principles:

Measurement of the profit or loss of the segments

The Group uses net income / (loss) before taxes as the measure of the profit or loss for purposes of evaluating the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit (foreign branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment centre. Additionally, based on the characteristics of the primary business developed by these units, they are fully integrated into one of the Operating Segments, i.e. their assets, liabilities, income and expenses.

NOVO BANCO structures dedicated to the Segment

NOVO BANCO's activity, given its characteristics, can be allocated to most of its operating segments and is, therefore, accordingly disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the Group, strategically, decides to securitize some of the assets; (ii) the allocation of a commercial margin to mass-products, defined at top management level when the products are launched; (iii) for non-mass products, the allocation of a margin directly negotiated by the commercial structures with customers; (iv) the allocation of the direct costs of commercial and central structures dedicated to the segment; (v) the allocation of indirect costs (central support and IT services) determined based on specific drivers; (vi) the allocation of credit risk determined in accordance with the impairment model; and (vii) the allocation of NOVO BANCO's total equity to the Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments, without any margin for the supplier; the strategic decisions and/or of an exceptional nature are analyzed on a case-by-case basis, with the income and/or costs being generally allocated to the Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, which mission it is to undertake the Bank's financial management, and which activity and results are included in the Markets segment.

Interest and similar income / expense

Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation "Net interest income / expense".

Investments presented using the equity method

Investments in associated companies presented under the equity method are included in the Markets segment, in the case of NOVO BANCO's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets

Non-current assets, according to IFRS 8, include Tangible fixed assets, Intangible assets and Non-current assets held for sale. NOVO BANCO includes these assets in the Markets segment, with the non-current assets held by the remaining subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income tax

Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the

Operating Segments, by the Executive Board of Directors, does not affect the evaluation of most of the Operating Segments. In the tables presented below the deferred tax recognized in net income for the year are included in the Corporate Centre. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas

In the presentation of financial information by geographic areas, the operational units that integrate the International Area are NOVO BANCO's branches in Spain, Luxembourg and London (closed in early 2019), and the subsidiaries Novo Banco Servicios, Ijar Leasing Algérie, as well as units located outside GNB GA, and the discontinued operations NOVO AF and Banco Delle Tre Venezie.

The financial and economic elements related to the international area are those consistent with the financial statements of such units, with the respective consolidation adjustments and eliminations.

Legacy and recurrent activity

From 2018 the GROUP started to present separate financial information between "NOVO BANCO Recurrent", that includes all the core banking activity, and "NOVO BANCO Legacy" that include loans and advances to customers, integrating not only the credits included in Contingent Capital Agreement, as well as other receivables, securities, real estate and discontinued operations considered, on its majority, as no strategic in the commitments imposed by DGCOMP after the resolution measure, so the references in these explanatory notes should be read taking this segmentation into account.

When determining the NOVO BANCO Legacy, the Bank considered the following items:

- Loans and advances include the entire CCA perimeter and other non-strategic exposures;
- Securities and associated companies were selected by contract and include restructuring funds, minority equity stakes, real estate funds, commercial paper and mandatory convertible securities ("VMOCs");
- The portfolio of real estate properties available for sale has been selected by contract and excludes yielding assets;
- Assets and liabilities of the discontinued operations were allocated to legacy, based on a case-by-case analysis insofar as they were considered by management to be legacy assets;
- All profit and loss associated with legacy assets was considered as results of this activity;
- There are no liabilities directly allocated to the legacy activity, therefore the funding costs for legacy assets are calculated based on the Group's average balance sheet funding rate; and
- Operating costs include all CCA costs, and the operating costs of some departments, according to the weight of legacy assets in their activity.

The Group considers that the split between the NOVO BANCO Recurrent and NOVO BANCO Legacy will allow customers and other stakeholders to have a better understanding of the Bank's ongoing restructuring process.

The segment reporting is presented as follows:

(in thousands of Euros)

	31.12.2020								
	Retail	Corporate and Institutional	*Private banking*	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	200 736	221 839	-	19 687	(11)	-	112 883	-	**555 134**
Net fees and commissions	165 851	98 403	-	10 022	26 023	-	(33 781)	-	**266 518**
Other operating income	19 288	24 873	-	(28 727)	170	-	(493 298)	-	**(477 694)**
Total operating income	385 875	345 115	-	982	26 182	-	(414 196)	-	**343 958**
Operational expenses	354 653	515 379	-	29 252	14 755	-	639 600	104 713	**1 658 352**
Of which:									
Provisions / Impairment losses	100 195	477 820	-	20 996	1 624	-	590 828	-	***1 191 463***
Depreciation and amortization	12 355	920	-	668	640	-	1 215	17 274	***33 072***
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	-	9 430	-	**9 430**
Profit / (loss) from continued operations before taxes and non-controlling interests	**31 222**	**(170 264)**	**-**	**(28 270)**	**11 427**	**-**	**(1 044 366)**	**(104 713)**	**(1 304 964)**
Taxes	-	-	-	55	3 104	-	11 617	(13 694)	1 082
Profit / (loss) of discontinued operations	-	-	-	(40 830)	1 498	8 057	(2 070)	-	(33 345)
Net Profit / (loss) for the period attributable to non-controlling interests	1 134	-	-	-	-	-	(11 208)	-	(10 074)
Net Profit / (loss) for the period attributable to Shareholders of the parent	**30 088**	**(170 264)**	**-**	**(69 155)**	**9 821**	**8 057**	**(1 046 845)**	**(91 019)**	**(1 329 317)**
Intersegment operating income (1)	*4 164*	*5 977*	-	*78 170*	*189*	-	*(80 342)*	-	*8 158*
Total Net Assets	**20 626 864**	**10 704 403**	**-**	**4 474 776**	**88 507**	**-**	**8 501 036**	**-**	**44 395 586**
Total Liabilities	**20 372 193**	**10 862 412**	**-**	**4 470 127**	**11 554**	**-**	**5 532 665**	**-**	**41 248 951**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**-**	**93 630**	**-**	**93 630**
Investments in tangible fixed assets	**3 718**	**-**	**-**	**305**	**825**	**-**	**43 093**	**344**	**48 285**
Investments in intangible assets	**340**	**-**	**-**	**-**	**18**	**-**	**26 508**	**-**	**26 866**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**11 966**	**-**	**11 966**
Investments in other assets - real estate properties	**624**	**-**	**-**	**1 941**	**-**	**-**	**28 126**	**-**	**30 691**

(1) inter-segment operating income is mainly characterized by interest (financial result)

(in thousands of Euros)

	31.12.2019 *								
	Retail	Corporate and Institutional	*Private banking*	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	153 602	170 274	2 538	29 668	2	-	156 348	-	512 432
Net fees and commissions	171 441	110 009	5 121	12 337	25 747	-	(21 773)	-	302 882
Other operating income	15 480	18 514	(5)	(14 132)	(1 056)	-	(444 573)	-	(425 772)
Total operating income	340 523	298 797	7 654	27 873	24 693	-	(309 998)	-	389 542
Operational expenses	273 315	694 359	4 680	48 761	12 179	4 082	192 619	98 517	1 328 512
Of which:									
Provisions / Impairment losses	*16 172*	*653 594*	*(1 452)*	*39 028*	*536*	*4 082*	*143 181*	-	*855 141*
Depreciation and amortization	*10 803*	*882*	*423*	*671*	*433*	-	*1 550*	*15 579*	*30 341*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	-	1 470	-	1 470
Profit / (loss) from continued operations before taxes and non-controlling interests	**67 208**	**(395 562)**	**2 974**	**(20 888)**	**12 514**	**(4 082)**	**(501 147)**	**(98 517)**	**(937 500)**
Taxes	-	-	-	(21 339)	3 418	-	3 391	41 093	26 563
Profit / (loss) of discontinued operations	-	-	-	(103 470)	(392)	1 533	(73)	-	(102 402)
Net Profit / (loss) for the period attributable to non-controlling interests	1 736	-	-	-	-	-	(9 389)	-	(7 653)
Net Profit / (loss) for the period attributable to Shareholders of the parent	**65 472**	**(395 562)**	**2 974**	**(103 019)**	**8 704**	**(2 549)**	**(495 222)**	**(139 610)**	**(1 058 812)**
Intersegment operating income (1)	*4 970*	*6 005*	-	*112 670*	*610*	-	*(114 418)*	-	*9 837*
Total Net Assets	**19 835 663**	**11 223 700**	**-**	**4 846 926**	**84 058**	**-**	**9 305 556**	**-**	**45 295 903**
Total Liabilities	**19 541 454**	**11 605 333**	**-**	**4 964 199**	**13 649**	**-**	**5 168 511**	**-**	**41 293 146**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**-**	**92 628**	**-**	**92 628**
Investments in tangible fixed assets	**1 633**	**-**	**-**	**767**	**1 196**	**-**	**16 363**	**-**	**19 959**
Investments in intangible assets	**282**	**-**	**-**	**703**	**18**	**-**	**25 436**	**-**	**26 439**
Investments in other assets - real estate properties	**1 134**	**-**	**-**	**4 358**	**-**	**-**	**81 319**	**-**	**86 811**

(1) Intersegment operating income refers essentially to interest (net interest income)
* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The geographical information of the different business units of the Group is as follows:

(in thousands of Euros)

	31.12.2020								
	Portugal	Spain	Luxembourg	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	(1 300 233)	(37 559)	8 322	153	-	-	-	-	(1 329 317)
(of which: rel. to discontinued units)	*6 466*	*(39 811)*	-	-	-	-	-	-	(33 345)
Total income	4 693 042	-	244 271	1 054	-	-	-	-	4 938 367
Intersegment operating income	*(41 855)*	-	*50 013*	-	-	-	-	-	*8 158*
Net assets	40 323 724	2 062 005	1 998 432	1 740	3 060	-	-	6 625	44 395 586
(of which: rel. to discontinued units)	*7 861*	*1 545 138*	-	-	*1 037*	*1 299*	*1 883*	*2 300*	1 559 518
Investments in associated companies	93 630	-	-	-	-	-	-	-	93 630
Investments in tangible fixed assets	47 980	-	305	-	-	-	-	-	48 285
Investments in intangible assets	26 866	-	-	-	-	-	-	-	26 866
Investments in investment properties	11 966	-	-	-	-	-	-	-	11 966
Investments in other assets - real estate properties	28 750	1 941	-	-	-	-	-	-	30 691
Profits / (losses) of continuing operating units before taxes and non-controlling interests	(1 315 492)	(817)	11 187	158	-	-	-	-	(1 304 964)
Turnover [(a) (b)]	695 966	-	107 489	438	-	-	-	-	803 893
Number of employees [(a)]	4 560	-	10	5	-	-	-	7	4 582

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items in the consolidated operating account: interest income, dividend income, fee and commission income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss on financial assets and liabilities held for trading, gains or losses on financial assets mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities carried at fair value through profit or loss hedge accounting losses, exchange differences, gains or losses on derecognition of non-financial assets, other operating operating income and proportion of profits or losses on investments in subsidiaries, joint ventures and associates accounted for under the equity method.

(in thousands of Euros)

	31.12.2019 *								
	Portugal	Spain	Luxembourg	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	(930 114)	(103 761)	(20 909)	(303)	-	-	-	(3 725)	(1 058 812)
(of which: rel. to discontinued units)	*1 460*	*(84 635)*	-	-	-	-	-	-	*(83 175)*
Total income	4 348 294	-	497 028	919	-	-	-	-	4 846 241
Intersegment operating income	*(38 977)*	-	*48 814*	-	-	-	-	-	*9 837*
Net assets	40 772 690	2 011 246	2 498 979	3 303	3 060	-	-	6 625	45 295 903
(of which: rel. to discontinued units)	*25 349*	*4 240*	-	-	*2 946*	*1 299*	*4 121*	*2 300*	*40 255*
Investments in associated companies	92 628	-	-	-	-	-	-	-	92 628
Investments in tangible fixed assets	19 192	767	-	-	-	-	-	-	19 959
Investments in intangible assets	25 736	703	-	-	-	-	-	-	26 439
Investments in other assets - real estate properties	82 453	4 358	-	-	-	-	-	-	86 811
Profits / (losses) of continuing operating units before taxes and non-controlling interests	(911 060)	(291)	(22 121)	(303)	-	-	-	(3 725)	(937 500)
Turnover [(a) (b)]	945 859	-	70 591	367	-	-	-	-	1 016 817
Number of employees [(a)]	4 648	198	11	-	-	-	-	7	4 869

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items in the consolidated operating account: interest income, dividend income, fee and commission income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss on financial assets and liabilities held for trading, gains or losses on financial assets mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities carried at fair value through profit or loss hedge accounting losses, exchange differences, gains or losses on derecognition of non-financial assets, other operating operating income and proportion of profits or losses on investments in subsidiaries, joint ventures and associates accounted for under the equity method.

*Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The information aggregated by legacy and recurring activity is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019 *		
	Recurrent	Legacy	Total	Recurrent	Legacy	Total
Net interest income	517 020	38 114	555 134	463 007	49 425	512 432
Net fees and commissions	265 266	1 252	266 518	300 133	2 749	302 882
Other operating income	(43 003)	(434 691)	(477 694)	133 967	(559 739)	(425 772)
Total operating income	739 283	(395 325)	343 958	897 107	(507 565)	389 542
Operating expenses	839 641	818 711	1 658 352	664 051	664 461	1 328 512
Includes:						
Provisions / Impairment losses	386 000	805 463	1 191 463	208 363	646 778	855 141
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	5 732	3 698	9 430	4 462	(2 992)	1 470
Taxes	15 554	(14 472)	1 082	(37 653)	83 443	45 790
Profit / (loss) of discontinued operations	(24 568)	(8 777)	(33 345)	(89 328)	6 153	(83 175)
Net Profit / (loss) for the period attributable to non-controlling interests	(4 354)	(5 720)	(10 074)	8 217	(15 870)	(7 653)
Net Profit / (loss) for the period attributable to Shareholders of the parent	(130 394)	(1 198 923)	(1 329 317)	177 626	(1 236 438)	(1 058 812)
Total net Assets	41 313 597	3 081 989	44 395 586	40 813 669	4 482 234	45 295 903
(of which: related to discontinued operations)	*1 451 195*	*108 323*	*1 559 518*	*15 891*	*24 364*	*40 255*

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 5 – Net interest income

The breakdown of this caption as at 31 December 2020 and 2019 is as follows:

(in thousands of Euros)

	31.12.2020				31.12.2019 *			
	Calculated by the effective interest method		Other		Calculated by the effective interest method		Other	
	From assets / liabilities at fair value through other comprehensive income and assets at amortised cost	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at fair value through other comprehensive income and assets at amortised cost	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income								
Interest from loans and advances	538 083	-	-	538 083	563 716	-	-	563 716
Interest from deposits with and loans and advances to banks	19 111	39 401	-	58 512	20 205	3 118	-	23 323
Interest from securities	125 806	-	10 793	136 599	117 855	-	7 063	124 918
Interest from derivatives held for risk management purposes	-	1 630	8 353	9 983	-	496	6 664	7 160
Other interest and similar income	530	-	-	530	1 402	-	-	1 402
	683 530	**41 031**	**19 146**	**743 707**	**703 178**	**3 614**	**13 727**	**720 519**
Interest Expenses								
Interest on debt securities issued	39 487	-	-	39 487	38 956	-	-	38 956
Interest on amounts due to customers	71 688	-	-	71 688	93 831	-	-	93 831
Interest on deposits from Central Banks and other banks	15 991	2 750	-	18 741	19 269	1 864	-	21 133
Interest on subordinated liabilities	34 165	-	-	34 165	34 166	-	-	34 166
Interest on derivatives held for risk management purposes	-	5 771	10 816	16 587	-	4 114	8 969	13 083
Other interest and similar expenses	7 549	356	-	7 905	6 771	147	-	6 918
	168 880	**8 877**	**10 816**	**188 573**	**192 993**	**6 125**	**8 969**	**208 087**
	514 650	**32 154**	**8 330**	**555 134**	**510 185**	**(2 511)**	**4 758**	**512 432**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Interest on amounts due to customers and deposits from Central Banks and other banks include as at 31 December 2020, respectively, the amounts of Euro 16 thousand and Euro 822 thousand related to repurchase agreement operations (31 December 2019: Euro -2 thousand of interest on deposits with and loans and advances to Banks, Euro 16 thousand in customer deposits and Euro 2,166 thousand in interest on deposits from other banks).

As at 31 December 2020, Interest from loans and advances to customers includes Euro 35,385 thousand related to finance lease operations (31 December 2019: Euro 40,035 thousand).

Interest income and expense items related to derivative interest include, according to the accounting policy described in Notes 2.4 and 2.18, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.4 e 2.7.

The measures adopted to reduce the cost of customer deposits justify the decrease in the interest expense related to these liabilities.

NOTE 6 – Dividend income

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019 *
Financial assets mandatorily at fair value through profit or loss		
Shares	1 781	3 374
Participation units	6 407	4 080
Financial assets at fair value through other comprehensive income		
Shares	8 290	2 257
Participation units	-	155
	16 478	**9 866**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

In 2020, dividend income of Euro 16,478 thousand was recorded (31 December 2019: Euro 9,866 thousand), which is detailed as follows:

- Euro 8,188 thousand in financial assets that are mandatorily accounted for at fair value through profit or loss, which include dividends received from the Fundo Solução Renda in the amount of Euro 3,141 thousand, from the Fundo Mais Mais in the amount of Euro 1,593 thousands, from Euronext NV in the amount of Euro 1,391 thousand and Explorer III B in the amount of Euro 634 thousands (31 December 2019: Euro 7,454 thousands, which include dividends received from Euronext in the amount of Euro 1, 348 thousands, from Fundo Soluções Leasing in the amount of Euro 1,767 thousands, from Sealion Ltd of Euro 1,161 thousands and the Explorer III Fund in the amount of Euro 738 thousands); and
- Euro 8,290 thousand in financial assets accounted for at fair value through other comprehensive income, which include dividends received from FLITPTREL X in the amount of Euro 6,000 thousands, from SIBS SGPS in the amount of Euro 978 thousands and from ESA Energia in the Euro 1,106 thousand (31 December 2019: Euro 2,412 thousand, which includes dividends received from ESA Energia of Euro 1,080 thousand, from the Explorer III Fund in the amount of Euro 738 thousand and from SIBS SGPS in the Euro 922 thousand).

NOTE 7 – Fee and commission income and fee and comission expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019 *
Fees and commissions income		
From banking services	233 059	250 054
From guarantees provided	35 096	42 935
From transaction of securities	5 241	7 146
From commitments to third parties	8 065	7 793
From transactions carried out on behalf of third parties - cross-selling	30 882	35 089
Other fee and commission income	1 480	9 119
	313 823	**352 136**
Fees and commissions expenses		
With banking services rendered by third parties	32 525	35 220
With guarantees received	1 755	1 900
With transaction of securities	2 527	2 219
Other fee and commission income	10 498	9 915
	47 305	**49 254**
	266 518	**302 882**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 8 – Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019 *		
	Gains	Losses	Total	Gains	Losses	Total
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	95 449	6 529	88 920	67 860	2 021	65 839
Issued by other entities	1 010	7 482	(6 472)	2 442	443	1 999
	96 459	**14 011**	**82 448**	**70 302**	**2 464**	**67 838**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	6 281	154	6 127	2 050	-	2 050
Loans	8 336	8 439	(103)	23 662	31 997	(8 335)
	14 617	**8 593**	**6 024**	**25 712**	**31 997**	**(6 285)**
	111 076	**22 604**	**88 472**	**96 014**	**34 461**	**61 553**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 9 - Gains or losses on financial assets and liabilities held for trading

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019 *		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	13 710	13 121	589	26 480	10 963	15 517
Issued by other entities	5	-	5	260	-	260
Financial Derivatives						
Foreign exchange rate contracts	68 313	52 606	15 707	24 466	26 441	(1 975)
Interest rate contracts	604 219	713 130	(108 911)	643 255	719 091	(75 836)
Equity / Index contracts	82 587	81 270	1 317	93 255	92 499	756
Credit default contracts	42	71	(29)	78 141	78 522	(381)
Other	488	777	(289)	4 566	2 852	1 714
	769 364	**860 975**	**(91 611)**	**870 423**	**930 368**	**(59 945)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

In accordance with the accounting policy described in Note 2.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

The Group recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group's access to the (wholesale market).

As at 31 December 2020, the gains recognized in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 5,100 thousand (31 December 2019: Euro 3,114 thousand).

NOTA 10 – Gains or losses on financial assets mandatorily at fair value through profits or loss and gains or losses on financial assets and liabilities designated at fair value through profit and loss

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019 *		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Gains or losses on financial assets mandatorily at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	12 877	36 600	(23 723)	3 031	6 062	(3 031)
Shares	23 557	141 372	(117 815)	35 257	90 864	(55 607)
Other variable income securities	746	223 208	(222 462)	16 600	211 691	(195 091)
	37 180	**401 180**	**(364 000)**	**54 888**	**308 617**	**(253 729)**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Other variable income securities	-	-	-	106	-	106
	-	**-**	**-**	**106**	**-**	**106**
	37 180	**401 180**	**(364 000)**	**54 994**	**308 617**	**(253 623)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

As at December 31, 2020, gains or losses on financial assets that are mandatorily accounted for at fair value through profit or loss - securities - shares and other variable income securities include a loss of Euro -300.2 million, resulting from the completion of an independent appraisal of the restructuring funds. These funds are "level 3" assets in accordance with the IFRS 13 fair value hierarchy (quotations provided by third parties whose parameters used are not observable in the market), and NOVO BANCO requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets (see Note 22), which led to the recording of the said loss of Euro -300.2 million in 2020 (see Note 40).

NOTE 11 – Gains or losses from hedge accounting

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019 *		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Fair value changes of hedging instruments						
Foreign exchange rate contracts	76 026	98 036	(22 010)	50 141	66 319	(16 178)
Fair value changes of hedging item attributable to hedged risk	50 369	40 000	10 369	29 079	14 825	14 254
	126 395	**138 036**	**(11 641)**	**79 220**	**81 144**	**(1 924)**
Compensations for hedging operations interruptions (see Note 14)	438	-	438	461	-	461
Amount net of compensations	**126 833**	**138 036**	**(11 203)**	**79 681**	**81 144**	**(1 463)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 12 – Exchange differences

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019 *		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 305 708	1 308 122	(2 414)	1 114 460	1 075 744	38 716
	1 305 708	**1 308 122**	**(2 414)**	**1 114 460**	**1 075 744**	**38 716**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.3.

NOTE 13 – Gains or losses on derecognition of non-financial assets

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019 *
Real Estate	(4 527)	9 962
Equipment	(520)	(479)
Other	1 631	2 034
	(3 416)	**11 516**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 14 – Other operating income and other operating expenses

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019 *
Other operating income		
Gains / (losses) on recoveries of loans	30 181	30 731
Non-recurring advisory services	264	1 299
Income of Funds and real estate companies	29 955	37 858
Gains on investment properties revaluation (see Note 26)	3 590	44 347
Other income	56 742	18 339
	120 732	**132 574**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 31)	(26 998)	(465)
Direct and indirect taxes	(8 476)	(12 929)
Contribution on the banking sector and solidarity additional	(32 752)	(27 091)
Membership fees and donations	(1 666)	(2 396)
Expenses of Funds and real estate companies	(11 647)	(14 317)
Charges with Supervisory entities	(2 321)	(2 456)
Losses on investments properties revaluation (see Note 26)	(107 900)	(260 466)
Other expenses	(38 534)	(44 385)
	(230 294)	**(364 505)**
Other operating income / (expenses)	**(109 562)**	**(231 931)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

As at 31 December 2020, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 438 thousand (31 December 2019: Euro 461 thousand) (see Note 11).

NOTE 15 – Staff expenses

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019 *
Wages and salaries	183 798	185 453
Remuneration	182 847	184 589
Long-term service / Career bonuses (see Note 16)	951	864
Mandatory social charges	55 270	56 363
Costs with post-employment benefits (see Note 16)	1 735	14
Other costs	4 803	4 563
	245 606	**246 393**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The provisions and costs related to the restructuring process are presented in Note 32.

As at 31 December 2020 and 2019, the number of employees of NOVO BANCO Group has the following breakdown:

	31.12.2020	31.12.2019
Novo Banco employees	4 256	4 428
Employees of the Group's subsidiaries	326	441
Total employees of the Group	**4 582**	**4 869**

By professional category, the number of employees at NOVO BANCO Group is analyzed as follows:

	31.12.2020	31.12.2019
Senior management functions	472	481
Middle management positions	513	591
Specific positions	2 175	2 348
Administrative and other functions	1 422	1 449
	4 582	**4 869**

NOTE 16 – Employee benefits

Pension and health-care benefits

In compliance with the Collective Labour Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the years of service, applied to each year's negotiated salary table for the active workforce.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS) managed by the Union. As a result of the signing of the new Collective Labour Agreement (ACT) on July 5, 2016, with publication in Labour Bulletin No. 29 of August 8, 2016, the contributions to SAMS, under the responsibility of the

Group, as of February 1, 2017 started to correspond to a fixed amount (according to Annex VI of the new ACT) for each employee, 14 times in a year. The calculation and recording of the Group's obligations with health benefits attributable to workers at retirement age are carried out in a similar way to pension liabilities. These benefits are covered by the Pension Fund, which integrates all liabilities with pensions and health benefits.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law No. 1-A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime that considers the number of years of contributions under that regime. The Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees on the behalf of *Caixa de Abono de Família dos Empregados Bancários* (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Bank of Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Bank of Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Bank of Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

On June 16, 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the former Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the NOVO BANCO Pension Fund. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - NOVO BANCO and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of NOVO BANCO or BES until the final decision of the court (limit of article 402), so NOVO BANCO transferred the amount of Euro 21.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 31 December 2020, the amount of Euro 535 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2019: Euro 492 thousand).

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2020		31.12.2019	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	1,00%	2,41%	1,35%	6,82%
Discount rate	1,00%	-	1,35%	-
Pension increase rate	0,25%	1,34%	0,25%	0,49%
Salary increase rate	0,50%	3,07%	0,50%	1,20%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-2 anos		TV 88/90-2 anos	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2020 and 2019 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

Pension plan participants are detailed as follows:

	31.12.2020	31.12.2019
Employees	4 417	4 520
Pensioners and survivors	6 949	6 818
TOTAL	**11 366**	**11 338**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2020 and 2019 is as follows:

	31.12.2020	31.12.2019
(in thousand Euros)		
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 934 668)**	**(1 848 930)**
Pensioners	(1 368 021)	(1 287 349)
Employees	(566 647)	(561 581)
Coverage		
Fair value of plan assets	**1 907 616**	**1 695 857**
Net assets / (liabilities) in the balance sheet (See Notes 29 and 33)	**(27 052)**	**(153 073)**
Accumulated actuarial deviations recognized in other comprehensive income	**723 723**	**599 454**

According to the policy defined in Note 2.15 - Employee Benefits, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

As at 31 December 2019, the net book value includes Euro 30,4 million related to the deficit of the complementary plan CE - NOVO BANCO's participation. With respect to the base and complementary net liabilities as at 31 December 2019, the Group has made the contribution in early 2020.

As at 31 December 2020 and 2019, the sensitivity analysis to a 0.25% change in the assumptions rate used and one year in the mortality table results in the following changes in the current value of liabilities determined for past services:

(in thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the change:**			
	31.12.2020		**31.12.2019**	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(73 282)	78 127	(68 854)	73 693
Salary increase rate	26 643	(16 935)	27 329	(18 882)
Pension increase rate	57 714	(52 943)	54 664	(50 705)
	in +1 ano	in -1 ano	in +1 ano	in -1 ano
Mortality table	(70 811)	71 808	(64 631)	65 300

The evolution of the actuarial gains and losses in the balance sheet can be analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Retirement pension liabilities at beginning of the exercise	**1 848 930**	**1 675 608**
Current service cost	425	14
Interest cost	23 870	31 687
Plan participants' contribution	2 617	2 645
Contributions from other entities	238	285
Actuarial (gains) / losses in the exercise:		
- Changes in financial assumptions	101 787	125 523
- Experience adjustments (gains) / losses	50 737	64 098
Pensions paid by the fund / transfers and once-off bonuses	(73 073)	(69 708)
Amount of the responsibilities transferred to defined contribution plans	(54 679)	-
Early retirement	32 902	15 670
Foreign exchange differences and other	914	3 108
Retirement pension liabilities at end of the exercise	**1 934 668**	**1 848 930**

The evolution of the value of pension funds in the years ended 31 December 2020 and 2019 can be analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Fair value of fund assets at beginning of period	**1 695 857**	**1 648 168**
Net return from the fund	47 403	110 313
- Share of the net interest on the assets	19 891	28 026
- Return on assets excluding net interest	27 512	82 287
Group contributions	269 419	1 535
Employee contributions	2 617	2 645
Pensions paid by the fund / transfers and once-off bonuses	(73 073)	(69 708)
Transfer to Undivided Party	(35 523)	-
Foreign exchange differences and other	916	2 904
Fund balance at the end of the year	**1 907 616**	**1 695 857**

Pension fund assets can be analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	39 710	-	39 710	163 866	59 309	223 175
Debt instruments	1 105 727	-	1 105 727	1 013 356	74	1 013 430
Investment funds	324 480	71 489	395 969	216 168	57 984	274 152
Structured debt	66	31	97	6 683	7 818	14 501
Derivatives	-	75	75	-	1	1
Real estate properties	-	115 855	115 855	-	107 166	107 166
Cash and cash equivalents	-	250 183	250 183	-	63 432	63 432
Total	**1 469 983**	**437 633**	**1 907 616**	**1 400 073**	**295 784**	**1 695 857**

The pension fund assets used by the Group or representative of securities issued by entities of the Group are detailed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Participation units	131 265	92 601
Real estate properties	63 630	75 851
Total	**194 895**	**168 452**

The evolution of actuarial deviations on the balance sheet can be analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**599 454**	**492 177**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	101 787	125 523
- Plan assets return (excluding net of interests)	23 225	(18 189)
Other	(743)	(57)
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**723 723**	**599 454**

The costs of retirement pensions and health benefits for the years ended 31 December 2020 and 2019 can be analyzed as follows:

(in thousand of Euros)

	31.12.2020	31.12.2019
Current service cost	425	14
Net interest	3 979	3 661
Reformas antecipadas	1 310	-
Post-employment benefits costs	**5 714**	**3 675**

The evolution of net assets / (liabilities) on the balance sheet can be analyzed in the years ended 31 December 2020 and 2019 as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
At the beginning of the period	**(153 073)**	**(27 440)**
Cost for period	(5 714)	(3 675)
Actuarial gains / (losses) recognized in other comprehensive income	(124 269)	(107 277)
Contributions made in the period	269 419	1 535
Undivided transfer and reduction of responsibilities	19 156	-
Other	(32 571)	(16 216)
At the end of the period	**(27 052)**	**(153 073)**

In 2020, the value of early retirements amounted to Euro 32.9 million (31 December 2019: Euro 15.7 million), of which Euro 31.6 million are part of the Group's restructuring process and as such, they were recognized against the use of the provision for restructuring (see Note 32). These amounts are considered in Other in the previous table.

The summary of the last five years of the funds liabilities and the funds balances, as well as experience gains and losses, is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Retirement pension liabilities	(1 934 668)	(1 848 930)	(1 675 608)	(1 663 489)	(1 577 750)
Funds balance	1 907 616	1 695 857	1 648 168	1 648 405	1 557 979
(Under) / overfunding of liabilities	**(27 052)**	**(153 073)**	**(27 440)**	**(15 084)**	**(19 771)**
(Gains) / losses on experience adjustments in retirement pension liabilities	50 737	64 098	17 839	15 263	12 318
(Gains) / losses on experience adjustments in plan assets	(27 512)	(82 287)	53 917	(91 900)	43 716

The average duration of defined benefit plan liabilities is approximately 16 years (31 December 2019: approximately 16 years). The following table shows the temporal detail of the estimated benefits to be paid:

(in thousands of Euros)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	73 801	74 092	222 542	1 879 351

Career bonuses

As at 31 December 2020, the liabilities assumed by the Group amounted to Euro 7,523 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.15 – Employee benefits (31 December 2019: Euro 7,106 thousand) (see Note 33).

As at 31 December 2020, the costs recognized with career bonuses were Euro 951 thousand (31 December 2019: Euro 864 thousand) (see Note 15).

NOTE 17 – Other administrative expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019 *
Rentals	2 800	3 457
Advertising	6 739	8 443
Communication	12 113	11 795
Maintenance and repairs expenses	8 766	8 945
Travelling and representation	1 386	3 086
Transportation of valuables	4 584	4 267
Insurance	3 123	2 621
IT services	45 610	45 920
Independent work	2 569	3 614
Temporary work	1 322	1 525
Electronic payment systems	11 625	10 482
Legal costs	4 938	7 407
Consultancy and audit fees	24 688	24 979
Water, energy and fuel	3 185	3 681
Consumables	1 487	1 588
Other costs	18 228	20 120
	153 163	**161 930**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The caption Other costs includes, amongst others, specialised service costs incurred with security and surveillance, information services, training and sundry external supplies.

As at 31 December 2020, rental costs includes an amount of Euro 196 thousand related to short-term operating lease contracts, as described in note 2.14.

The fees invoiced during the years 2020 and 2019 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code (Código das Sociedades Comerciais), have the following:

(in thousands of Euros)

	31.12.2020	31.12.2019
Statutory audit of annual accounts	2 307	1 685
Other reliability assurance services	802	1 043
Total value of billable services	**3 109**	**2 728**

NOTE 18 - Contributions to resolution funds and deposit guarantee schemes

This caption on 31 December 2020 and 2019 is analyzed as follows:

	31.12.2020	31.12.2019 *
		(In thousands of Euros)
Contribution to the Fundo Único de Resolução	22 266	22 469
Contribution to the Fundo de Resolução Nacional	12 743	12 196
Contribution to the Fundo de Garantia de Depósitos	39	42
	35 048	**34 707**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 19 – Earnings per share

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year /period.

	31.12.2020	31.12.2019 *
		(In thousands of Euros)
Net consolidated profit / (loss) attributable to shareholder of the Bank	**(1 328 236)**	**(1 058 812)**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**(0,14)**	**(0,11)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0,13)**	**(0,10)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share, since there are no dilutive effects.

NOTE 20 – Cash, cash balances at Central Banks and other demand deposits

As at 31 December 2020 and 31 December 2019, this caption is analyzed as follows:

	31.12.2020	31.12.2019
		(in thousands of Euros)
Cash	**149 205**	**179 220**
Demand deposits with Central Banks		
Bank of Portugal	2 289 339	1 387 250
Other Central Banks	3 458	21 658
	2 292 797	**1 408 908**
Deposits in other domestic credit institutions		
Repayable on demand	19 565	12 303
Uncollected checks	51 590	51 437
	71 155	**63 740**
Deposits with banks abroad		
Repayable on demand	143 614	175 761
Other deposits	38 688	26 452
	182 302	**202 213**
	2 695 459	**1 854 081**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 262.2 million (31 December 2019: Euro 246.8 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 31 December 2020, the average interest rate on these deposits was null (31 December 2019: null).

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 31 December 2020 was included in the observation period running from 16 December 2020 to 26 January 2021.

Checks to be collected on credit institutions at home and abroad were sent for collection within the first business days following the reference dates.

NOTE 21 – Financial assets and liabilities held for trading

As at 31 December 2020 and 2019, this caption is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	267 016	254 848
	267 016	**254 848**
Derivatives		
Derivatives held for trading with positive fair value	388 257	419 791
Fair value option derivatives with positive fair value	-	74 093
	388 257	**493 884**
	655 273	**748 732**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	554 791	544 825
	554 791	**544 825**

Securities held for trading

In accordance with the accounting policy described in Note 2.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As of 31 December 2020 and 2019, the schedule of securities held for trading by maturity is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
1 to 5 years	3 734	117 227
More than 5 years	263 282	137 621
	267 016	**254 848**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 40.

Derivatives

As at 31 December 2020 and 31 December 2019, this caption is analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	622 307	23 668	7 956	743 210	5 307	5 757
- sell	605 890			744 649		
Currency Swaps						
- buy	967 872	1 431	5 468	1 019 987	1 118	490
- sell	968 543			1 025 562		
Currency Interest Rate Swaps						
- buy	21 390	21 363	21 363	22 951	21 875	21 870
- sell	21 390			22 947		
Currency Options						
- buy	168 095	10 743	10 706	219 866	6 240	5 836
- sell	167 870			192 493		
		57 205	**45 493**		**34 540**	**33 953**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 138 184	318 578	499 782	7 808 593	349 152	499 619
- sell	7 139 186			7 809 654		
Swaption - Interest Rate Options						
- buy	-	-	-	400 000	2 821	1 177
- sell	-			-		
Interest Rate Caps & Floors						
- buy	89 767	1 084	3 961	93 846	966	893
- sell	165 221			91 073		
		319 662	**503 743**		**352 939**	**501 689**
Equity / Index contracts						
Equity / Index Swaps						
- buy	30 467	2 337	2 204	152 294	3 988	3 739
- sell	30 467			152 294		
Equity / Index Options						
- buy	663 491	9 053	3 335	711 682	28 323	5 402
- sell	685 480			743 755		
		11 390	**5 539**		**32 311**	**9 141**
Credit default contracts						
Credit Default Swaps						
- buy	2 399	-	16	2 883	1	42
- sell	2 399			2 883		
		-	**16**		**1**	**42**
		388 257	**554 791**		**419 791**	**544 825**
Fair value option derivatives						
Interest rate contracts						
Interest Rate Swaps						
- compras	-	-	-	171 371	74 093	-
- vendas	-			171 371		
		-	**-**		**74 093**	**-**

a) Derivatives traded on organized markets, whose market value is settled daily through the margin account (see Note 28)

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 2.4 and 2.7, and which the Group has not designated for hedge accounting.

The Group calculates the Credit Valuation Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a recovery rate, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, are applied to the exposure determined, an expected loss and a recovery rate.

In the financial year of 2020, the Group recognized a loss of Euro -291 thousand related to the CVA of derivative instruments (31 December 2019: gain of Euro 1,796 thousand).

The Group chooses not to register "Debt Valuation Adjustment" (DVA), which represents the market value of own credit risk of the group of a certain negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.

As at 31 December 2020 and 2019, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Derivatives held for negotiation						
Up to 3 months	1 597 161	1 597 477	(81)	2 094 664	1 924 137	(892)
From 3 months to 1 year	822 432	805 003	8 725	1 053 257	843 821	16 406
From 1 to 5 years	2 329 447	2 349 045	(23 606)	2 111 144	2 098 238	1 301
More than 5 years	4 954 932	5 034 921	(151 572)	5 916 247	5 919 114	(141 849)
	9 703 972	**9 786 446**	**(166 534)**	**11 175 312**	**10 785 310**	**(125 034)**
Fair value option derivatives						
More than 5 years	-	-	-	171 371	171 371	74 093
	-	**-**	**-**	**171 371**	**171 371**	**74 093**

Credit Support Annex (CSA)

NOVO BANCO has several contracts negotiated with counterparts with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 22 – Financial assets mandatorily at fair value through profit or loss, designated at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost

As at 31 December 2020 and 2019, this caption is analyzed as follows:

(in thousands of Euros)

	31.12.2020				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	960 962	7 907 587	2 229 947	1 129	11 099 625
Loans and advances to banks	-	-	113 795	-	113 795
Loans and advances to customers	-	-	23 554 304	62 730	23 617 034
	960 962	**7 907 587**	**25 898 046**	**63 859**	**34 830 454**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 23)

(in thousands of Euros)

	31.12.2019				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	1 314 742	8 849 896	1 622 545	-	11 787 183
Loans and advances to banks	-	-	369 228	-	369 228
Loans and advances to customers	-	-	25 149 687	52 540	25 202 227
	1 314 742	**8 849 896**	**27 141 460**	**52 540**	**37 358 638**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 23)

Securities

As at 31 December 2020 and 2019, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	160 184	57 590
Shares	406 104	603 851
Other securities with variable income	394 674	653 301
	960 962	**1 314 742**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	6 490 076	7 108 022
From other issuers	1 352 759	1 661 538
Shares	64 752	80 334
Other variable income securities	-	2
	7 907 587	**8 849 896**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	421 249	459 260
From other issuers	2 009 935	1 322 059
Impairment	(201 237)	(158 774)
	2 229 947	**1 622 545**
Value adjustments for hedging operations for interest rate risk *	1 129	-
	11 099 625	**11 787 183**

* See Note 23

The securities mandatorily accounted at fair value through profit or loss include the participation units held by the Group in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 2.5, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

At the end of 2020, NOVO BANCO completed the independent assessment of the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and NOVO BANCO requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets, which led to the recording of a loss of Euro -300.2 million in the year 2020 recorded under the heading of gains or losses with financial assets mandatorily accounted for at fair value through profit or loss (see Note 10). This assessment included the establishment of assumptions for the valuation of assets included in the funds, a discount at the level of the fund based on parameters equivalent to quoted funds and an appreciation of the potential evolution of the fund.

As at 31 December 2020 and 2019, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost (1)	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 130 285**	**360 033**	**(242)**	**6 490 076**	**(3 125)**
Residents	2 650 953	129 520	-	2 780 473	(1 435)
Non residents	3 479 332	230 513	(242)	3 709 603	(1 690)
From other issuers	**1 286 344**	**68 749**	**(2 334)**	**1 352 759**	**(565)**
Residents	29 605	107	(2 334)	27 378	(3)
Non residents	1 256 739	68 642	-	1 325 381	(562)
Shares	**463 232**	**18 163**	**(416 643)**	**64 752**	**-**
Residents	359 127	15 396	(319 824)	54 699	-
Non residents	104 105	2 767	(96 819)	10 053	-
Other securities with variable income	**2**	**-**	**(2)**	**-**	**-**
Residents	2	-	(2)	-	-
Balance as at 31 December 2020	**7 879 863**	**446 945**	**(419 221)**	**7 907 587**	**(3 690)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

(in thousands of Euros)

	Cost (1)	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 781 109**	**327 605**	**(692)**	**7 108 022**	**(4 527)**
Residents	3 201 240	162 006	(490)	3 362 756	(2 158)
Non residents	3 579 869	165 599	(202)	3 745 266	(2 369)
From other issuers	**1 575 607**	**87 363**	**(1 432)**	**1 661 538**	**(1 029)**
Residents	33 212	20 711	-	53 923	(8)
Non residents	1 542 395	66 652	(1 432)	1 607 615	(1 021)
Shares	**480 591**	**25 771**	**(426 028)**	**80 334**	**-**
Residents	375 391	24 590	(335 217)	64 764	-
Non residents	105 200	1 181	(90 811)	15 570	-
Other securities with variable income	**2**	**2**	**(2)**	**2**	**-**
Residents	2	-	(2)	-	-
Non residents	-	2	-	2	-
Balance as at 31 December 2019	**8 837 309**	**440 741**	**(428 154)**	**8 849 896**	**(5 556)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

During the year 2020, the Group sold Euro 1,323.9 million of financial instruments classified at fair value through other comprehensive income (31 December 2019: Euro 3,761.0 million), with a gain of Euro 82, 4 million (31 December 2019: gain of Euro 67.8 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 15.0 million that were transferred from revaluation reserves to sales-related reserves (31 December 2019: loss of Euro 4.5 million).

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**1 191**	**22**	**-**	**1 213**
Increases due to changes in credit risk	6 233	-	-	6 233
Decreases due to changes in credit risk	(1 729)	(18)	-	(1 747)
Utilization during the period	(137)	-	-	(137)
Other movements	(2)	(4)	-	(6)
Balance as at 31 December 2019	**5 556**	**-**	**-**	**5 556**
Increases due to changes in credit risk	3 516	38	-	3 554
Decreases due to changes in credit risk	(5 080)	-	-	(5 080)
Utilization during the period	(232)	(44)	-	(276)
Other movements	(70)	6	-	(64)
Balance as at 31 December 2020	**3 690**	**-**	**-**	**3 690**

Changes in impairment losses on amortised cost securities are as follows:

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**2 233**	**57 623**	**134 930**	**194 786**
Derecognized financial assets	-	-	(3 424)	(3 424)
Increases due to changes in credit risk	8 212	638 922	6 616	653 750
Decreases due to changes in credit risk	(8 208)	(642 526)	(7 690)	(658 424)
Utilization during the period	-	(1)	(28 019)	(28 020)
Other movements	59	38	9	106
Balance as at 31 December 2019	**2 296**	**54 056**	**102 422**	**158 774**
Increases due to changes in credit risk	10 187	717 848	10 533	738 568
Decreases due to changes in credit risk	(8 816)	(683 933)	(3 294)	(696 043)
Utilization during the period	(36)	(2)	-	(38)
Other movements	294	(317)	(1)	(24)
Balance as at 31 December 2020	**3 925**	**87 652**	**109 660**	**201 237**

In accordance with the accounting policy mentioned on Note 2.5, the Group regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 3.1.

The dotation for impairment for securities during 2020 financial year include Euro 29.0 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic.

As at 31 December 2020 and 2019, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Loans and advances to banks in Portugal		
Very short-term placements	4 075	8 902
Deposits	4 897	9 342
Loans	30 280	34 013
Other loans and advances	4	3
	39 256	**52 260**
Loans and advances to banks abroad		
Deposits	10 532	10 850
Loans	-	1 645
Other loans and advances	279 419	381 561
	289 951	**394 056**
Overdue loans	**34 726**	**-**
	363 933	**446 316**
Impairment losses	**(250 138)**	**(77 088)**
	113 795	**369 228**

The detail of the securities portfolio by fair value hierarchy is presented in Note 40.

The portfolio securities pledged by the Group are analyzed in Note 36.

Loans and advances to Banks

As at 31 December 2020 and 31 December 2019, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Loans and advances to banks in Portugal		
Very short-term placements	4 075	8 902
Deposits	4 897	9 342
Loans	30 280	34 013
Other loans and advances	4	3
	39 256	**52 260**
Loans and advances to banks abroad		
Deposits	10 532	10 850
Loans	-	1 645
Operations with reverse repurchase agreements	-	-
Other loans and advances	279 419	381 561
	289 951	**394 056**
Overdue loans	**34 726**	**-**
	363 933	**446 316**
Impairment losses	**(250 138)**	**(77 088)**
	113 795	**369 228**

Investments in credit institutions are all recorded in the amortised cost portfolio.

As at 31 December 2020 and 2019, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Up to 3 months	16 200	24 302
From 3 months to 1 year	4 854	11 793
From 1 to 5 years	302 182	406 305
More than 5 years	5 971	3 916
Unlimited duration (Overdue Loans)	34 726	-
	363 933	**446 316**

Changes in impairment losses on loans and advances to banks are presented as follows:

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**170**	**75 143**	**427**	**75 740**
Increases due to changes in credit risk	406	2 752	-	3 158
Decreases due to changes in credit risk	(234)	(2 959)	-	(3 193)
Utilization during the period	-	(22)	-	(22)
Other movements	(24)	1 427	2	1 405
Balance as at 31 December 2019	**318**	**76 341**	**429**	**77 088**
Increases due to changes in credit risk	536	2 457	317 540	320 533
Decreases due to changes in credit risk	(436)	(1 948)	(128 520)	(130 904)
Other movements	12	(76 848)	60 257	(16 579)
Balance as at 31 December 2020	**430**	**2**	**249 706**	**250 138**

The increase of impairment for investments in credit institutions verified in 2020 results from the degradation of the credit risk of international exposures analyzed on an individual basis, whose partial default situation at the end of 2020, among other signs of impairment, led to the transfer of the same to stage 3 and the constitution of additional impairments of Euro 189.6 million, and the total impairment recorded on 31 December 2020 for this exposure was Euro 249.3 million.

Loans and advances to customers

As at 31 December 2020 and 31 December 2019, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Domestic loans and advances		
Corporate		
Current account loans	1 147 959	1 408 191
Loans	8 980 908	8 436 268
Discounted bills	81 843	121 203
Factoring	576 766	710 493
Overdrafts	7 109	3 061
Financial leases	1 421 599	1 523 091
Other loans and advances	21 077	29 617
Individuals		
Residential Mortgage loans	8 977 196	9 102 659
Consumer credit and other loans	1 118 813	1 178 338
	22 333 270	**22 512 921**
Foreign loans and advances		
Corporate		
Current account loans	851 881	667 842
Loans	146 986	1 068 336
Discounted bills	4	21 206
Factoring	51 483	138 292
Overdrafts	8 321	39 158
Financial leases	-	37 422
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	950 312	1 085 701
Consumer credit and other loans	186 020	321 114
	2 195 008	**3 379 072**
Overdue loans and advances and interests		
Under 90 days	15 632	26 695
Over 90 days	610 169	1 083 494
	625 801	**1 110 189**
	25 154 079	**27 002 182**
Impairment losses	**(1 599 775)**	**(1 852 495)**
	23 554 304	**25 149 687**
Fair value adjustaments of interest rate hedges *		
Corporate		
Loans	6 774	14 390
Individuals		
Residential Mortgage loans	55 956	38 150
	62 730	**52 540**
	23 617 034	**25 202 227**

* See Note 23

During the year of 2020, the Group completed the sale of a portfolio of non-performing loans (called "Carter") and the impact of this operation on the balance sheet resulted in a reduction of net loans and advances to customers of Euro 37.0 million (Euro 82.8 million in gross value and Euro 45.8 million in impairment) and the impact on results translated into a gain of Euro 2.9 million (see Note 43).

During the year of 2019, the Group completed the sale of a portfolio of non-performing loans (called "NATA II"), and the impact of this operation on the balance sheet resulted in a reduction in net loans and advances to customers of Euro 128.1 million (Euro 1,189.3 million in gross value and Euro 1,061.1 million in impairment), and the impact on results was a loss of Euro -79.0 million (see Note 43).

Loans to customers are all recorded in the amortised cost portfolio.

As at 31 December 2020, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1,390.3 million (31 December 2019: Euro 1,608.7 million), related to securitization operations in which, according to the accounting policy referred to in Note 2.2, structured entities are consolidated by the Group (see Notes 1 and 39). The liabilities associated with these securitization operations were recognized as Debt Securities (see Note 31).

As at 31 December 2020, the caption Loans and advances to customers include Euro 6,104.8 million of mortgage loans related to the issuance of mortgage bonds (31 December 2019: Euro 6,076.8 million) (see Note 31).

As at 31 December 2020, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 25,256 thousand (31 December 2019: Euro 26,343 thousand).

As at 31 December 2019 and 2018, the analysis of loans and advances to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Up to 3 months	1 049 929	1 773 496
From 3 months to 1 year	1 299 816	1 496 699
From 1 to 5 years	5 157 298	5 108 121
More than 5 years	17 083 965	17 566 217
Unlimited duration (Overdue Loans)	625 801	1 110 189
	25 216 809	**27 054 722**

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Credit Impairment Movement			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2018	**265 353**	**110 355**	**3 582 214**	**3 957 922**
Financial assets derecognised	(1 050)	(13)	(1 055 717)	(1 056 780)
Increases due to changes in credit risk	137 482	106 610	705 452	949 544
Decreases due to changes in credit risk	(156 076)	(31 981)	(133 970)	(322 027)
Utilization during the period	(49)	(422)	(1 709 571)	(1 710 042)
Other movements	(191 715)	(44 774)	270 367	33 878
Balance as at 31 December 2019	**53 945**	**139 775**	**1 658 775**	**1 852 495**
Financial assets derecognised	(2)	-	(294 005)	(294 007)
Increases due to changes in credit risk	40 289	339 145	428 745	808 179
Decreases due to changes in credit risk	(116 192)	(98 938)	(68 607)	(283 737)
Utilization during the period	(16)	(113)	(441 321)	(441 450)
Other movements [(a)]	83 405	(69 864)	(55 246)	(41 705)
Balance as at 31 December 2020	**61 429**	**310 005**	**1 228 341**	**1 599 775**

(a) It includes 58 046 thousand euros of impairment of credits of the Spanish Branch transferred to discontinued operations (22 427 thousand euros in stage 1 and 35 619 thousand euros in stage 3).

The increase of impairment for credit risk during the year 2020 include Euro 218.8 million, reflecting the updating of the information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic.

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Fixed rate	3 982 917	3 705 246
Variable rate	21 233 892	23 349 476
	25 216 809	**27 054 722**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

		(in thousands of Euros)
	31.12.2020	31.12.2019
Gross investment in finance leases receivable		
Up to 1 year	270 188	293 189
1 to 5 years	761 487	827 824
More than 5 years	571 105	663 672
	1 602 780	1 784 685
Unrealized finance income in finance leases		
Up to 1 year	44 830	35 558
1 to 5 years	67 455	91 219
More than 5 years	32 654	57 541
	144 939	184 318
Present value of minimum lease payments receivable		
Up to 1 year	225 358	257 631
1 to 5 years	694 032	736 605
More than 5 years	538 285	605 996
	1 457 675	1 600 232
Impairment	(220 447)	(202 575)
	1 237 228	**1 397 657**

NOTE 23 – Derivatives – hedge accounting and fair value changes of the hedged items

At 31 December 2020 and 31 December 2019, the fair value of the hedging derivatives is analyzed as follows:

		(in thousands of Euros)
	31.12.2020	31.12.2019
Hedging derivatives		
Assets	12 972	7 452
Liabilities	(72 543)	(58 855)
	(59 571)	**(51 403)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 22)	1 129	-
Loans to customerss (see Note 22)	62 730	52 540
	63 859	**52 540**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting.

The Group calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 21 - financial assets and liabilities held for trading.

As at 31 December 2020 and 2019, fair value hedging operations may be analyzed as follows:

(in thousands of Euros)

31.12.2020							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (2)	Change in fair value of derivative in period	Fair value component of item hedged(1)	Change in fair value component of item hedged in period (1)
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	665	801	1 129	1 130
Interest Rate Swap/ CIRS	Loans to customers	Interest and exchange rates	3 325 224	(60 236)	(9 045)	62 730	11 416
			3 703 224	**(59 571)**	**(8 244)**	**63 859**	**12 546**

(1) Attributable to hedged risk

(2) Includes accrued interest

(in thousands of Euros)

31.12.2019							
Produto derivado	Hedged item	Hedged risk	Notional	Fair value of derivatives (2)	Change in fair value of derivative in period	Fair value component of item hedged(1)	Change in fair value component of item hedged in period (1)
Interest Rate Swap/ CIRS	Loans to customers	Interest and exchange rates	3 295 352	(51 403)	(16 142)	52 540	18 007
			3 295 352	**(51 403)**	**(16 142)**	**52 540**	**18 007**

(1) Attributable to hedged risk

(2) Includes accrued interest

On 31 December 2020, the ineffective part of the fair value hedging operations, which translated into a cost of Euro 4.3 million, was recorded in the income statement (31 December 2019: profit of Euro 1.8 million). The Group periodically conducts tests of the effectiveness of existing hedging relationships.

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Group proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Group did not record significant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were given the same change (hedged items and hedging).

Transactions with risk management and hedge derivatives as of 31 December 2020 and 2019, by maturity, can be analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
3 months to 1 year	170 866	170 866	(912)	-	-	-
1 to 5 years	803 084	803 084	(8 747)	772 860	772 860	(14 413)
More than 5 years	877 662	877 662	(49 912)	874 816	874 816	(36 990)
	1 851 612	**1 851 612**	**(59 571)**	**1 647 676**	**1 647 676**	**(51 403)**

NOTE 24 – Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	Cost of participation		Economic interest (b)		Book value		Group profit / losses attributable to the Group	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
LOCARENT	2 967	2 967	50,00%	50,00%	20 607	19 612	1 021	1 325
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40,00%	40,00%	60 200	61 786	4 526	(1 784)
EDENRED	4 984	4 984	50,00%	50,00%	2 102	1 992	469	513
UNICRE **a)**	11 497	11 497	17,50%	17,50%	28 983	24 640	4 242	2 624
Others	28 572	28 381			19 701	20 915	(828)	(1 208)
	194 789	**194 598**			**131 593**	**128 945**	**9 430**	**1 470**
Impairment					**(37 963)**	**(36 317)**		
					93 630	**92 628**		

a) Despite the Group's economic interest being less than 20%, this entity was included in the consolidated balance sheet using the equity method since the Group exercises significant influence over its activities.

b) The percentage of economic interest indicated corresponds to the proportion of voting rights held.

The financial information of the most relevant associated companies is presented in the following table:

(in thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the period	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
LOCARENT	278 892	285 608	238 299	247 005	40 593	38 603	33 115	66 882	2 042	2 649
LINEAS - CONCESSÕES DE TRANSPORTES	239 341	314 608	154 744	227 063	84 597	87 545	19 769	2 272	12 333	(4 461)
EDENRED	78 399	74 183	67 973	63 978	10 426	10 205	7 083	7 713	938	1 026
UNICRE **a)**	376 266	398 278	210 647	257 476	165 619	140 802	148 490	156 270	24 239	14 995

Note: Data adjusted for consolidation purposes

a) Despite the Group's economic interest being less than 20%, this entity was included in the consolidated balance sheet using the equity method since the Group exercises significant influence over its activities.

The changes in the caption as at 31 December 2020 and 2019, is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	92 628	118 698
Additional acquisitions and investments (see Note 1)	2 919	-
Share of profits / (losses) of associated companies	9 430	1 470
Impairment in associated companies	(4 192)	333
Fair value reserves of investments in associated companies	691	709
Dividends received	(1 541)	(5 371)
Foreign exchange differences and other **(a)**	(6 305)	(23 211)
Balance at the end of the exercise	**93 630**	**92 628**

(a) As of 31 December 2019 it includes 22 904 thousand euros related to the reclassification of GNB Seguros, ESEGUR and Multipessoal for discontinued operations (see Note 29)

In 2020, dividend income of Euro 1,541 thousand was recorded in financial assets in investments in associates and subsidiaries, which include dividends received from Locarent in the amount of Euro 958 thousand, from Edenred in the amount of Euro 583 thousand and ESEGUR in the amount of Euro 548 thousand (31 December 2019: Euro 5,371 thousands, which include dividends received from Unicre in the amount of Euro 4,165 thousand, from Locarent in the amount of Euro 1,050 thousand and Edenred in the amount of Euro 156 thousand).

The changes in impairment losses for investments in associates are presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the period	**36 317**	**36 650**
Charges	5 142	1
Uses	(2 680)	-
Reversals	(950)	(334)
Foreign exchange differences	134	-
Balance at the end of the period	**37 963**	**36 317**

NOTE 25 – Tangible fixed assets

This caption as at 31 December 2020 and 2019 is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Real estate properties		
For own use	225 571	207 553
Improvements in leasehold properties	135 909	139 257
Assets under right-of-use	53 082	60 531
	414 562	**407 341**
Equipment		
Computer equipment	106 337	110 371
Fixtures	56 936	58 243
Furniture	52 296	71 061
Security equipment	24 248	24 829
Office equipment	7 993	8 230
Transport equipment	583	640
Assets under right-of-use	10 228	5 952
Other	189	1 195
	258 810	**280 521**
	673 372	**687 862**
Work in progress		
Improvements in leasehold properties	-	22
Real estate properties	148	67
Equipment	1	6
Others	1 417	-
	1 566	**95**
	674 938	**687 957**
Accumulated impairment	(13 943)	(10 609)
Accumulated depreciation	(473 943)	(488 940)
	187 052	**188 408**

The changes in this caption were as follows:

(in thousand of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 2018	**347 224**	**286 815**	**-**	**1 942**	**635 981**
Acquisitions	8 230	11 371	-	358	19 959
Disposals/write-offs	(20 244)	(22 634)	-	-	(42 878)
Transfers **(a)**	491	950	-	(2 205)	(764)
IFRS16 transition impact	66 644	4 461	-	-	71 105
Foreign exchange differences and other	4 996	(442)	-	-	4 554
Balance at 31 December 2019	**407 341**	**280 521**	**-**	**95**	**687 957**
Acquisitions	31 178	15 514	-	1 593	48 285
Disposals/write-offs	(12 539)	(10 360)	-	-	(22 899)
Transfers	(1 665)	(147)	-	(121)	(1 933)
Foreign exchange differences and other (c)	(9 753)	(26 718)	-	(1)	(36 472)
Balance at 31 December 2020	**414 562**	**258 810**	**-**	**1 566**	**674 938**
Depreciation					
Balance at 31 December 2018	**225 713**	**257 149**	**16**	**-**	**482 878**
Depreciation	20 542	11 866	1	-	32 409
Disposals/write-offs	(5 998)	(21 292)	-	-	(27 290)
Transfers **(a)**	(210)	(74)	-	-	(284)
Foreign exchange differences and other	1 085	142	-	-	1 227
Balance at 31 December 2019	**241 132**	**247 791**	**17**	**-**	**488 940**
Depreciation	17 829	12 456	-	-	30 285
Disposals/write-offs	(8 928)	(9 973)	(7)	-	(18 908)
Transfers **(b)**	(805)	(143)	-	-	(948)
Foreign exchange differences and other **(d)**	(801)	(24 622)	(3)	-	(25 426)
Balance at 31 December 2020	**248 427**	**225 509**	**7**	**-**	**473 943**
Impairment					
Balance at 31 December 2018	**10 609**	**-**	**-**	**-**	**10 609**
Balance at 31 December 2019	**10 609**	**-**	**-**	**-**	**10 609**
Impairment loss	3 334	-	-	-	3 334
Balance at 31 December 2020	**13 943**	**-**	**-**	**-**	**13 943**
Net book value at 31 December 2020	**152 192**	**33 301**	**(7)**	**1 566**	**187 052**
Net book value at 31 December 2019	**155 600**	**32 730**	**(17)**	**95**	**188 408**

(a) Includes Euro 764 thousand of fixed assets (real estate and equipment) and Euro 284 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

(b) Includes Euro 1 951 thousand of fixed assets (real estate and equipment) and Euro 1 064 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

(c) Includes Euro 9 005 thousand and Euro 27 118 thousand of fixed asset (real estate and equipment) transferred by discontinued activities during the financial year 2020.

(d) Includes Euro 2 034 thousand and Euro 24 274 thousand of amortizations related to fixed assets (real estate and equipment) of the Spain branch transferred to discontinued activities during the financial year 2020.

NOTE 26 – Investment properties

The changes in the caption Investment properties is presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**700 744**	**1 098 071**
Changes in consolidation perimeter	-	9 455
Acquisitions	11 966	-
Sales	(67 581)	(197 058)
Changes in fair value	(101 827)	(216 119)
Other **(a)**	49 303	6 395
Balance at the end of the exercise	**592 605**	**700 744**

(a) Includes Euro 52 915 thousand of real estate assets transferred in financial year 2020 within the scope of the Restructuring of Real Estate Funds that were previously classified as Other Assets (see Note 29).

According to the accounting policy described in Note 2.23, the book value of investment properties is the fair value of the properties, as determined by a registered and independent appraiser with a recognized professional qualification and experience in the geographical location and category of the property being valued. For the purposes of determining the fair value of these assets, generally accepted criteria and methodologies are used, which integrate analyses by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 40). In view of the uncertainty associated with the estimated value of these assets, NOVO BANCO Group considers the impacts of the current context of the Covid-19 pandemic as the assets are subject to revaluation.

Investment properties comprise some assets held by Funds and Real Estate firms, and include commercial properties leased for revenue and properties held for valuation. Most of the lease contracts have no specific tenor, enabling the lessee to cancel it at any time. However, for a small number of these commercial properties leased to third parties there is a non-cancelling clause for approximately 10 years. Subsequent leases are negotiated with the lessee.

In the financial year of 2020, the decrease in the fair value of investment properties of Euro 101.8 million (31 December 2019: reduction of Euro 216.1 million) (see Note 14), and the rental income from investment properties of Euro 19.3 million (31 December 2019: Euro 15.0 million), are recognized in Other operating income and expenses.

The fair value changes and sales presented as at 31 December 2019 include Euro 35.0 million and Euro 17.4 million related to the sale of real estate assets (Project Sertorius) (see Note 43).

NOTE 27 – Intangible assets

This caption as at 31 December 2020 and 31 December 2019, is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Goodwill	**13 907**	**13 908**
Internally developed		
Software - Automatic data processing system	69 511	69 408
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	353 678	371 533
Other	-	4
	423 190	**440 946**
Work in progress	**21 439**	**17 464**
	458 536	**472 318**
Accumulated amortization	(395 796)	(432 032)
Impairment losses	(13 907)	(13 908)
	48 833	**26 378**

The changes in this caption were as follows:

(in thousands of Euros)

	Goodwill e Value In Force	Software	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2018	**251 004**	**442 494**	**2 618**	**696 116**
Acquisitions				
Acquired from third parties	-	3 421	23 018	26 439
Disposals / write-offs	(234 575)	(7 458)	-	(242 033)
Transfers	-	4 467	(8 172)	(3 705)
Foreign exchange differences and other	(2 521)	(1 978)	-	(4 499)
Balance as at 31 December 2019	**13 908**	**440 946**	**17 464**	**472 318**
Acquisitions				
Acquired from third parties	-	2 730	24 136	26 866
Disposals / write-offs	-	(24)	-	(24)
Transfers	-	20 161	(20 161)	-
Foreign exchange differences and other **(a)**	(1)	(40 623)	-	(40 624)
Balance as at 31 December 2020	**13 907**	**423 190**	**21 439**	**458 536**
Amortizations				
Balance as at 31 December 2018	**-**	**440 130**	**-**	**440 130**
Amortization for the period	-	1 254	-	1 254
Disposals / write-offs	-	(7 460)	-	(7 460)
Foreign exchange differences and other	-	(1 892)	-	(1 892)
Balance as at 31 December 2019	**-**	**432 032**	**-**	**432 032**
Amortization for the period	-	2 787	-	2 787
Disposals / write-offs	-	(20)	-	(20)
Foreign exchange differences and other **(b)**	-	(39 003)	-	(39 003)
Balance as at 31 December 2020	**-**	**395 796**	**-**	**395 796**
Impairment				
Balance as at 31 December 2018	**250 561**	**-**	**-**	**250 561**
Impairment losses	443	-	-	443
Reversal of impairment losses	(234 575)	-	-	(234 575)
Foreign exchange changes and other	(2 521)	-	-	(2 521)
Balance as at 31 December 2019	**13 908**	**-**	**-**	**13 908**
Impairment losses	-	-	-	-
Disposals / write-offs	-	-	-	-
Foreign exchange differences and other	(1)	-	-	(1)
Balance as at 31 December 2020	**13 907**	**-**	**-**	**13 907**
Net balance at 31 December 2020	**-**	**27 394**	**21 439**	**48 833**
Net balance at 31 December 2019	**-**	**8 914**	**17 464**	**26 378**

(a) Includes 40 083 thousands of Euros of projects assigned to the Spain branch transferred to Discontinued Entities during the financial year 2020.

(b) Includes 38 463 thousands of Euros of investment projects related to the Spanish Branch transferred to Discontinued Entities during the financial year 2020.

Goodwill is recognized in accordance with the accounting policy described in Note 2.2, is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Subsidiaries		
Imbassaí	13 526	13 526
Other	381	382
	13 907	**13 908**
Impairment losses		
Imbassaí	(13 526)	(13 526)
Other	(381)	(382)
	(13 907)	**(13 908)**
	-	**-**

NOTE 28 – Income taxes

NOVO BANCO and its subsidiaries and associated companies located in Portugal are subject, individually, to taxation in accordance with the Corporate Income Tax (IRC) Code. As a result, deferred taxes are recorded depending on the temporary differences between accounting and tax income relevant for IRC purposes, whenever such temporary differences are to be reverted in the future.

The income taxes correspond to the value determined of taxable income (if applicable) of the period, using the overall Corporate Income Tax (IRC) at the general rate of 21% and autonomous taxations.

Corporate income taxes (current or deferred) are recognized in the income statement except when the underlying transactions or items to which they are related have been reflected under equity captions (e.g. revaluation of financial assets at a fair value through other comprehensive income). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

Deferred taxes are calculated based on the tax rates expected to be in force at the temporary differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Thus, at 31 December 2020 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the consolidated financial statements, there will be no additional charges of significant value.

In 2020 and 2019, NOVO BANCO Group recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met.

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime has been extended. As at 31 December 2020, NOVO BANCO Group recognized Banking Levy charges as a cost in the amount of Euro 27,440 thousand (31 December 2019: Euro 27,091 thousand). The cost recognized as at 31 December 2020 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures provided for in Economic and Social Stabilization Program (SSPE) and following the art. 18 of Law no. 27 -A / 2020, of July 24, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates. A transitional regime was established for the year 2020 and 2021, the settlement of which was carried out in accordance with the following rules:

- The reserve base is calculated by reference to the half-yearly average of the final balances of each month, which correspond in the accounts for the first half of 2020, in the case of the solidarity surcharge due in 2020, and in the accounts for the second half of 2020 , in the case of the solidarity surcharge due in 2021, published in compliance with the obligation established in Banco de Portugal Notice No. 1/2019;
- Settlement is carried out by the taxable person through the declaration to be sent until 15 December 2020 and 2021, respectively, with payment due on the same dates.

The Solidarity Additional on the Banking Sector is not eligible as a tax cost. As at 31 December 2020, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,312 thousand. The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

The deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2020 and 2019 may be analyzed as follows:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Current tax	**610**	**9 203**	**1 628**	**11 873**
Corporate tax recoverable	144	9 129	802	7 865
Other	466	74	826	4 008
Deferred tax	**774 888**	**5 121**	**898 467**	**6 107**
	775 498	**14 324**	**900 095**	**17 980**

The deferred tax assets and liabilities recognized in the balance sheet in this period are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial instruments	64 322	54 531	(138 855)	(137 302)	(74 533)	(82 771)
Impairment losses on loans and advances to customers	790 784	906 917	-	-	790 784	906 917
Other tangible assets	-	-	(8 203)	(8 377)	(8 203)	(8 377)
Provisions	39 136	48 560	-	-	39 136	48 560
Pensions	31 676	27 375	-	-	31 676	27 375
Long-term service bonuses	22	23	-	-	22	23
Other	123	5 364	(9 989)	(5 493)	(9 866)	(129)
Tax losses carried forward	751	762	-	-	751	762
Deferred tax asset / (liability)	**926 814**	**1 043 532**	**(157 047)**	**(151 172)**	**769 767**	**892 360**
Asset / liability set-off for deferred tax purposes	(151 926)	(145 065)	151 926	145 065	-	-
Net Deferred tax asset / (liability)	**774 888**	**898 467**	**(5 121)**	**(6 107)**	**769 767**	**892 360**

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	892 360	1 190 122
Recognised in Results for the exercise	(9 721)	(36 965)
Recognised in Fair value reserves	(4 699)	(105 943)
Recognised in Other reserves	2 169	(74)
Conversion of Deferred taxes into Tax credits	(107 705)	(145 899)
Foreign exchange differences and other	(2 637)	(8 881)
Balance at the end of the exercise (Assets / (Liabilities))	**769 767**	**892 360**

The current and deferred taxes recognized in the income statement and in reserves, in 2020 and 2019, had the following origins:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	(11 350)	4 699	1 897	105 943
Impairment losses on loans and advances to customers	14 041	-	(135 968)	-
Other tangible assets	(174)	-	(175)	-
Provisions	9 424	-	33 255	-
Pensions	(2 100)	(2 169)	944	74
Long-term service bonuses	1	-	-	-
Other	(132)	-	(1 120)	-
Tax losses carried forward	11	-	138 132	-
Deferred taxes	**9 721**	**2 530**	**36 965**	**106 017**
Current taxes	(8 639)	-	8 804	(74)
Total tax recognised (income) / expense	**1 082**	**2 530**	**45 769**	**105 943**

The reconciliation of the corporate income tax rate, for the portion recognized in the income statement, may be analyzed as follows:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	%	Amount	%	Amount
Income before tax		**(1 338 309)**		**(1 020 696)**
Tax rate of NOVO BANCO	21,0		21,0	
Income tax calculated based on the tax rate of NOVO BANCO		**(281 045)**		**(214 346)**
Tax-exempt dividends	0,0	(482)	0,2	(1 759)
Impairment on investments in subsidiaries or associated companies subject to Participation Exemption	(3,0)	40 166	(2,2)	22 788
Rate differential on the generation / reversal of timing differences	3,5	(46 706)	(3,8)	38 344
Profits / losses in units with a more favorable tax regime	(0,2)	2 107	(0,1)	592
Taxes of Bank Branches and tax withheld abroad	(0,2)	2 902	(0,3)	3 391
Impairments and provisions for loans	(11,0)	147 255	22,1	(225 299)
Impairments for stocks	(7,8)	104 665	(0,1)	922
Provisions for other risks, costs and contingencies	(1,6)	21 988	0,6	(6 264)
Annulment of tax losses carried forward	-	-	(13,5)	138 030
Share of profits / (losses) of associated companies	(0,0)	61	(0,0)	426
Deffered tax assets not recognized under tax losses for the exercise	(1,2)	15 913	(24,9)	254 300
Extraordinary Contribution and Solidarity Additional over the Banking Sector	(0,5)	6 860	(0,6)	5 689
Other	0,9	(12 602)	(2,8)	28 955
Total tax recognized	**(0,1)**	**1 082**	**(4,5)**	**45 769**

Deferred tax assets are recognized to the extent they are expected to be recovered with future taxable income. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverability of deferred tax assets covered by the Special Regime (per Law no. 61/2014) applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2020, this exercise was made based on the latest business plan ("MTP") for the period 2021-2023, submitted to the European Central Bank in the end of February 2021.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2023, it is assumed, thereafter an increase in pre-tax results at a rate of 2.64% from 2023;
- Financial results moderate growth (average of 4%), with the expected cost of debt issuing to meet MREL requirements offset by the development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous years;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favorable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes; and
- Credit impairment charges in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

Depending on the analysis mentioned above, the amount of deferred taxes not recognized for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
2024-2026	468 903	482 974
2028 and following	1 124 790	1 124 790
	1 593 693	**1 607 764**

In addition, during the financial year 2020, the Bank became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. In this context, the Bank is assessing the impacts related to the potential creation of deferred tax assets arising from temporary differences

Special Regime applicable to Deferred Tax Assets

During 2014, NOVO BANCO adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1 January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Deferred tax assets recorded by the Group and considered eligible the special regime at 31 December 2020 and 2019, are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Credit impairment	400 414	516 072
	400 414	**516 072**

Following the determination of a negative net income for the years between 2015 and 2019, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2019	2018	2017	2016	2015
Tax credit	110 922	161 974	127 575	99 474	153 555

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 29 – Other assets

As at 31 December 2020 and 2019, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Collateral deposits placed	806 215	807 810
Derivative products	*655 952*	*631 994*
Collateral CLEARNET and VISA	*33 092*	*33 175*
Collateral deposits relating to reinsurance operations	*117 127*	*141 697*
Other collateral deposits	*45*	*944*
Debtors for mortgage credit interest subsidies	6 756	4 663
Public sector	703 701	459 752
Contingent Capital Agreement	598 312	1 037 013
Other debtors	491 627	611 802
Income receivable	64 025	36 319
Deferred costs	52 822	56 910
Precious metals, numismatics, medal collection and other liquid assets	9 722	9 555
Real estate properties [a)]	770 054	977 465
Equipment [a)]	3 488	3 130
Stock exchange transactions pending settlement	60 917	-
Other assets	62 752	138 881
	3 630 391	**4 143 300**
Impairment losses		
Real estate properties [a)]	(481 358)	(542 589)
Equipment [a)]	(2 285)	(2 404)
Other debtors - Shareholder loans, supplementary capital contributions	(124 939)	(126 452)
Other	(77 517)	(93 363)
	(686 099)	**(764 808)**
	2 944 292	**3 378 492**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

At 31 December 2020, the caption Other debtors includes, amongst others:

- Euro 14.7 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business which are entirely provisioned (31 December 2019: Euro 14.7 million, entirely provisioned);
- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2019: Euro 111.6 million, entirely provisioned),
- Euro 67.0 million receivable relation to the sale operation of non-performing loans (Project NATA II) (31 December 2019: Euro 135.9 million relating to NATA I and Euro 110.8 million relating to NATA II) (see Note 43);
- Euro 28.8 million of receivables related to the property sale operation carried out in 2019 (called "Project Sertorius") (31 December 2019: Euro 28.0 million);
- Euro 37.9 million receivable in relation to the sale operation of real estate assets and non-performing loans in the Spanish Branch in 2019 (denominated "Project Albatross") (31 December 2019: Euro 37.7 million); and
- Euro 27.4 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated "Project Carter").

As at 31 December 2020, the caption Deferred costs includes the amount of Euro 41,346 thousand (31 December 2019: Euro 43,836 thousand) related to the difference between the nominal amount of the loans and advances granted to Group employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

Stock exchange transactions pending settlement refer to transactions of securities, recorded at the trade date and pending settlement, in accordance with the accounting policy described in Note 2.5.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Group has the objective of immediate sale.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Group regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Group has to hold foreclosed assets.

In the financial year of 2020, the Group recorded impacts related to the sale of a portfolio of real estate assets (Project Anibal), in the financial year of 2019, the Group recorded impacts related to the sale of a portfolio of real estate assets (Project Sertorius) and to a sale of a portfolio of non-performing loans and real estate assets (Project Albatros). The details of these operations can be found in Note 43.

During the year 2020, an impairment value of Euro 64.4 million was recorded for properties in the portfolio (31 December 2019: Euro 281.3 million). In view of the uncertainty associated with the estimated value of these assets, NOVO BANCO Group considers the impacts of the current context of the Covid-19 pandemic as the assets are subject to revaluation.

During 2020, the Group started a process of reorganization of the real estate funds that are the object of consolidation, which implied the transfer of properties from Other assets to Investment properties according to the strategy defined for them. The gross value of the transferred properties amounted to Euro 118,987 thousand and the respective impairment to Euro 66,072 thousand. Since the valuation method for these properties is different, as indicated in the accounting policies (Notes 2.11 and 2.23), the change resulted in the recognition of a gain of Euro 1,805 thousand recorded in Other operating income.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**764 808**	**866 348**
Allocation for the exercise	78 613	309 572
Utilisation during the exercise	(34 848)	(370 341)
Write-back for the exercise	(13 938)	(28 259)
Foreign exchange differences and other **(a)**	(108 536)	(12 512)
Balance at the end of the exercise	**686 099**	**764 808**

(a) Includes 66 072 thoousand euros of impairment of assets transferred to Investment Properties during the financial year 2020 (see Note 26) and 19 854 thousand euros of impairment of assets of the Spanish Branch transferred to discontinued operations.

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**977 465**	**1 551 977**
Additions	30 691	86 811
Sales	(93 936)	(657 235)
Other movements	(144 166)	(4 088)
Balance at the end of the exercise	**770 054**	**977 465**

(a) Includes 118 987 thoousand euros of assets transferred to Investment Properties during the financial year 2020 (see Note 26) and 31 732 thousand euros of assets of the Spanish Branch transferred to discontinued operations.

As at 31 December 2020 and 2019, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2020				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	520	75 122	34 055	41 067	46 030
Rural	207	195 556	145 732	49 824	58 652
	727	270 678	179 787	90 891	104 682
Buildings under construction					
Commercial	1 041	356 643	255 203	101 440	138 103
Residential	1 483	142 592	38 721	103 871	115 506
Other	-	-	-	-	-
	2 524	499 235	293 924	205 311	253 609
Other [(a)]	**2**	**142**	**7 648**	**(7 506)**	**(7 506)**
	3 253	**770 055**	**481 359**	**288 696**	**350 785**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(b) Determined in accordance with accounting policy mentioned in Note 2.11

(in thousands of Euros

	31.12.2019				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	594	146 600	71 049	75 551	151 269
Rural	246	216 860	140 986	75 874	79 484
	840	363 460	212 035	151 425	230 753
Buildings under construction					
Commercial	2	36	4	32	59
Residential	3	580	413	167	730
Other	2	1 668	830	838	838
	7	2 284	1 247	1 037	1 627
Buildings constructed					
Commercial	493	259 668	164 932	94 736	106 343
Residential	2 177	185 915	52 122	133 793	156 752
Other	308	142 068	59 300	82 768	86 686
	2 978	587 651	276 354	311 297	349 781
Other [(a)]	**5**	**24 070**	**52 953**	**(28 883)**	**(28 883)**
	3 830	**977 465**	**542 589**	**434 876**	**553 278**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(b) Determined in accordance with accounting policy mentioned in Note 2.11

The detail of the real estate properties included in Other assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2020				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	128	2 110	29 295	9 535	41 067
Rural	153	2 730	15 500	31 442	49 824
	281	4 840	44 795	40 977	90 891
Buildings under construction					
Commercial	10 975	20 020	23 541	46 904	101 440
Residential	7 707	16 779	28 444	50 939	103 871
Other	-	-	-	-	-
	18 682	36 799	51 985	97 843	205 311
Other [a]	**(3 537)**	**-**	**-**	**(3 969)**	**(7 506)**
	15 426	**41 639**	**96 780**	**134 851**	**288 696**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2019				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	2 359	3 397	43 946	25 849	75 551
Rural	7 698	13 493	7 474	47 209	75 874
	10 057	16 890	51 420	73 058	151 425
Buildings under construction					
Commercial	-	-	29	3	32
Residential	68	-	-	99	167
Other	-	-	825	13	838
	68	-	854	115	1 037
Buildings constructed					
Commercial	2 587	5 661	9 698	76 790	94 736
Residential	8 845	33 882	33 188	57 878	133 793
Other	8 887	10 398	11 180	52 303	82 768
	20 318	49 941	54 066	186 971	311 297
Other [a]	**(28 883)**	**-**	**-**	**-**	**(28 883)**
	1 560	**66 831**	**106 340**	**260 144**	**434 876**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2020, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 35,535 thousand (31 December 2019: Euro 16,569 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 28,661 thousand (31 December 2019: Euro 8,079 thousand).

NOTE 30 – Non-current assets and disposal groups for sale classified as held for sale and liabilities included in disposal groups classified as held for sale

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinued operations if their balance sheet value is recoverable through a sale transaction, which must be ready for immediate sale.

This category includes the subsidiaries and associated companies in the Group's consolidation perimeter, but which the Bank intends to sell and are actively in the process of selling with the net value of assets and liabilities measured at the lower of book value or fair value net of costs to sell.

The breakdown of Non-current assets and liabilities held for sale and discontinued operations on 31 December 2020 and 2019, net of consolidation adjustments, is as follows:

(in thousand of Euros)

	31.12.2020		31.12.2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Assets/Liabilities of discontinued operations				
International Investment Bank, S.A. (previous BICV)	1 299	-	1 299	-
Banco Well Link (previous NB Ásia)	1 883	-	4 121	-
Banco Delle Tre Venezie	9 633	-	9 633	-
Económico FI	3 060	-	3 060	-
Greendraive	1 887	1 969	856	982
NOVO AF	-	-	2 770	960
GNB Seguros	-	-	8 209	-
ESEGUR	14 003	-	14 499	-
Multipessoal	2 687	-	2 641	-
Novo Banco - Spain Branch	1 696 245	1 993 851	-	-
NB Servicios	14 845	535	-	-
Novo Vanguarda	48	27	-	-
Nueva Pescanova	-	-	1 470	-
	1 745 590	**1 996 382**	**48 558**	**1 942**
Impairment losses				
Novo Banco - Spain Branch	(166 000)	-	-	-
Banco Delle Tre Venezie	(7 333)	-	(7 333)	-
Económico FI	(2 023)	-	(114)	-
Greendraive	(1 887)	-	(856)	-
ESEGUR	(8 829)	-	-	-
	(186 072)	**-**	**(8 303)**	**-**
	1 559 518	**1 996 382**	**40 255**	**1 942**

As at 31 December 2020 and 2019, the results from discontinued operations is as follows:

(in thousand of Euros)

	31.12.2020	31.12.2019 *
Profit / (loss) generated by discontinued operations		
Greendraive	(1 694)	(761)
NOVO AF	1 498	(392)
GNB Seguros	8 057	1 533
ESEGUR	52	487
Multipessoal	51	201
NB Espanha	(40 830)	(84 243)
NB Servicios	(479)	-
	(33 345)	**(83 175)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The impairment movement for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	8 303	217 559
Allocation / reversals for the exercise	177 769	5 403
Utilizations	-	(214 658)
Exchange differences and other	-	(1)
Balance at the end of the exercise	**186 072**	**8 303**

During 2019, the associates GNB Seguros, Esegur, Multipessoal and NOVO AF were transferred to non-current assets held for sale because they are in active sale processes with the objective of their sale in the short term.

Gama Life (former GNB Vida)

As consequence of the commitments made between the Portuguese State and European Commission Competition Authority communicated to the Group by the end of 2017, after the completion of Bank's sale process, the group launched in 2017 an organized sale process of 100% of the share capital of GNB Vida. Therefore, this entity was considered as a discontinued operation on 31 December 2017. On 12 September 2018, the Group entered into a purchase and sale agreement of the entire share capital of GNB Vida, with Bankers Insurance Holdings, S.A., a company of the Global Bankers Insurance Group, LLC. The derecognition of this investment occurred in September 2019, after obtaining the necessary regulatory authorizations (see Note 42).

GNB Seguros

Also due to the commitments assumed between the Portuguese State and the European Competition Comission and communicated to the Group at the end of 2017, during the financial year 2020 the Group completed the process of divesting its stake in GNB Seguros (25%), recognized a gain of Euro 6.4 million.

Spanish Branch

Following the accounting policy followed by the Group, and in accordance with IFRS5 5 - Non-current assets held for sale and discontinued operations, during the financial year 2020 the Group transferred its activity in Spain to the caption of Non-current assets and divestiture groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs to sell, which took into account the amounts received from potential interested in partial sales of this activity, the cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of Euro 166.0 million.

NOTE 31 – Financial liabilities designated at fair value through profit or loss and financial liabilities measured at amortised cost

This caption as at 31 December 2020 and 2019 is analyzed as follows:

(in thousands of Euros)

	31.12.2020			
	Fair value through profit and loss	Measured at amortised cost	Fair value changes *	Total
Deposits from banks	-	10 102 896	-	10 102 896
Due to customers	-	26 322 060	-	26 322 060
Debt securities issued, subordinated debt and liabilities associated to transferred assets	-	1 017 928	-	1 017 928
Other financial liabilities	-	365 883	-	365 883
	-	**37 808 767**	**-**	**37 808 767**

* Fair value changes of the elements covered by the interest rate hedge portfolio

(in thousands of Euros)

	31.12.2019			
	Fair value through profit and loss	Measured at amortised cost	Fair value changes *	Total
Deposits from banks	-	9 849 623	-	9 849 623
Due to customers	-	28 400 127	-	28 400 127
Debt securities issued, subordinated debt and liabilities associated to transferred assets	102 012	1 065 211	-	1 167 223
Other financial liabilities	-	358 688	-	358 688
	102 012	**39 673 649**	**-**	**39 775 661**

* Fair value changes of the elements covered by the interest rate hedge portfolio

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	29 030	36 176
Other funds	7 004 000	6 087 000
	7 033 030	**6 123 176**
Deposits from credit institutions		
Domestic		
Deposits	155 313	105 183
Other funds	4 788	12 827
	160 101	**118 010**
Foreign		
Deposits	651 656	780 583
Loans	596 534	634 557
Operations with repurchase agreements	1 625 724	2 168 488
Other resources	35 851	24 809
	2 909 765	**3 608 437**
	3 069 866	**3 726 447**
	10 102 896	**9 849 623**

As at 31 December 2020, the balance of the European Resources System of Central Banks caption includes Euro 7,004 million collateralized by the Group's financial assets, within the scope of the third series of long-term refinancing operations of the European Central Bank (TLTRO III). The bonus introduced by the ECB in the interest rate of these operations, in accordance with the stipulated in IAS 20, is being deducted from the financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the requirements of eligibility criteria defined by the ECB.

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 2.6.

As at 31 December 2020 and 2019, the analysis of Deposits from banks, by maturity, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposits from Central Banks		
Up to 3 months	29 030	1 286 176
From 3 months to 1 year	-	3 210 000
From 1 to 5 years	7 004 000	1 627 000
	7 033 030	**6 123 176**
Deposits from credit institutions		
Up to 3 months	918 156	1 993 950
From 3 months to 1 year	496 630	98 131
From 1 to 5 years	1 085 594	1 089 749
More than 5 years	569 486	544 617
	3 069 866	**3 726 447**
	10 102 896	**9 849 623**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
International		
Up to 3 months	225 507	1 306 243
From 3 months to 1 year	350 014	199 972
From 1 to 5 years	1 050 203	662 273
	1 625 724	**2 168 488**

Due to customers

The balance of Deposits due to costumers is composed, as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Repayable on demand		
Demand deposits	11 883 026	12 159 032
Time deposits		
Time deposits	9 234 116	11 307 364
Other	251	262
	9 234 367	**11 307 626**
Savings accounts		
Retirement saving accounts	233 160	244 009
Other	4 742 284	4 494 220
	4 975 444	**4 738 229**
Other funds		
Other	216 598	195 240
	216 598	**195 240**
	26 322 060	**28 400 127**

As at 31 December 2020 and 2019, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Repayable on demand	**11 883 026**	**12 159 032**
Term deposits		
Up to 3 months	7 128 529	7 252 713
3 months to 1 year	5 678 797	5 930 567
1 to 5 years	1 591 570	2 598 190
More than 5 years	40 138	459 625
	14 439 034	**16 241 095**
	26 322 060	**28 400 127**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Fair value through profit and loss	Measured at amortised cost	Total	Fair value through profit and loss	Measured at amortised cost	Total
Debt securities issued						
Euro Medium Term Notes (EMTN)	-	518 866	518 866	102 012	559 837	661 849
Bonds	-	39 377	39 377	-	45 855	45 855
	-	**558 243**	**558 243**	**102 012**	**605 692**	**707 704**
Subordinated debt						
Bonds	-	415 234	415 234	-	415 069	415 069
Financial liabilities associated to transferred assets						
Asset lending operations	-	44 451	44 451	-	44 450	44 450
	-	**1 017 928**	**1 017 928**	**102 012**	**1 065 211**	**1 167 223**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias*"), which has a maximum amount of Euro 10,000 million, the Group issued covered bonds which, on 31 December 2020, amount to Euro 5,500 million (31 December 2019: Euro 5,500 million), being these covered bonds totally repurchased by the Group. The main characteristics of the outstanding issues as at 31 December 2020 and 2019 are as follows:

(in thousands of Euros)

31.12.2020

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating Moody's	Rating DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2019

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating Moody's	Rating DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6 and 8 and Instruction No. 13 of Bank of Portugal. As at 31 December 2020, the assets that collateralize these covered debt securities amount to Euro 6,104.8 million (31 December 2019: Euro 6,076.8 million) (see Note 22).

The changes in the financial years of 2020 and 2019 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2019	Issues	Redemptions	LME	Net purchases	Other movements a)	Balance as at 31.12.2020
Debt securities issued							
Euro Medium Term Notes (EMTN)	661 849	-	-	(155 869)	(570)	13 456	518 866
Bonds	45 855	-	(6 476)	-	-	(2)	39 377
	707 704	-	(6 476)	(155 869)	(570)	13 454	558 243
Subordinated debt							
Bonds	415 069	-	-	-	-	165	415 234
Financial liabilities associated to transferred assets							
Asset lending operations	44 450	-	-	-	-	1	44 451
	1 167 223	**-**	**(6 476)**	**(155 869)**	**(570)**	**13 620**	**1 017 928**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousands of Euros)

	Balance as at 31.12.2018	Issues	Redemptions	LME	Net purchases	Other movements a)	Balance as at 31.12.2019
Debt securities issued							
Euro Medium Term Notes (EMTN)	634 186	-	-	-	-	27 663	661 849
Bonds	55 066	-	(9 210)	-	-	(1)	45 855
Mortgage bonds	-	1 300 000	-	-	(1 300 000)	-	-
	689 252	1 300 000	(9 210)	-	(1 300 000)	27 662	707 704
Subordinated debt							
Bonds	414 903	-	-	-	-	166	415 069
Financial liabilities associated to transferred assets							
Asset lending operations	44 450	-	-	-	-	-	44 450
	1 148 605	**1 300 000**	**(9 210)**	**-**	**(1 300 000)**	**27 828**	**1 167 223**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

Liability Management Exercise (LME) – NB Finance

As at 10 December 2020, following an early redemption offer, the EMTN issued by the subsidiary NB Finance with a total nominal amount of Euro 440.8 million (out of a total amount of Euro 453.3 million). This operation resulted in a loss in the amount of Euro 26,980 thousand (See Note 14).

The residual duration of liabilities represented by securities and subordinated liabilities, as at 31 December 2020 and 2019, is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	At fair value through profit and loss	Measured at amortised cost	Total	At fair value through profit and loss	Measured at amortised cost	Total
Debt securities issued						
1 to 5 years	-	1 773	1 773	-	2 237	2 237
More than 5 years	-	556 470	556 470	102 012	603 455	705 467
	-	**558 243**	**558 243**	**102 012**	**605 692**	**707 704**
Subordinated debt						
1 to 5 years	-	415 234	415 234	-	415 069	415 069
	-	**415 234**	**415 234**	**-**	**415 069**	**415 069**
Financial liabilities associated to transferred assets						
Undetermined maturity	-	44 451	44 451	-	44 450	44 450
	-	**44 451**	**44 451**	**-**	**44 450**	**44 450**
	-	**1 017 928**	**1 017 928**	**102 012**	**1 065 211**	**1 167 223**

The main characteristics of these liabilities, as at 31 December 2020 and 31 December 2019, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	31.12.2020 Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0,24	37 877	2031 a)	Euribor 3m + 0,40%	Ireland
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1,00	1 500	2031 a)	Euribor 3m + 0,60%	Ireland
Euro Medium Term Notes									
NB (Luxembourg Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 287	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	97 153	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 183	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 521	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	36 398	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	45 717	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	40 220	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	34 848	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	15 212	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	43 649	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	38 646	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	11 477	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	1 782	2044	Zero Coupon	XLUX
NB Finance	XS0723597398	EMTN 114	EUR	2011	1,00	1 773	2021	Fixed rate 6%	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 234	2023 a)	8.5%	XDUB
						973 477			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	31.12.2019 Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0,26	44 355	2031 b)	Euribor 3m + 0.40%	Ireland
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1,00	1 500	2031 b)	Euribor 3m + 0.60%	Ireland
Euro Medium Term Notes									
NB (Luxembourg Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	41 798	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	96 270	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	62 461	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 011	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	34 344	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	42 861	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	37 674	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	32 615	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	14 236	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	40 699	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	36 317	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	10 703	2046	Zero Coupon	XLUX
NB Finance	XS0210172721	EMTN 40 a)	EUR	2005	1,00	102 012	2035	Indexed to swap 12m	XLUX
NB Finance	XS0439763979	EMTN 56	EUR	2009	1,00	11 498	2043	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	3 745	2044	Zero Coupon	XLUX
NB Finance	XS0439639617	EMTN 58	EUR	2009	1,00	5 677	2045	Zero Coupon	XLUX
NB Finance	XS0442126842	EMTN 59	EUR	2009	1,00	14 859	2042	Zero Coupon	XLUX
NB Finance	XS0442126925	EMTN 60	EUR	2009	1,00	15 716	2040	Zero Coupon	XLUX
NB Finance	XS0442127063	EMTN 61	EUR	2009	1,00	10 116	2041	Zero Coupon	XLUX
NB Finance	XS0723597398	EMTN 114	EUR	2011	1,00	2 237	2021	Fixed rate 6%	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 069	2023 b)	8.5%	XDUB
						1 122 773			

a) Liabilities at fair value through profit and loss

b) Date of the next call option

As at 31 December 2019, this caption includes a balance sheet value of Euro 102,012 thousand of liabilities represented by securities recorded at fair value through profit or loss. This compares with Euro 104,699 thousand related to the amount to be repaid at the maturity date of this issue. This issue was repaid during 2020 within the scope of the LME program previously mentioned.

The table below presents the fair value component attributable to the credit risk of the fair value through profit or loss:

(in thousands Euros)

	31.12.2020	31.12.2019
Fair value attributable to credit risk at the beginning of the exercise	47 935	50 806
Recognized in other comprehensive income		
Changes through other comprehensive income	10 883	(2 871)
Variation due to debt repurchases	(58 818)	-
Fair value attributable to credit risk at the end of the exercise	**-**	**47 935**

The change in fair value attributable to changes in the credit risk of the issues is calculated using the credit spread observed in recent issues of similar debt, adjusted for subsequent changes in the credit spread of the senior debt CDS issued by Group entities. As of January 1, 2018, in accordance with IFRS 9, this liability component is reflected in Other comprehensive income. With the redemption in 2020 of the issue recorded at fair value through profit or loss, the Group no longer has associated credit risk. However, the credit risk recognized since 1 January 2018 in the amount of Euro 9,214 thousand, was fixed in the respective credit risk reserve caption, in accordance with IFRS 9 (see Note 35).

The Group did not present capital or interest defaults on its debt issued in the financial years of 2020 and 2019.

NOTE 32 – Provisions

As at 31 December 2020 and 2019, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Programme of antecipated repayment of liabilities	Other provisions	Total
Balance as at 31 December 2018	**9 781**	**189 661**	**72 877**	**38 865**	**114 751**	**425 935**
Reinforcements / (replacements)	47 291	(60 776)	(1 366)	(1 172)	37 320	21 297
Utilization during the period	(33 052)	-	(29 937)	(37 694)	(22 188)	(122 871)
Transfers	24	-	-	-	-	24
Foreign exchange differences and other	-	(31 799)	(240)	1	15 470	(16 568)
Balance as at 31 December 2019	**24 044**	**97 086**	**41 334**	**-**	**145 353**	**307 817**
Reinforcements / (replacements)	123 915	22 116	(629)	-	41 021	186 423
Utilization during the period	(42 188)	(2 188)	(29 506)	-	(16 578)	(90 460)
Foreign exchange differences and other **(a)**	(8 798)	(15 028)	-	-	4 428	(19 398)
Balance as at 31 December 2020	**96 973**	**101 986**	**11 199**	**-**	**174 224**	**384 382**

(a) Includes 8 798 thousand euros of restructuring provisions and 14. 420 thousand euros of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations.

The changes in the caption Provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**26 779**	**16 832**	**143 738**	**187 349**
Increases due to changes in credit risk	312	6 729	37 973	45 014
Decreases due to changes in credit risk	(2 511)	(7 710)	(96 409)	(106 630)
Other movements	(21 331)	(1 753)	(8 715)	(31 799)
Balance as at 31 December 2019	**3 249**	**14 098**	**76 587**	**93 934**
Increases due to changes in credit risk	1 086	20 502	23 309	44 897
Decreases due to changes in credit risk	(627)	(12 830)	(16 000)	(29 457)
Utilization during the period	-	-	(2 188)	(2 188)
Other movements	(2 392)	2 299	(14 930)	(15 023)
Balance as at 31 December 2020	**1 316**	**24 069**	**66 778**	**92 163**

(a) Includes 14 420 thousand euros of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations (2 360 thousand euros on stage 1 and 12. 060 thousand euros on stage 3).

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**1 867**	**445**	**-**	**2 312**
Increases due to changes in credit risk	509	949	212	1 670
Decreases due to changes in credit risk	(432)	(183)	(215)	(830)
Other movements	40	(43)	3	-
Balance as at 31 December 2019	**1 984**	**1 168**	**-**	**3 152**
Increases due to changes in credit risk	6 617	5 572	-	12 189
Decreases due to changes in credit risk	(3 875)	(1 605)	(33)	(5 513)
Other movements	1 093	(1 131)	33	(5)
Balance as at 31 December 2020	**5 819**	**4 004**	**-**	**9 823**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Group's sale and restructuring process. During the financial year of 2020, a provision of Euro 127.4 million was set up, and there was also a reversal of the provisions set up in 2016 and 2017 in the amount of Euro 3.4 million. As of December 31, 2020, the amount of restructuring provisions on the balance sheet is Euro 97.0 million.

Other provisions amounting to Euro 174.2 million (31 December 2019: Euro 145.4 million) are intended to cover certain identified contingencies related to the Group's activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Group maintains provisions of Euro 29.2 million (31 December 2019: Euro 32.2 million);
- Contingencies associated with legal proceedings amounting to Euro 11.1 million (31 December 2019: Euro 16.2 million);
- Contingencies associated with sales processes in the amount of Euro 41.1 million (31 December 2019: Euro 35.5 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million, transferred from the liability items net of the value of the assets of the Pension Fund (see Note 16);
- The remaining amount, of Euro 73.6 million (31 December 2019: Euro 61.5 million), is intended to cover losses arising from the Group's normal activity, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

NOTE 33 – Other liabilities

As at 31 December 2020 and 31 December 2019, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Public sector	34 658	33 110
Creditors for supply of goods	58 793	78 686
Other creditors	64 412	77 350
Non-controlling interests of Open Investment Funds (see Note 35)	90 206	99 394
Career bonuses (see Note 16)	7 591	7 106
Retirement pensions and health-care benefits (see Note 16)	27 052	153 073
Other accrued expenses	75 495	86 277
Deferred income	2 175	2 557
Foreign exchange transactions pending settlement	-	6 577
Other transactions pending settlement	57 380	41 936
	417 762	**586 066**

As at 31 December 2020, the caption Creditors for supply of goods includes Euro 39,826 thousand related to creditors of assets for right of use (31 December 2019: Euro 46,127 thousand), whose maturity dates are present the following detail:

(in thousands of Euros)

	31.12.2020
Up to 3 months	80
3 months to 1 year	484
1 to 5 years	22 194
More than 5 years	17 068
	39 826

NOTE 34 – Share capital

Ordinary shares

In 2017 and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised. Thus, as at 31 December 2020 and 2019, the share capital of the Bank amounts to Euro 5,900,000,000, represented by 9 799 999 997 registered shares, with no nominal value, fully subscribed and realised by the following shareholders:

	% Share Capital	
	31.12.2020	31.12.2019
Nani Holdings, SGPS, SA	75.00%	75.00%
Resolution Fund [1]	25.00%	25.00%
	100.00%	**100.00%**

[1] In view of the commitments assumed by the Portuguese Republic before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

As mentioned in Note 28, NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level.

A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that grant the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015 and 2019 will confer a shareholding of up to approximately 12.82% of the share capital of NOVO BANCO, which will only dilute, in accordance to the sale contract, the Resolution Fund stake.

NOTE 35 – Accumulated other comprehensive income, retained earnings, other reserves and minority interests (non-controlling interests)

As at 31 December 2020 and 2019, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2020	31.12.2019
Other accumulated comprehensive income	**(823 420)**	**(702 311)**
Retained earnings	**(7 202 828)**	**(6 115 245)**
Other reserves	**6 570 154**	**5 942 501**
Originating reserve	1 976 173	2 098 188
Special reserve	728 561	606 547
Other reserves and Retained earnings	3 865 420	3 237 766
	(1 456 094)	**(875 055)**

Other accumulated comprehensive income

The movements in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income						
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Other variations of other comprehensive income	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2018	**1 211**	**1 202**	**(3 315)**	**(297 995)**	**(191)**	**(491 796)**	**(790 884)**
Actuarial deviations	-	-	-	-	-	(107 341)	(107 341)
Fair value changes, net of taxes	-	-	-	211 207	-	-	211 207
Foreign exchange differences	-	-	-	-	31	-	31
Changes in credit risk of financial liabilities at fair value, net of taxes	-	(2 871)	-	-	-	-	(2 871)
Impairment reserves of securities at fair value through other comprehensive income	4 336	-	-	-	-	-	4 336
Reserves of sales of securities at fair value through other comprehensive income	-	-	(4 470)	-	-	-	(4 470)
Other comprehensive income of associated companies	-	-	-	897	-	-	897
Other	-	-	-	-	(13 216)	-	(13 216)
Balance as at 31 December 2019	**5 547**	**(1 669)**	**(7 785)**	**(85 891)**	**(13 376)**	**(599 137)**	**(702 311)**
Actuarial deviations	-	-	-	-	-	(124 331)	(124 331)
Fair value changes, net of taxes	-	-	-	12 729	-	-	12 729
Foreign exchange differences	-	-	-	-	(1 518)	-	(1 518)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	10 883	-	-	-	-	10 883
Impairment reserves of securities at fair value through other comprehensive income	(1 852)	-	-	-	-	-	(1 852)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(14 972)	-	-	-	(14 972)
Other comprehensive income of associated companies	-	-	-	(2 048)	-	-	(2 048)
Balance as at 31 December 2020	**3 695**	**9 214**	**(22 757)**	**(75 210)**	**(14 894)**	**(723 468)**	**(823 420)**

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercise	**13 057**	**(98 948)**	**(85 891)**	**(293 622)**	**(4 373)**	**(297 995)**
Changes in fair value	95 596	-	95 596	383 497	-	383 497
Foreign exchange differences	(4 280)	-	(4 280)	(6 678)	-	(6 678)
Alienations in the exercise	(69 652)	-	(69 652)	(70 140)	-	(70 140)
Impairment in the exercise	(6 284)	-	(6 284)	-	-	-
Deferred taxes recognized in the exercise in reserves	-	(4 699)	(4 699)	-	(94 575)	(94 575)
Balance at the end of the exercise	**28 437**	**(103 647)**	**(75 210)**	**13 057**	**(98 948)**	**(85 891)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Amortised cost of financial assets at fair value through other comprehensive income	7 879 863	8 837 309
Market value of financial assets at fair value through other comprehensive income	7 907 587	8 849 896
Unrealised gains / (losses) recognized in fair value reserve	27 724	12 587
Fair value reserves by the equity method	917	2 965
Fair value reserves of discontinued activities	1 193	-
Non-controlling Interests	(1 397)	(2 495)
Total fair value reserve	28 437	13 057
Deferred Taxes	(103 647)	(98 948)
Fair value reserve attributable to shareholders of the Bank	**(75 210)**	**(85 891)**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 34, the special reserve was created as a result of the adhesion of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the net losses recorded from 2015 until 2019 and with reference to the eligible deferred tax assets at the end of each year, the special reserve was set up for the same amount of the tax credit calculated, increased by 10%, as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	150 044	150 044
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 014	-
	728 561	**606 547**

Other reserves and retained earnings

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 35 – Contingent liabilities and commitments).

The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2020 these assets had a net value of Euro 2.1 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2019: net value of Euro 3.1 billion).

As a result of the losses recorded by NOVO BANCO on 31 December 2019, 2018 and 2017, the conditions determining the payment by Resolution Fund of Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand were meet and the payments occurred in May 2020, 2019 and 2018, respectively. In the financial year of 2020, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 598,312 thousand relating to the Contingent Capital Agreement. The amount is accounted for under Other reserves and it results at each Balance Sheet date of the incurred losses and of the regulatory ratios in force at the moment of its determination.

Non-controlling interests

The caption Non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Balance sheet	**Income statement**	**% Non-controlling interests**	**Balance sheet**	**Income statement**	**% Non-controlling interests**
NB Património [a)]	-	(7 759)	44,17%	-	(7 189)	44,27%
NB Açores	18 451	1 134	42,47%	18 745	1 736	42,47%
Amoreiras	9 099	(123)	4,76%	9 222	(166)	4,76%
Other	4 496	(3 326)		8 657	(2 034)	
	32 046	**(10 074)**		**36 624**	**(7 653)**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 33)

The changes occurred in the caption Non-controlling interests may be analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Non-controlling interests at the beginning of the exercise	**36 624**	**35 346**
Changes in consolidation perimeter and control percentages	(1 553)	(1 746)
Increases / (decreases) in share capital of subsidiaries	-	1 798
Changes in fair value reserves	(830)	225
Other	7 879	8 654
Net profit / (loss) for the period	(10 074)	(7 653)
Non-controlling interests at the end of the exercise	**32 046**	**36 624**

NOTE 36 – Contingent liabilities and commitments

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 December 2020 and 2019 are the following:

(in thousands of Euros)

	31.12.2020	31.12.2019
Contingent liabilities		
Guarantees and standby letters	2 826 190	2 993 785
Financial assets pledged as collateral	14 101 034	11 833 012
Open documentary credits	410 292	516 162
	17 337 516	**15 342 959**
Commitments		
Revocable commitments	6 389 435	6 845 430
Irrevocable commitments	631 500	411 378
	7 020 935	**7 256 808**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

As at 31 December 2020, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.1 billion (31 December 2019: Euro 11.5 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 9.7 million (31 December 2019: Euro 9.6 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 70.8 million (31 December 2019: Euro 73.1 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 769.7 million (31 December 2019: Euro 98.5 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 107.0 million (31 December 2019: Euro 113.0 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposit and custody of securities and other items	35 469 555	36 644 517
Amounts received for subsequent collection	233 699	283 647
Securitized loans under management (servicing)	697 905	776 249
Other responsibilities related with banking services	1 519 011	2 582 526
	37 920 170	**40 286 939**

Pursuant to the resolution measure applied to BES by resolution of Banco de Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Banco de Portugal of 11 August 2014, the "excluded liabilities" of transfer to NOVO BANCO include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (...) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On December 29, 2015, Banco de Portugal adopted a new resolution on "Clarification and retransmission of responsibilities and contingencies defined as liabilities excluded in subparagraphs (v) to (vii) of paragraph 2 (b) of Annex 2 to the Resolution of Banco de Portugal of 3 August 2014 (8 pm), as amended by the Resolution of Banco de Portugal of 11 August 2014 (5 pm) ". Under the terms of this resolution, Banco de Portugal came:

i. Clarify the treatment as liabilities excluded from BES's contingent and unknown liabilities (including litigious liabilities related to pending litigation and liabilities or contingencies resulting from fraud or the violation of regulatory, criminal or administrative offenses or provisions), regardless of their nature (tax, Labour, civil or other) and whether or not they are registered in BES's accounts, under the terms of sub-paragraph (v) of paragraph (b) of paragraph 1 of Exhibit 2 of the Resolution of 3 August; and

ii. Clarify that the following BES liabilities have not been transferred from BES to NOVO BANCO:

   a. All credits related to preferred shares issued by vehicle companies established by BES and sold by BES;

   b. All credits, indemnities and expenses related to real estate assets that have been transferred to NOVO BANCO;

   c. All indemnities related to non-compliance with contracts (purchase and sale of real estate and other assets) signed and executed before 8:00 pm on August 3, 2014;

   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A .;

   e. All credits and indemnities related to the alleged cancellation of certain loan agreement clauses in which BES was the lender;

   f. All indemnities and credits resulting from the cancellation of operations carried out by BES as a provider of financial and investment services;

   g. Any responsibility that is the subject of any of the processes described in Appendix I of said resolution.

iii. To the extent that, despite the clarifications made above, it turns out that any liabilities of BES that, under the terms of any of those paragraphs and the Resolution of August 3, were effectively transferred to NOVO BANCO legal liabilities, these liabilities will be retransmitted from NOVO BANCO to BES, with effect from 8:00 pm on August 3, 2014.

In the preparation of its consolidated financial statements for 31 December 2020 (as well as in the previous financial statements), NOVO BANCO incorporated the determinations resulting from the resolution measure, as amended, with regard to the perimeter of transfer of assets, liabilities, off-balance sheet items and assets under BES management, as well as the decisions of Banco de Portugal of 29 December 2015, in particular, regarding the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities and clarifications relating to the liabilities contained in paragraph (ii) above, including the lawsuits listed in that resolution.

Additionally, also by resolution of Banco de Portugal of 29 December 2015, it was decided that the Resolution Fund is responsible for neutralizing, at the level of NOVO BANCO, the effects of decisions that are legally binding, outside the will of NOVO BANCO and for the which it has not contributed and that, simultaneously, translate into the materialization of responsibilities and contingencies that, according to the transfer perimeter to NOVO BANCO, as defined by Banco de Portugal, should remain within the sphere of BES or give rise to the establishment compensation in the context of the execution of annulments of decisions adopted by Banco de Portugal.

Considering that the creation of the Bank results from the application of a resolution measure to BES, which had significant impacts on the equity of third parties, and without prejudice to the decisions of Banco de Portugal of December 29, 2015, there are still relevant litigation risks , although mitigated, namely, regarding the various litigations related to the loan made by Oak Finance to BES, the commercialization by BES of debt instruments and those related to the issue of senior bonds relayed to BES, as well as the risk of non-recognition and / or application of the various decisions of Banco de Portugal by Portuguese or foreign courts (as in the case of courts in Spain) in disputes related to the perimeter of assets, liabilities, off-balance sheet items and assets under BES management transferred to NOVO BANCO. These disputes include the two lawsuits brought at the end of January 2016, before the Supreme Court of Justice of Venezuela, by the Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and NOVO BANCO, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of US $ 37 million and US $ 335 million, respectively, and in which reimbursement of the amount invested is requested, plus interest, indemnity for the inflation value and costs (in the global value estimated by the respective authors of US $ 96 milion and US $ 871 million, respectively). These main actions and the respective precautionary foreclosure procedures are still pending before the Supreme Court of Justice of Venezuela.

In the preparation of NOVO BANCO's individual and consolidated financial statements of 31 December 2020 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Banco de Portugal, in particular the decisions of 29 December 2015. In this context, these financial statements, namely with regard to provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet items and assets under BES management and liabilities transferred to NOVO BANCO, as determined by Banco de Portugal and with reference to the current legal bases and the information available at the present date.

Additionally, within the scope of the NOVO BANCO sale operation, concluded on 18 October 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Banco de Portugal, of 29 December 2015, regarding the neutralization, at the level of NOVO BANCO, of the effects of unfavorable decisions that are legally binding, although, now, with contractual origin, thus maintaining the framework of contingent responsibilities of the Resolution Fund.

Relevant disputes

For the purposes of contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy of setting up provisions with the resolution measure and subsequent decisions of Banco de Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of GRUPO NOVO BANCO are, at the present date, insusceptible to determine or quantify:

i. Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L.

through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

ii. Lawsuit filed by NOVO BANCO to challenge the resolution in favor of the insolvent estate of the acts of incorporation and subsequent execution of the pledge on the shares of Companhia de Seguros Tranquilidade, SA, declared by the insolvency administrator of Partran, SGPS, SA, considering that there are no grounds for the resolution of the aforementioned acts, as well as for the return of the amounts received as a price (Euro 25 million corresponding to the initial price and the respective positive adjustments) for the sale of the shares of Companhia de Seguros Tranquilidade , SA. NOVO BANCO has judicially challenged the resolution act, running the process attached to the insolvency process of Partran, SGPS, SA;

iii. Lawsuits brought after the execution of the contract for the purchase and sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which NOVO BANCO is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the CCA is requested;

iv. NOVO BANCO was notified of an order from the Central Court of Criminal Investigation that determines the provision of a bond by NB in the amount of approximately Euro 51 million due to an alleged breach of a bank seizure order, having used the respective means of reaction to oppose the application of the aforementioned asset guarantee measure due to the absence of a legal basis.

Resolution Fund

The Resolution Fund is a public legal person with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the RGICSF and its regulations and whose mission is provide financial support to the resolution measures applied by Banco de Portugal, as the national resolution authority, and to perform all other functions conferred by law in the scope of the execution of such measures.

The Bank, like most financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Banco de Portugal based essentially on the amount of its liabilities. As at 31 December 2020, the Group's periodic contribution amounted to Euro 12,743 thousand (31 December 2019: Euro 12,196 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Banco de Portugal, on 3 August 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to NOVO BANCO, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of NOVO BANCO's share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3,900 million) originated from a loan granted by the Portuguese State.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, SA (Santander Totta), for Euro 150 million, also within the framework of the application of a resolution measure. In the context of this resolution measure, Banif's assets identified as problematic were transferred to an asset management vehicle, created for this purpose - Oitante, S.A.. This operation involved public support estimated at Euro 2,255 million, which aimed at covering future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant , as well as with the risk of an eventual insufficiency of resources to ensure the fulfillment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the financing conditions granted by the Portuguese State and by the banks participating in the Resolution Fund, in order to preserve financial stability. through the promotion of conditions that provide predictability and stability to the contributory effort for the Resolution Fund. To this end, an amendment to the financing contracts to the Resolution Fund was formalized, which introduced a set of changes on the repayment plans, the remuneration rates and other terms and conditions associated with these loans in order to adjust them. the Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to be charged, to the banks participating in the Resolution Fund, special contributions or any other type of extraordinary contribution.

According to the statement of the Resolution Fund of 21 March 2017, issued following an earlier statement of September 28, 2016 and the statement of the Ministry of Finance issued on the same date, the revision of the conditions of financing granted by the State Portuguese and participating banks aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of its liabilities is ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

On March 31, 2017 , Banco de Portugal announced that it had selected the Lone Star Fund for the purchase of NOVO BANCO, which was completed on October 18, 2017, through the injection, by the new shareholder, of Euro 750 million, which was followed by a new a capital contribution of Euro 250 million, made on 21 December 2017. The Lone Star Fund now holds 75% of NOVO BANCO's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions materializing, related to: (i) the performance of a restricted set of assets of NOVO BANCO and (ii) the evolution of the Bank's capitalization levels. Any payments to be made under this contingent mechanism are subject to an absolute ceiling of EUR 3,890 million;
- An indemnity mechanism to NOVO BANCO, if certain conditions are met, it will be sentenced to pay any liability, by a final judicial decision that does not recognize or is contrary to the resolution measure applied by Banco de Portugal, or to the perimeter NOVO BANCO's assets and liabilities.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, in view of the renegotiation of the conditions for loans granted to the Resolution Fund by the Portuguese State and a banking union, and to public notices issued by the Resolution Fund and the Office of the Minister of Finance. Finances that state that this possibility will not be used, these financial statements reflect the expectation of the Executive Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF , as well as the contingent capitalization mechanism and the indemnity mechanism referred to in the preceding paragraphs.

Any changes regarding this matter and the application of these mechanisms may have relevant implications for the Group's financial statements.

NOTE 37 – Assets under management (disintermediation)

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 31 December 2020 and 2019, the value of the assets under management by the Group companies are analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Investment funds	1 128 238	1 344 949
Real estate investment funds	74 654	90 184
Pension funds	2 463 098	2 386 809
Discretionary management	710 054	1 103 025
	4 376 044	**4 924 967**

NOTE 38 – Related parties transactions

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of NOVO BANCO); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of NOVO BANCO; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which NOVO BANCO Group has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of NOVO BANCO (joint ventures).

During 2020, the following transactions with Related Parties (credit and other types) were carried out:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euro)
ACH Brito S.A.	Associate	Limite de Crédito - NB Express Bill	75 000
AGA - Alcool e Géneros Alimentares S.A.	Diretor / Manager / Family	Limites de Cartões de Crédito	10 000
		Financiamento Médio/Longo Prazo	400 000
		Limite de Crédito - NB Express Bill	650 000
APB - Associação Portuguesa Bancos	Diretor / Manager / Family	Conta Empréstimo Conta-Corrente	1 100 000
AVIZMED Unipessoal Lda	Diretor / Manager / Family	Financiamento Médio/Longo Prazo	500 000
Cristalmax - Indústria Vidros S.A.	Associate	Limite de Crédito - NB Express Bill	100 000
EDENRED - Portugal S.A.	Associate	Limites Débitos Diretos	410 000
Enkroot - Gestão e Tratamento de Águas S.A.	Associate	Crédito Documentário de Importação	17 901
		Garantia Bancária - Instalação Sistema	66 210
		Garantia Bancária - Adiantamento	66 210
		Descoberto Autorizado	500 000
		Financiamento Médio/Longo Prazo	500 000
		Limites para Garantias Bancárias	500 000
		Factoring	650 000
Entidades GNB (BEST, NB dos Açores, NBSE, NB Lux e NB Finance)	Subsidiary	Limites Interbancários (Operações de Sala Mercados) Limites Comerciais	1 420 990 000
EPEDAL Indústria de Componentes Metálicos S.A.	Associate	Limites de Cartões de Crédito	10 000
		Limite de Crédito - NB Express Bill	1 250 000
GERMEN - Moagens Cereais SA	Diretor / Manager / Family	Self- Confirming	5 000 000
GNB Companhia de Seguros S.A.	Associate	Limites Débitos Diretos	80 600 000
Greendraive - Gestão e Exporação de Campos de Golf e Complexos Turísticos S.A.	Subsidiary	Financiamento Médio/Longo Prazo	125 000
		Suprimentos	700 000
Grupo Esegur (Esegur - Soluções de Segurança S.A.)	Associate	Limites de Cartões de Crédito	200 000
		Leasing	200 000
		Limites para Garantias Bancárias	1 000 000
Grupo Multipessoal (Multipessoal - Recursos Humanos SGPS S.A.)	Associate	Limites de Cartões de Crédito	112 500
		Limite de Crédito - NB Express Bill	500 000
		Linha Grupada Garantias	1 750 000
		Financiamento Médio/Longo Prazo	3 000 000
		Descoberto Autorizado	6 500 000
		Factoring	9 200 000
Jorge Cabrañes Azcona	Director / Manager / Family	Crédito Individual	35 000
Locarent- Coompanhia Portuguesa Aluguer Viaturas S.A.	Associate	Limites de Cartões de Crédito	10 000
		Conta Empréstimo Conta-Corrente	2 500 000
		Operações Sala Mercado (RCE)	3 000 000
		Limites Débitos Diretos	4 000 000
		Plafond de crédito - Leasing	32 150 000
		Plafond de crédito - Leasing	45 000 000
		Programa de Papel Comercial	50 000 000
Logi C Logística Integrada S.A.	Associate	Limites de Cartões de Crédito	10 000
		Conta Empréstimo Conta-Corrente	200 000
M N Ramos Ferreira Engenharia S.A.	Associate	Limites de Cartões de Crédito	3 750
		Limite de Crédito - NB Express Bill	100 000
		Limite de Crédito - NB Express Bill Exclusive	200 000
		Financiamento Médio/Longo Prazo	250 000
Nacional Conta – Contabilidade, Consultadoria e Administração, Lda.	Director / Manager / Family	Limites de Cartões de Crédito	1 000
		Conta Empréstimo Conta-Corrente	100 000
		Financiamento Médio/Longo Prazo	200 000
Nexxpro - Fábrica de Capacetes S.A.	Associate	Desconto de Livrança - Apoio Tesouraria	200 000
		Factoring	750 000
		Financiamento Médio/Longo Prazo	1 000 000
Novo Banco Servicios Corporativos SL	Subsidiary	Suprimentos	4 750 000
		Conta Empréstimo Conta-Corrente	25 000 000
Righthour S.A.	Subsidiary	Emissão de Distrate	181 237
TRADISA Logicauto S.L.	Director / Manager / Family	Financiamento Médio/Longo Prazo	300 000
TRADISA Operador Turístico S.A.	Director / Manager / Family	Conta Empréstimo Conta-Corrente	400 000
Unicre - Cartão Internacional de Crédito S.A.	Associate	Financiamento Médio/Longo Prazo	10 000 000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation
BEST - Banco Electrónico de Serviço Total S.A.	Subsidiary	Intra Group Service Delivery Agreement
EDENRED - Portugal S.A.	Associate	Amendment to the Distribution Agreement
ENKROOT - Gestão e Tratamento de Águas S.A.	Associate	Exemption from filing requirements for debtors Factoring
GNB Companhia de Seguros S.A.	Associate	• 4th Amendment to the Contract New Product: Personal Accidents • 5th Amendment to the Contract New Product: Health Insurance • Internal Campaigns: Business Protection Insurance
GNB-GP Gestão de Patrimónios S.A.	Subsidiary	Amendment to the Discretionary Management Agreement
GNB REAL ESTATE – Soc. Gestora de Organismo de Investimento Coletivo S.A.	Subsidiary	• Harmonization of the calculation base of the Management Fee of 4 Funds under Company Management • Management Committee Review 2 Funds [FUNGEPI and FUNGEPI II]
LINEAS - Concessões de Transportes SGPS S.A.	Associate	Consent to sell 50% of the concessionaire: Rodovias do Tietê S.A.
NANI Holdings SGPS SA / LSF NANI Investments Sarl	Shareholder	Amendment and Consolidation of the Group's Financial Reporting and Shared Information Agreement (Amendment and Restatement Agreement to the Intragroup Financial Reporting and Information Sharing Agreement)
NANI Holdings SGPS SA / HUDSON Advisors Portugal Unipessoal Lda	Shareholder	3rd Amendment to the Contract for the Provision of Services and the Contract for the Provision of Real Estate Services Change to the Services Agreement and to the Real Estate Services Agreement - 3rd Amendment
Novo Banco Pensiones EGFP S.A.	Subsidiary	Amendment to the Asset Management Contract

The Group Balance Sheet balances with related parties as at 31 December 2020 and 2019, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	31.12.2020					31.12.2019				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	153	-	332	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	598 312	-	-	-	12 743	1 037 013	-	-	-	12 196
Associated companies										
LINEAS	64 933	6 505	-	2 871	-	97 656	29 556	-	2 609	-
LOCARENT	115 832	633	-	1 081	3 806	122 802	376	-	1 176	4 215
GNB SEGUROS*	-	-	-	-	-	-	14 390	-	2	1
ESEGUR	2 955	1 650	915	-	-	4 157	1 510	69	-	-
UNICRE	22 597	49	-	289	-	28 360	2 500	-	180	-
MULTIPESSOAL	2 030	31	273	31	-	3 520	35	273	22	-
BANCO DELLE TRE VENEZIE	-	94	-			-	11	-	-	-
EDENRED	2	81 821	62	1 967	37	4	57 300	-	-	22
ENKROTT	-	-	-	15		1 332	1	53	22	-
PNBC	-	-	-	-	276	-	-	-	-	1 477
	806 661	**90 936**	**1 250**	**6 586**	**16 862**	**1 294 844**	**105 832**	**395**	**4 343**	**17 911**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 685	-	-	-	-	3 912
NACIONAL CONTA LDA	295	52	-	-	-	117	8	-	-	-
INFRAMOURA	114	16	-	-	-	-	-	-	-	-
ESMALGLASS	-	107	2	-	-	-	-	-	-	-
MARINA VILAMOURA	-	1	-	-	-	-	-	-	-	-
Other	**409**	**176**	**2**	**-**	**4 685**	**117**	**8**	**-**	**-**	**3 912**

*sold in 2020

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the financial years 2020 and 2019. The amount indicated in 2019 was adjusted to Euro 1,035,016 thousand during the financial year 2020, having been paid in full by the Resolution Fund.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and NOVO BANCO, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted, or debt securities acquired in the scope of the Group’s activity. The liabilities relate mainly to Bank deposits taken

The guarantees related to associated companies included in the table above refer essentially to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 8,00% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of NOVO BANCO in 2020 and 2019, are as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	2 676	993	3 669	2 812	980	3 792
Post-employment benefits	3	-	3	3	-	3
Other long-term benefits	33	8	41	43	21	64
	2 712	**1 001**	**3 713**	**2 858**	**1 001**	**3 859**

Additionally, in 2020, costs of Euro 320 thousand were recorded as a sign-on bonus resulting from the admission of a new Executive Director, and compensations for the termination of the mandate of three Executive Directors were recorded, in the amount of Euro 206 thousand. In 2020, variable remuneration to the Board of Directors amounted to Euro 1,860 thousand, which respects to the remuneration that does not constitute acquired rights of the respective members until after the end of the restructuring period (currently, 31 December 2021), and its payment is subject to approval and verification of certain conditions (31 December 2019: Euro 1,997 thousand).

As at 31 December 2020, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 388 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

As at 31 December 2019, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 447 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

NOTE 39 – Securitisation Of Assets

As at 31 December 2020 e 2019, the outstanding securitization transactions made by the Group were as follows

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2020	31.12.2019	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	280 051	312 836	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	417 854	463 413	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	396 083	434 463	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 003 303	1 090 124	Mortgage loans (general scheme)
Lusitano SME No.3	November 2016	630 385	-	88 937	Loans to small and medium-sized enterprises

The loans and advances to customers covered by the securitization operation Lusitano SME No. 3 was not derecognized from the balance sheet since the Group substantially retained all the risks and rewards of ownership associated with the securitised assets. During the year of 2020, the Lusitano SME securitization operation No. 3 was settled. The remaining securitisation operations were derecognized as the Group substantially transferred all the risks and rewards of ownership.

In accordance with the consolidation rules established in IFRS 10, Lusitano Mortgages No. 6 plc and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousands of Euros)

	31.12.2020	31.12.2019
Cash, cash balances with central banks and other demand deposits	122 769	146 364
Loans to Customers (net of impairment)	1 390 316	1 608 684
Liabilities represented by securities [(a)]	39 377	45 855

(a) See Note 31

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual.

The main characteristics of these operations, as at 31 December 2020 and 31 December 2019, may be analyzed as follows:

(in thousands of Euros)

31.12.2020

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	214 891	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	14 224	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BB+	-
	Class C	19 200	11 978	-	-	December 2048	A+	A1	A+	-	BB	Ba3	B+	-
	Class D	24 000	14 973	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	311 465	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	A	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	B	B3	BBB	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	235 906	188 337	180 754	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	52 775	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 562	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	8 458	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	528 003	528 003	488 778	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 146	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	116 051	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2019														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	241 493	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	15 985	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BBB-	-
	Class C	19 200	13 461	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	16 827	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	355 021	-	-	December 2059	AAA	Aaa	AAA	-	AAA	Aaa	AAA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	AA	Aa2	AA	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	A	A1	A	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	BBB+	Baa2	BBB	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	264 905	220 548	210 489	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	57 981	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 227	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	9 371	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	616 503	616 503	563 186	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	264 601	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	154 463	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-
Lusitano SME No.3	Classe A	385 600	-	-	-	December 2037	-	A3	-	AA	-	WR	-	-
	Classe B	62 700	-	-	-	December 2037	-	Baa3	-	BBB	-	WR	-	-
	Classe C	62 700	-	-	-	December 2037	-	B1	-	B	-	A3	-	AAA
	Classe D	116 000	103 316	103 316	100 534	December 2037	-	-	-	-	-	-	-	-
	Classe E	9 500	3 135	3 135	2 776	December 2037	-	-	-	-	-	-	-	-
	Classe S	88 771	5 214	5 214	3 218	December 2037	-	-	-	-	-	-	-	-

NOTE 40 – Fair value of financial assets and liabilities

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

In accordance with the methodology for valuing assets and liabilities at fair value, they are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favour of a specific price.

This category includes, amongst others, the following financial instruments:

i. Derivatives traded on an organized market;

ii. Shares quoted on a stock exchange;

iii. Open investment funds quoted on a stock exchange;

iv. Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;

v. Bonds with observable market quotes;

vi. Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:

i. Bonds without observable market valuations valued using observable market inputs;

ii. Derivatives (OTC) over-the-counter valued using observable market inputs; and

iii. Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

i. Debt securities valued using non-observable market inputs;

ii. Unquoted shares;

iii. Closed real estate funds;

iv. Hedge funds;

v. Private equities;

vi. Restructuring funds; and

vii. Over the counter (OTC) derivatives with prices provided by third parties

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analyzed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

In the specific case of the Restructuring Funds ("Assessed Assets"), their assessment was carried out by an independent external international entity ("Appraiser"), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the "Underlying Assets"); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of Novo Banco's investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other

Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1,000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Bank trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

Investment properties: its fair value is determined based on periodic evaluations carried out by independent entities specialized in this type of service, however, given the subjectivity of some assumptions used in the assessments, the Group carries out internal analysis on the assumptions used, which may imply additional adjustments to fair value, supported by additional internal or external valuations (see accounting policy in Note 2.23). The market value of properties for which a promissory purchase and sale agreement has been entered into corresponds to the value of that contract.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct prices.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2020				
Financial assets held for trading	**267 016**	**388 257**	**-**	**655 273**
Securities held for trading	267 016	-	-	267 016
Bonds issued by public entities	*267 016*	*-*	*-*	*267 016*
Derivatives held for trading	-	388 257	-	388 257
Exchange rate contracts	*-*	*57 205*	*-*	*57 205*
Interest rate contracts	*-*	*319 662*	*-*	*319 662*
Others	*-*	*11 390*	*-*	*11 390*
Financial assets mandatorily at fair value through profit or loss	**214 882**	**36 849**	**709 231**	**960 962**
Bonds issued by other entities	*82 203*	*50*	*77 931*	*160 184*
Shares	*132 525*	*-*	*273 579*	*406 104*
Other variable income securities	*154*	*36 799*	*357 721*	*394 674*
Financial assets at fair value through other comprehensive income	**7 854 337**	**10 028**	**43 222**	**7 907 587**
Bonds issued by public entities	*6 490 076*	*-*	*-*	*6 490 076*
Bonds issued by other entities	*1 352 759*	*-*	*-*	*1 352 759*
Shares	*11 502*	*10 028*	*43 222*	*64 752*
Other variable income securities	*-*	*-*	*-*	*-*
Derivatives - Hedge Accounting	**-**	**12 972**	**-**	**12 972**
Interest rate contracts	*-*	*12 972*	*-*	*12 972*
Investment properties	**-**	**-**	**592 605**	**592 605**
Assets at fair value	**8 336 235**	**448 106**	**1 345 058**	**10 129 399**
Financial liabilities held for trading	**-**	**552 633**	**2 158**	**554 791**
Derivatives held for trading	-	552 633	2 158	554 791
Exchange rate contracts	*-*	*45 493*	*-*	*45 493*
Interest rate contracts	*-*	*501 585*	*2 158*	*503 743*
Credit default contracts	*-*	*16*	*-*	*16*
Other	*-*	*5 539*	*-*	*5 539*
Derivatives - Hedge Accounting	**-**	**72 543**	**-**	**72 543**
Interest rate contracts	*-*	*72 543*	*-*	*72 543*
Liabilities at fair value	**-**	**625 176**	**2 158**	**627 334**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2019				
Financial assets held for trading	**254 848**	**419 600**	**74 284**	**748 732**
Securities held for trading	254 848	-	-	254 848
Bonds issued by public entities	*254 848*	-	-	*254 848*
Derivatives held for trading	-	419 600	191	419 791
Exchange rate contracts	-	*34 540*	-	*34 540*
Interest rate contracts	-	*352 748*	*191*	*352 939*
Credit default contracts	-	*1*	-	*1*
Other	-	*32 311*	-	*32 311*
Economic hedging derivatives	-	-	74 093	74 093
Interest rate contracts	-	-	*74 093*	*74 093*
Financial assets mandatorily at fair value through profit or loss	**172 030**	**48**	**1 142 664**	**1 314 742**
Bonds issued by other entities	*57 535*	*48*	*7*	*57 590*
Shares	*114 296*	-	*489 555*	*603 851*
Other variable income securities	*199*	-	*653 102*	*653 301*
Financial assets at fair value through other comprehensive income	**8 783 741**	**28 976**	**37 179**	**8 849 896**
Bonds issued by public entities	*7 108 022*	-	-	*7 108 022*
Bonds issued by other entities	*1 661 538*	-	-	*1 661 538*
Shares	*14 181*	*28 976*	*37 177*	*80 334*
Other variable income securities	-	-	*2*	*2*
Derivatives - Hedge Accounting	**-**	**7 452**	**-**	**7 452**
Interest rate contracts	-	*7 452*	-	*7 452*
Investment properties	**-**	**-**	**700 744**	**700 744**
Assets at fair value	**9 210 619**	**456 076**	**1 954 871**	**11 621 566**
Financial liabilities held for trading	**-**	**542 988**	**1 837**	**544 825**
Derivatives held for trading	-	542 988	1 837	544 825
Exchange rate contracts	-	*33 953*		*33 953*
Interest rate contracts	-	*499 852*	*1 837*	*501 689*
Credit default contracts	-	*42*		*42*
Other	-	*9 141*		*9 141*
Financial liabilities at fair value through profit or loss	**102 012**	**-**	**-**	**102 012**
Debt securities issued	*102 012*	-	-	*102 012*
Derivatives - Hedge Accounting	**-**	**58 855**	**-**	**58 855**
Interest rate contracts	-	*58 855*	-	*58 855*
Liabilities at fair value	**102 012**	**601 843**	**1 837**	**705 692**

The changes occurred in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the financial years of 2020 and 2019, may be analyzed as follows:

(in thousands of Euros)

	31.12.2020								
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	**Total assets**	Financial liabilities held for trading	**Total liabilities**
	Derivatives held for trading	Economic hedging derivatives						Derivatives held for trading	
Balance as at 31 December 2019	**191**	**74 093**	**1 142 664**	**-**	**37 179**	**700 744**	**1 954 871**	**1 837**	**1 837**
Acquisitions	-	-	8 479	-	5 125	11 966	25 570	-	-
Attainment of maturity	-	-	(41 302)	-	-	-	(41 302)	-	-
Liquidation	-	(80 489)	(1 583)	-	(22 913)	-	(104 985)	-	-
Transfers in	-	-	-	-	16 326	-	16 326	-	-
Transfers out	-	-	(27 541)	-	(2 685)	-	(30 226)	-	-
Sales	-	-	-	-	-	(67 581)	(67 581)	-	-
Changes in value	(191)	6 396	(371 486)	-	10 190	(101 828)	(456 919)	321	321
Other movements	-	-	-	-	-	49 304	49 304	-	-
Balance as at 31 December 2020	**-**	**-**	**709 231**	**-**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**

(in thousands of Euros)

	31.12.2019								
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading	Total liabilities
	Derivatives held for trading	Economic hedging derivatives						Derivatives held for trading	
Balance as at 31 December 2018	**396**	**70 177**	**1 487 630**	**-**	**45 713**	**1 098 071**	**2 701 987**	**2 724**	**2 724**
Acquisitions	-	-	86 828	100	14 309	-	101 237	-	-
Attainment of maturity		-	(44 412)	-	-	-	(44 412)	-	-
Liquidation	(396)	-	(93 656)	-	(14 692)	-	(108 744)	(347)	(347)
Transfers in	-	-	-	-	-	9 455	9 455	-	-
Transfers out	-	-	-	(16)	-	-	(16)	-	-
Sales	-	-	-	-	-	(197 058)	(197 058)	-	-
Changes in value	191	3 916	(293 726)	(84)	(8 151)	(216 119)	(513 973)	(540)	(540)
Other movements	-	-	-	-	-	6 395	6 395	-	-
Balance as at 31 December 2019	**191**	**74 093**	**1 142 664**	**-**	**37 179**	**700 744**	**1 954 871**	**1 837**	**1 837**

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated at 31 December 2020 and 2019 were as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Recognised in reserves	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**
Derivatives held for trading	-	23 605	23 605	-	682	682
Economic hedging derivatives	-	(68 722)	(68 722)	-	6 204	6 204
Financial assets mandatorily at fair value through profit or loss	-	(359 642)	(359 642)	-	(287 694)	(287 694)
Financial assets at fair value through other comprehensive income	10 905	-	10 905	11	-	11
Investment properties	-	(104 310)	(104 310)	-	(216 119)	(216 119)
	10 905	**(509 390)**	**(498 485)**	**11**	**(496 927)**	**(496 916)**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	31.12.2020						
	Valuation Model	**Variable analysed**	**Carrying book value**	**Unfavorable scenario**		**Favorable scenario**	
				Change	**Impact**	**Change**	**Impact**
Financial assets mandatorily at fair value through profit or loss			**709,2**		**(22,2)**		**12,2**
Obligations of other issuers	Discounted cash flow model	Specific Impairment	77,9	-50%	(22,2)	+50%	12,2
Shares	Valuing adjusted management company	(b)	273,6		-		-
Other variable income securities			*357,7*		-		-
	Valuing adjusted management company	(b)	225,3		-		-
	Valuation of the management company	(c)	*132,5*		-		-
Financial assets at fair value through other comprehensive income			**43,2**		**(2,9)**		**0,1**
Shares			43,2		(2,9)		0,1
	Discounted cash flow model	*Renewable energy Rates*	*16,2*		*(2,9)*		*0,1*
	Other	(a)	*27,0*		-		-
Total			**752,5**		**(25,1)**		**12,3**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2019						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**74,3**		**-**		**-**
Derivatives held for trading	Other	(a)	0,2		-		-
Economic hedging derivatives		(b)	74,1		-		-
Financial assets mandatorily at fair value through profit or loss			**1 142,7**		**(34,1)**		**40,6**
Shares			489,6		(29,3)		31,0
	Discounted cash flow model	Specific Impairment	*74,7*	*-50%*	*(29,3)*	*+50%*	*31,0*
	Other	*(a)*	*2,8*		-		-
	Valuation of the management company	*Net assets value (c)*	*412,1*		-		-
Other variable income securities			653,1		(4,8)		9,6
	Other		*27,7*		-		-
	Valuation of the management company		*625,4*	*-50%*	*(4,8)*	*+50%*	*9,6*
Financial assets at fair value through other comprehensive income			**37,2**		**-**		**-**
Shares	Other	*(a)*	37,2		-		-
Total			**1 254,1**		**(34,1)**		**40,6**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.
(b) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity
(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 30 December 2020 and 2019, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	31.12.2020			31.12.2019		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0,5780	0,0776	0,1000	-0,4560	1,6000	0,7500
1 month	-0,5540	0,1439	0,0900	-0,4380	1,7900	0,7650
3 months	-0,5450	0,2384	0,0900	-0,3830	1,9200	0,8650
6 months	-0,5260	0,2576	0,1450	-0,3240	1,9300	0,9000
9 months	-0,5125	0,2995	0,1950	-0,3174	1,9100	0,9450
1 year	-0,4990	0,3419	-0,0125	-0,3161	1,7490	0,7419
3 years	-0,5080	0,2370	0,0913	-0,2380	1,6556	0,8243
5 years	-0,4575	0,4275	0,1926	-0,1205	1,6990	0,8844
7 years	-0,3845	0,6478	0,2799	0,0160	1,7630	0,9406
10 years	-0,2650	0,9170	0,3966	0,2110	1,8470	1,0172
15 years	-0,0720	1,1835	0,5200	0,4670	1,9650	1,0968
20 years	0,0090	1,3033	0,5730	0,5990	2,0160	1,1206
25 years	0,0090	1,3680	0,5805	0,6370	2,0350	1,1130
30 years	-0,0250	1,3998	0,5741	0,6310	2,0420	1,1082

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2020						
CDX USD Main	**35**	18,95	30,35	49,98	70,70	90,52
iTraxx Eur Main	**34**	0,00	27,66	47,95	66,24	86,37
iTraxx Eur Senior Financial	**34**	0,00	0,00	59,06	0,00	89,30
31 December 2019						
CDX USD Main	**33**	9,09	23,31	45,30	67,47	90,08
iTraxx Eur Main	**32**	-	23,32	44,22	64,99	85,26
iTraxx Eur Senior Financial	**32**	-	-	51,59	-	83,45

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2020			31.12.2019		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	15,39	118,44	-	12,71	18,87	48,83
3 years	21,33	91,12	-	22,74	39,23	57,73
5 years	28,38	84,06	-	33,51	36,57	64,04
7 years	34,60	65,41	-	40,12	39,25	67,79
10 years	41,18	62,77	-	46,46	34,71	70,87
15 years	46,54	-	-	51,03	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	**31.12.2020**	**31.12.2019**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,2271	1,1234	6,81	6,59	6,45	6,43	6,37
EUR/GBP	0,8990	0,8508	7,96	7,63	7,24	7,10	6,98
EUR/CHF	1,0802	1,0854	4,41	4,68	4,85	5,00	5,16
EUR/NOK	10,4703	9,8638	8,99	8,91	8,78	8,63	8,48
EUR/PLN	4,5597	4,2568	7,85	6,98	6,38	6,05	5,75
EUR/RUB	91,4671	69,9563	7,51	8,07	8,71	9,29	9,58
USD/BRL [a)]	5,1940	4,0197	20,76	19,24	18,30	17,93	17,56
USD/TRY [b)]	7,4265	5,9501	18,31	18,18	17,83	17,80	17,75

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	31.12.2020	31.12.2019	% Change	1 month	3 months	
DJ Euro Stoxx 50	3 553	3 745	5,42%	13,27	21,62	-
PSI 20	4 898	5 214	6,45%	17,03	20,33	-
IBEX 35	8 074	9 549	18,28%	18,26	24,88	-
FTSE 100	6 461	7 542	16,75%	14,68	19,00	20,72
DAX	13 719	13 249	-3,42%	14,97	22,50	20,88
S&P 500	3 756	3 231	-13,99%	9,45	18,74	17,34
BOVESPA	119 017	115 645	-2,83%	16,43	22,72	25,72

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2020					
Cash, cash balances at central bank and other demand deposits	2 695 459	-	2 695 459	-	2 695 459
Financial assets at amortised cost					
Debt securities	2 229 947	846 176	378 588	1 203 883	2 428 647
Loans and advances to banks	113 795	-	113 795	-	113 795
Loans and advances to customers	23 554 304	-	-	23 784 698	23 784 698
Financial assets	**28 593 505**	**846 176**	**3 187 842**	**24 988 581**	**29 022 599**
Financial liabilities measured at amortised cost					
Deposits from banks	10 102 896	-	10 143 505	-	10 143 505
Due to customers	26 322 060	-	-	26 322 060	26 322 060
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 017 928	1 146 753	1 800	82 898	1 231 451
Other financial liabilities	365 883		-	365 883	365 883
Financial liabilities	**37 808 767**	**1 146 753**	**10 145 305**	**26 770 841**	**38 062 899**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2019					
Cash, cash balances at central bank and other demand deposits	1 854 081	-	1 854 081	-	1 854 081
Financial assets at amortised cost					
Debt securities	1 622 545	84 535	636 336	1 046 352	1 767 223
Loans and advances to banks	369 228	-	369 228	-	369 228
Loans and advances to customers	25 149 687	-	-	25 478 179	25 478 179
Financial assets	**28 995 541**	**84 535**	**2 859 645**	**26 524 531**	**29 468 711**
Financial liabilities measured at amortised cost					
Deposits from banks	9 849 623	-	9 875 850	-	9 875 850
Due to customers	28 400 127	-	-	28 400 127	28 400 127
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 065 211	1 365 636	-	89 087	1 454 723
Other financial liabilities	358 688		-	358 688	358 688
Financial liabilities	**39 673 649**	**1 365 636**	**9 875 850**	**28 847 902**	**40 089 388**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions

The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities

These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 41 – Assets transfers

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational and management conditions to the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds which, through concentration, aggregation, mergers and integrated management, could achieve the required synergies to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and which, in turn, now hold almost all the share capital of certain subsidiaries (subsidiaries of those parent companies) to acquire certain real estate Bank loans.

Several assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all the financial assets assigned under these operations were derecognized from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor Banks, appointed on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through Bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent entities and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:

- equity instruments, representing the capital of parent companies in which the cash flow that will enable the company to be recovered come from a wide range of assets provided by the various Banks. These securities are recognized in the assets portfolio mandatorily at fair value through profit or loss being valued to market, with valuation released regularly by the mentioned companies whose accounts are audited at the end of each year;
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred

The instruments subscribed by NOVO BANCO Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the NOVO BANCO Group, in accordance with IFRS 9 3.2.7, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has no control either, it proceeded, in accordance with IFRS 9 3.2.6c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amounts of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
Up to 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 970	(23 000)	161 970
Up to 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
Up to 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
Up to 31 December 2015								
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855
Up to 31 December 2016								
Fundo Aquarius	710	602	(108)	600	-	600	-	600
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453
Up to 31 December 2017								
Fundo Aquarius	555	470	(86)	624	-	624	-	624
FLIT SICAV	3 261	3 298	37	-	-	-	-	-
Up to 31 December 2018								
Fundo Aquarius	839	644	(194)	644	-	644	-	644
FLIT SICAV	-	-	-	3 348	-	3 348	-	3 348
Fundo Vallis Construction Sector	-	-	-	(1)	-	(1)	-	(1)
Up to 31 December 2019								
Fundo Aquarius	2 323	1 821	(503)	1 821	-	1 821	-	1 821
	1 367 289	**1 363 070**	**(4 219)**	**1 432 468**	**119 516**	**1 418 058**	**(106 333)**	**1 311 724**

As at 31 December 2020, the Group's total exposure to securities associated with the assignment operations amounted to Euro 498.8 thousand (31 December 2019: Euro 839.9 million). With the adoption of IFRS 9, these securities were transferred from the fair value portfolio through other comprehensive income to the mandatorily measured at fair value through profit or loss, therefore, the balance sheet value presented below already corresponds to the respective fair value, not requiring register an impairment. The detail is as follows:

(in thousands of Euros)

	31.12.2020						31.12.2019					
	Securities		Shareholder loans or supplementary capital			Unrealised Subscribed Capital	Securities		Shareholder loans or supplementary capital			Unrealised Subscribed Capital
	Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount		Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount	
Fundo Recuperação Turismo, FCR	260 683	86 316	34 824	(34 824)	-	13 769	259 646	180 646	34 824	(34 824)	-	14 807
FLIT SICAV	281 191	157 084	14 900	(14 900)	-	13 826	279 515	197 744	14 900	(14 900)	-	15 309
Discovery Portugal Real Estate Fund	258 440	116 479	-	-	-	5 232	256 847	213 217	-	-	-	7 193
Fundo Vallis Construction Sector	-	-	-	-	-	-	-	-	-	-	-	-
Fundo Recuperação, FCR	206 805	44 873	-	-	-	18 543	206 805	74 296	-	-	-	19 063
Fundo Reestruturação Empresarial	117 051	22 436	-	-	-	6 113	117 051	48 148	-	-	-	8 237
Fundo Aquarius	160 586	71 631	-	-	-	19 519	159 274	125 875	-	-	-	22 800
	1 284 756	**498 819**	**49 724**	**(49 724)**	**-**	**77 002**	**1 279 138**	**839 926**	**49 724**	**(49 724)**	**-**	**87 409**

The Group also maintains an indirect exposure to the financial assets assigned, within the scope of a minority interest in the pool of all assets assigned by other financial institutions, through the shares of the subscribed parent companies. However, there was an operation with the company FLITPTREL VIII in which, due to the fact that the acquiring company substantially holds assets assigned by the Group and considering the holding of junior securities, the variability test resulted in a substantial exposure to all risks and benefits. In this circumstance, the operation, in the initial amount of Euro 60 million, remained recognized in the balance sheet under the heading of loans to customers.

NOTE 42 – Risk management

NOVO BANCO, S.A., (www.novobanco.pt) "institutional" area in the website presents the information directed to investors which complements the available information presented in this document, namely, NOVO BANCO, S.A., Market Discipline Report 2020 which addresses the public disclosure obligations as defined in Part VIII of the Regulation n.º 575/2013 of the European Parliament and the Council at 26 of July, 2013 (CRR) and EBA guidelines transposed to the Portuguese legislation through the Instruction n.º 5/2018 the Bank of Portugal.

In the case where the information of the present annual report supports the information in the Market Discipline report it is identified through references to this report as systematized in the Annex VI of the Market Discipline Report. Additionally, by the nature of the information presented in the Market Discipline report, it complements the information related with some risks management, namely, those related with the policies and procedures adopted and the quantitative information related with risk exposures.

The Group is exposed to the following risks arising from the use of financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

Credit Risk

Credit risk results from the possibility of financial losses arising from the default of the client or counterparty in relation to the contractual obligations established with the Group within the scope of its credit activity. Credit risk is essentially present in traditional banking products - loans, guarantees and other contingent liabilities and derivatives. In credit default swaps (CDS), the net exposure between protection seller and buyer positions on each entity underlying the transactions, constitutes credit risk for NOVO BANCO Group. CDS are recorded at their fair value in accordance with the accounting policy described in Note 2.4.

A permanent management of the credit portfolios is carried out, which favors interaction between the various teams involved in risk management throughout the successive stages of the life of the credit process. This approach is complemented by the introduction of continuous improvements both in terms of methodologies and tools for risk assessment and control, as well as in terms of procedures and decision circuits.

The monitoring of the Group's credit risk profile, namely the evolution of credit exposures and monitoring of credit losses, is carried out regularly by the Risk Committee. The compliance with approved credit limits and the correct functioning of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas are also subject to regular analysis.

NOVO BANCO Group's maximum credit risk exposure is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposits with and loans and advances to banks	367 252	635 181
Derivatives for trading and fair value option derivatives	388 257	493 884
Securities held for trading	267 016	254 848
Securities at fair value through profit/loss - mandatory	160 184	57 590
Securities at fair value through other comprehensive income	7 839 145	8 764 004
Securities at amortised cost	2 231 076	1 622 545
Loans and advances to customers	23 617 034	25 202 227
Derivatives - hedge accounting	12 972	7 452
Other assets	758 252	802 530
Guarantees and standby letters provided	2 734 027	2 899 851
Documentary credits	410 292	516 162
Irrevocable commitments	7 011 112	7 253 656
Credit risk associated with the credit derivatives' reference entities	4 798	2 883
	45 801 417	**48 512 813**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the accounting net book value. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Group would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Group calculates impairment, on a collective or individual basis in accordance with the accounting policy as described in Note 2.5. In the cases where the value of the collateral, net of haircuts (taking into account the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, NOVO BANCO Group does not have any overdue financial assets for which it has not performed a review regarding their recoverability and the subsequent impairment recognition, when necessary.

The exercise of build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is minimized).

The forecasts for prices (consume and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered appropriate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (cost and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with respect to the components of expenditure, prices, unemployment, etc. and estimates.

Thus, when revising / updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for later consideration in the scope of the Impairment calculation. The final impairment calculated will thus result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case , downside case and an upside case.

The base case scenario envisages a trend recovery in the form of a "swoosh". After the abrupt decline in activity in the 1st and 2nd quarters of 2020, there was an initially rapid recovery with the first reopen, followed by a recovery that tended to be more gradual. The recovery in this scenario leaves economic activity at a lower level than pre-Covid for a relatively prolonged period, until 2022. Thus, it is assumed some loss of productive potential in the economy.

This scenario assumes negative impacts of a second and third waves of Covid-19 in the 4th quarter of 2020 and between the 1st and 2nd quarters of 2021, in line with pandemic projection scenarios. These waves restrict economic activity, but in a progressively less pronounced way than in the first wave. Even so, relatively moderate quarterly GDP declines are admitted in the 4th quarter of 2020 and in the 2nd quarter of 2021. This scenario assumes the gradual distribution of anti-Covid-19 vaccines throughout 2021 and in 2022, allowing for a more visible normalization of economic activity as of the 3rd quarter of 2021.

The base case scenario, to which a 60% probability is attributed, points to an annual drop in GDP of around 8.3% in 2020, followed by an annual growth of around 5.2% in 2021, which benefits from a favourable base effect. The following years assume a gradual evolution towards trend / potential growth, with annual growth of 3.4% in 2022 and 2% in 2023. For the construction of the scenario, the information available on the initial economic impacts of the Covid-19 crisis was used. In the base case scenario, the increase in unemployment is strongly mitigated by measures to protect income and employment, which are assumed to be prolonged until 2021. House prices prevent a fall, due to stabilization measures, such as default and credit guarantees. The gradual withdrawal of these measures, however, causes a sharp deceleration in these prices in 2021. The base case scenario is marked by disinflationary pressures and the maintenance of strong monetary incentives.

The downside case scenario, with a probability of 30%, predicts more severe impacts on the economy of a second and third wave of Covid-19, which force intermittent lockdowns, leading to stronger QoQ contractions in GDP in the 4th quarter of 2020 and in the 2nd quarter of 2021. The recovery of activity takes place more slowly than in the base case scenario, which translates into more persistent negative economic effects and a severe loss of productive capacity. Activity is still significantly below pre-Covid levels in 2023, which translates into a significant rise in unemployment and a more depressed evolution of prices. GDP declines 9.6% in 2020 and grows 0.9% in 2021, which is explained, in this case, by a favorable base effect. GDP grows 2.8% in 2022, still benefiting from a favorable base effect, assuming a trend towards tendencial / potential growth in 2023. The normalization of activity with the introduction of vaccines is assumed in a more time-consuming and gradual way.

The updside case scenario, with a 10% probability, foresees a "V" shaped recovery. The second wave of the pandemic has a less pronounced and shorter impact on economic activity and the absence of any third wave is assumed. This allows for a normalization of activity and a faster recovery of growth. Above all, this allows the recovery of pre-Covid activity levels as early as 2021, which translates into a more benign trend in unemployment. Without a significant or persistent loss of capacity, prices have grown more noticeably. In this scenario, a rise in market interest rates is assumed, albeit at historically low levels.

Four macroeconomic models are used for the segments of Corporate (excluding Real Estate), Real Estate Companies, Mortgage Loans and Other Loans to Individuals.

The Corporate segment (excluding Real Estate) is particularly sensitive to the rate of GDP growth and the unemployment rate. In all scenarios, there is a drop in GDP, followed by a recovery in the following years, reaching in 2021 the levels verified before the pandemic, with the exception of the downside case scenario, in which the pre-pandemic levels are not reached in the horizon of 3 years. Unemployment registers a significant increase in the year 2020, followed by a recovery that is not enough to reach the levels of unemployment before the pandemic, with the exception of the upside case scenario that in the year 2022 is slightly lower than that registered before the pandemic.

The Real Estate Companies segment is particularly sensitive to changes in real estate prices and to the GDP growth rate. It is the segment most affected in the time horizon in question.

The price of real estate registered a significant fall in the year 2020 in all scenarios, followed by a more or less rapid recovery, depending on the scenario in question.

The Mortgage Loans segment is mainly affected by the reduction in GDP and the fall in real estate prices, across all scenarios in the year 2020.

The Other Loans to Individuals segment is substantially affected by the increase in Unemployment and the reduction in GDP, verified in 2020 in any of the scenarios.

Collective analysis adjustments to the automatic result of the model

After processing the automatic impairment calculation and validating the consistency of the results obtained, all situations that may need an adjustment to the calculated impairment value are assessed. These adjustments are reflected, whenever possible, directly in the exposures.

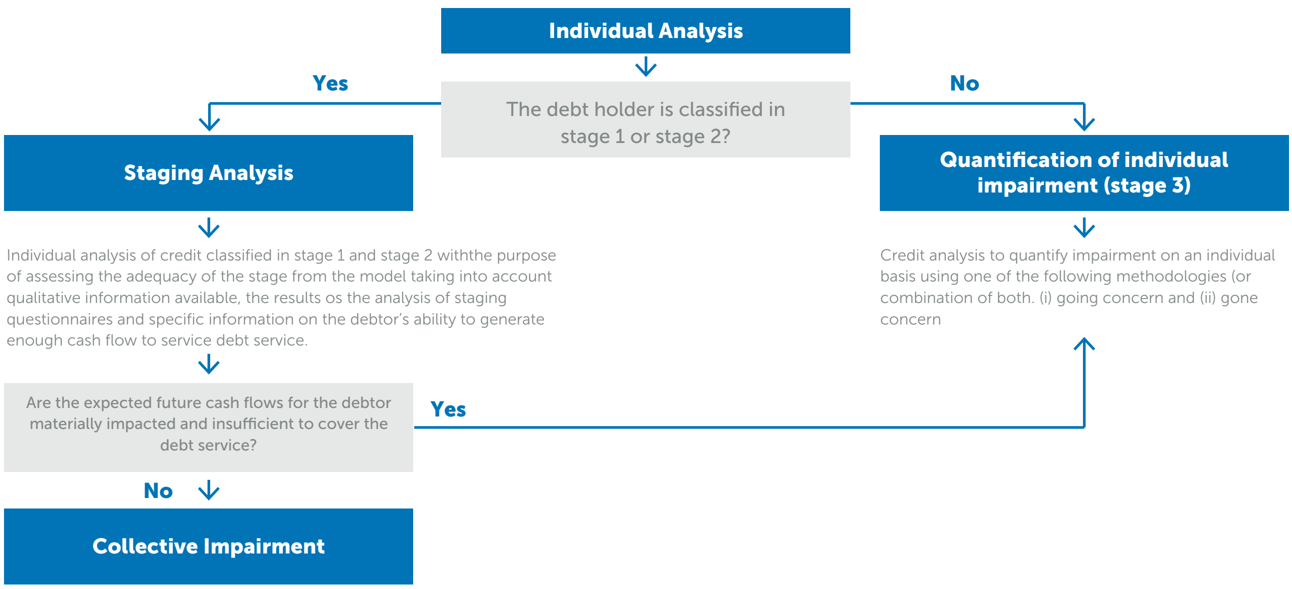
When this is not possible, the calculated impairment value is recorded without being allocated to specific exposures and, for that purpose, the stage and the type of credit to which it refers are associated. Having the prerogative to ensure that all impairment is allocated to specific exposures, these impairment amounts initially constituted in the unallocated form will, once conditions exist, be fully distributed over the exposures in which their allocation is determined.

In terms of the governance model, both adjustments to specific exposures and impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

Individual impairment analysis process

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral.

The scheme below is illustrative of the individual credit analysis to be carried out for the purpose of concluding on the classification in terms of staging of debtors.



Selection Criteria

Individual Analysis (staging analysis and, when applicable, quantification of individual impairment) should be carried out for the borrowers who::

- Register Stage 3 exposure equal to or greater than € 1,000,000;
- Register Stage 2 exposure equal to or greater than € 5,000,000;
- Register Stage 2 exposure equal to or greater than 1,000,000 € and have no rating assigned;
- Register Stage 1 exposure equal to or greater than 5,000,000 € and have no rating assigned;
- Register Stage 1 exposure equal or greater than € 25,000,000 (individually significant exposure);
- Fit into the Financial Holding risk segment and register exposure equal to or greater than € 5,000,000;
- Fit into the Real Estate risk segment and register exposure equal to or greater than € 5,000,000;
- Are identified by the Committee itself based on another criteria that justify (e.g.; sector of activity);
- In the past, specific impairment has been attributed to them;
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

The identification of the target customers for Individual Analysis will be updated monthly, in order to contemplate any changes that may occur throughout the year. The Committee analysis of the customers identified in the previous paragraph will be carried out in the month in which:

- The client registers, for the first time, one of the selection criteria for Individual Impairment Analysis, mentioned in the previous paragraph;
- Expiry of the Analysis expiration date;
- Its analysis is requested by one of the participants of the Impairment Committee or by another Body.

The Individual Impairment Analysis can be carried out for individual customers, but should whenever possible consider the Economic Group view of the selected customers.

Decision Chain

The Board of Directors is the highest body for determining the amount of impairment to be attributed to each client. Due to its determination, the execution of this function is delegated to the structures mentioned below: the commercial area and, above all, the Rating Department and the Impairment Committee.

The individual Impairment Analysis decision chain is made up of three progressive levels of competence:

The approval of the final values of Impairment is carried out by the EBD in the approval of accounts.

Scope and Stakeholder Impairment Committee

The Impairment Committee has permanent members:

- DRT - Rating Department;
- DRG - Global Risk Department;
- DC - Credit Department;
- DCCF - Accounting, Consolidation and Taxation Department;
- DRCE - Corporate Credit Recovery Department;
- DRCR - Retail Credit Recovery Department;
- DAI - Internal Audit Department.

Also participating are the Commercial Units, clients' managers, who will be assessed at these meetings, and other specialized Entities or Departments whose presence is necessary for a better assessment of the impairment to be constituted. The Commercial Units vote exclusively in the cases related to the customers they accompany. The invited Entities or Departments do not have the right to vote.

Decisions resulting from the intervention of the Impairment Committee are taken by majority, with the DRT having the veto power. They are considered binding, unless otherwise determined by the Executive Board of Directors. Extended Imparment Committee, meets with the presence of the Directors responsible for the areas involved. Proposals are deemed to have been approved by obtaining the agreement of all Directors present.

Rules of Operation

The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Units regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral. For the analysis of the impairment quantification on an individual basis, a scenario is established that is expected to recover credit: through the continuity of the client's business or through the execution of the collateral. If this analysis results in no impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model (except for cases with objective evidence of loss / Default, in which the final rate will have to be defined).

The Individual Impairment quantification analysis determines, for each period, the best recovery scenario, aligning the commercial strategies defined for the client, with the different recovery possibilities. When, due to lack of information, it is not possible to identify or update the recovery scenario, the previous rate is maintained, and a new date is set for the client's review.

Main events that took place in 2020

The most relevant events in 2020 and with an impact on credit risk management policies and procedures consisted of:

1. implementation of the new definition of Default;
2. incorporation into the collective impairment model of the impact of the pandemic;
3. definition and development of specific risk mitigation initiatives emerging from the current context.

1) Implementation of the new definition of Default;

The internal and regulatory framework for the definition of Default is described in default, it was implemented in internal regulations and is implemented in accordance to Article 178 of EU Regulation No. 575/2013, CRR.

The concept of Default was first determined by the criteria defined in section 2.1. of Part 4 of Annex IV of Notice 5/2007 and the additional clarifications agreed with Bank of Portugal at the meeting held on 17/03/2008 on this topic. In this sense, a default situation was considered, with respect to a given borrower or contract, when one or more of the following events occurred: a) the borrower has a delay of more than 90 days , with respect to any significant credit obligation to the banking group; or b) the bank considers that there is a reduced probability that the borrower will fully comply with its obligations to the bank, without resorting to specific mitigation actions, such as the activation of any guarantees held.

Since then, the definition of Default has undergone adaptations in accordance with the new regulatory requirements provided for by the CRR and also by subsequent guidelines issued by EBA and provided for in this regulation. In 2016, with the publication of the final guidelines on the application of the definition of default under the terms of article 178 of the CRR (EBA / GL / 2016/07 and EBA / RTS / 2016/06), EBA established the objective of harmonizing the application the definition of Default in all entities covered by the SSM, leading to consistency and comparability in the calculation of capital requirements, both in the Standard (SA) and IRB approaches. These issued guidelines introduce changes in the entire perimeter of the definition in force in GNB until 2020, namely in the frequency of the process, the criteria of days in arrears, materiality of the default and also in the indicators of reduced probability of payment.

This new definition of Default (nDoD) is in effect in GNB through a daily process created specifically for this purpose since 31 May 2020. In addition to the daily process, an effort has been made to recover historical information since 2009 (from a monthly perspective), in order to apply these rules for marking and deselecting Default, on which the ongoing process of reviewing the risk parameters is based. The output of the recovery process of the historical default markings served as input to the daily rules engine, in order to reduce the gap between the default dates.

The close relationship between the definition of Default and other regulatory definitions, such as Non Performing Loans (NPL) and / or Non Performing Exposures (NPE), Credit Impaired Stage 3 and even Credit Forborne, led to the determination of an alignment of the concepts. In practical terms, the criteria for marking and deselecting Default will be as demanding as the applicability, not only of its specific regulatory requirements, but also of the requirements of these other regulatory definitions.

The definition of Default in effect since May 2020 considers a set of concepts that were not evaluated by the previous definition, namely the concepts of debtor and joint materiality in the default trigger. However and in general lines, in view of the guidelines EBA / GL / 2016/07 and the alignment with other regulatory definitions, the definition of Default is based on the following pillars, determined on a daily basis, summarized in the following figure:

- Days in Default;
- Unlikely to pay deterministic situations;
- Pulling effect;
- Probation period;
- Default exit condition;

Whether by measuring the specific triggers of Default, or by the Stage 3 determination indicators, the result will be the determination of Default and Stage 3 in a consistent manner, starting with the default setting.

The Default setting for a given credit position is carried out automatically in cases where at least one of the specific triggers for that purpose is positive, encompassing, described in a non-exhaustive manner, the following situations:

- Existence of credit amounts in default with more than 90 calendar days above the materiality threshold; this threshold is checked daily and consists of an absolute and a relative component; material non-compliance is considered to exist when it cumulatively exceeds the absolute and relative thresholds; the amounts of overdue credit and exposure considered are determined at the level of the credit position typology (i.e. at the level of the credit facility or at the level of the debtor);
- Application of insolvency measures and / or other special protection measures;
- Sale of credit portfolios with material economic losses;
- Recognition of credit losses;
- Application of restructuring measures due to the existence of indicators of financial difficulties.

This definition of Default incorporates competing procedures (automatic and manual), for the evaluation and determination of the objective improvement of the quality of a debtor. This assessment will be automatic, during any probation period, through the application of a criteria that automatically cancels and resets those probative periods (restart of probation period). The probation period is a period of time during which the default marking of the contract, the client or the debtor remains active, even when the situation that originated the marking is regularized. Depending on the trigger and disregarding restarts, the minimum probation periods can range from 3 to 12 months. Only after the full and uninterrupted counting of the probation period can the trigger to which the period is applied be deselected. Although this automatic criteria guarantees an extensive evaluation of all exposures and debtors, the improvement in the quality of the debtor will be supplemented in all processes of deactivating manual triggers (when active) and in the process of assigning credit ratings (when applicable).

In the context of the application of the International Financial Reporting Standard 9 (IFRS 9), exposures of customers and impaired credits (in Credit Impaired Stage 3) will be identified. These situations may arise within the scope of the individual impairment analysis process, which, determining the existence of specific impairment, will promote the classification as Default. The determination of specific impairment through individual analysis includes the evaluation of the following indicators of possible occurrences of unlikely-to-pay (UTP):

a. A borrower's sources of recurring income are no longer available to meet the payment of installments;

b. There are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;

c. The institution has executed collateral, including a guarantee;

d. The level of indebtedness of the debtor has increased significantly or there are reasons to believe that it will increase in the near future;

e. Absence of an active market for the debtor's financial instruments;

f. When there is a default of a company wholly owned by a single person, who has provided the institution with a personal guarantee for all the obligations of a company;

g. Fraud;

h. Postponement or extension of loans beyond the economic life duration;

i. Borrower's license is withdrawn;

j. The debtor used the contractual possibility to unilaterally change the payment plan established.

This process also considers the customer's assessment and exposures at the level of the interconnected client group, when applicable, namely if some of the relevant exposures or players in that group are in a default situation.

2) Incorporation into the collective impairment model of the COVID impact

Given the general guidelines received from the supervisory entities throughout 2020 for the measurement and incorporation of impacts resulting from the Covid-19 pandemic and given the level of uncertainty surrounding the extent of this impact, Novo Banco adopted until the end of the third quarter of 2020 a strategy for the constitution of impairments through the accounting of an additional amount to the original result of the model in force.

In any case, this additional amount accounted for - and updated - for the 3rd quarter financial statements, was determined through simulations of alternative conditions on the model in force. While it is true that an additional amount of impairments was booked not allocated to specific portfolios or exposures, this amount was determined using the rules of the model in force, but with alternative conditions. In other words, this additional amount of impairment was calculated based on parallel simulations where, for the purposes of these simulations only, the risk and / or stage levels of some portfolios were generally deteriorated, in order to reflect the expected impact resulting from the pandemic.

During the 4th quarter and for the purposes of December 2020 financial statements, this additional amount of impairment was reversed since the impacts resulting from the COVID pandemic started to be directly reflected in the impairment result of the collective model in force.

So after:

i. definition and updating of the macroeconomic scenarios underlying the calculation of collective impairment in line with different expectations of the extent of the pandemic's impact;

ii. update of the IFRS 9 risk parameters - probability of default (PD) and severity (LGD) - in line with the new definition of default, either through the starting points or through the incorporation of forward looking information;

iii. cross-sectional review of corporate ratings, particularly in sectors identified as severely affected and / or affected by the COVID pandemic;

the result of the collective impairment calculation started to directly reflect the expected impact of this pandemic, with no need for additional adjustments or, consequently, for the accounting of additional amounts of impairment, not allocated to specific exposures.

Consequently, the estimated credit risk deterioration resulting from the pandemic is thus directly reflected in the exposures / portfolios where there was a downgrade of the associated rating and / or a worsening of the applicable risk parameters (forward looking effect).

3) Definition and development of specific risk mitigation initiatives emerging from the current context

The Covid-19 pandemic event significantly impacted the normal development of economic activity, both due to limitations in exercise and the pattern of consumption and investment, as well as significant restrictions on the way of operating for almost all sectors and agents of the economy as a result of movement restrictions, the growing demands for social distance, as well as the gradual deterioration of the confidence indices of individuals and companies.

This context changed the debtors' risk profile and their perspective of future evolution, which is why the Bank has timely adopted a series of articulated initiatives to ensure an adequate management of credit risk:

- Quarterly review of risk appetite rules - as of March, and on a quarterly basis, the risk appetite rules applicable to the different customer segments for the following quarter began to be evaluated, discussed and decided by the Executive Board of Directors. This review has led to different policy adaptations, initially focusing the Bank's credit activity on its customer base and placing greater restrictions on the risk to be assumed by new customers, and at the same time created levels of risk appetite differentiation based on the impacts of the pandemic:

  i. In individual customers, the historical level of probability of default (PD's) observed and the expected level of PD's in the face of a macroeconomic deterioration suggested an adjustment in the cut-off points for the admission credit scoring and consumer credit for both new and existing customers;

  ii. For customers in the corporate segments, in view of the different impacts of the pandemic restrictions on economic activity, the Bank decided to group the sectors of activity into three risk appetite clusters. The first called "Covid sectors" is composed of the activities directly most affected by the pandemic and mobility restrictions and for this it defined a very limited risk appetite, recommending to operate only with well-known clients, in very low risk operations and with special care in the knowledge of the destination of the funds in new clients. The second cluster "Macro affected sectors" is composed of the sectors of economic activity that are impacted by a macroeconomic deterioration due to changes in consumption and investment patterns, having defined a limited risk appetite for the worst rating levels at which it is recommended to operate with low risk profile exposures. The third cluster "Other sectors" is composed of companies from other sectors of activities not materially impacted by the Covid-19 pandemic, or that are assessed as more resilient to this impact.

These risk appetite rules continue to be monitored and reviewed on a permanent basis, in order to ensure that at all times the Bank maintains updated policies that are appropriate to the context and risk profile of each client.

- Monitoring of the credit contracting profile under the new risk appetite rules - to ensure sufficient knowledge about new production within or outside risk appetite, weekly and monthly management information was created for periodic sharing with the different bodies Bank's management;

- Periodic monitoring of rating review activity and rating migration flows - to allow timely knowledge and identification of rating upgrade or downgrade movements in each segment of corporate, new weekly and monthly management information was created with matrices of rating pre- and post-Covid migration for sharing with management bodies, which allow for the identification of individual cases that have been reassessed by the Rating Department, as well as changes justified by changes in the sector "Industry Anchors";

- Review of portfolio limits: the use of this internal risk appetite measurement and monitoring instrument has been intensified, which has been widely used by the Bank in recent years, as well as its metrics have been updated in the new post-Covid context. The definition of annual objectives and the monthly monitoring of the most relevant business lines allow the definition of mandates in the company segments for the worst rating levels, for the weight of exposures without an assigned rating, and for default exposures. In the case of private portfolios, these metrics are not defined based on the portfolio, but on the new contract, and are divided between the worst rating levels, the highest debt repayment ratios and the highest LTV bands. In the new context of revised risk appetite rules, this monitoring process has proven to be up-to-date and useful and continues to be shared periodically with the Bank's management bodies;

- Delegation of credit powers: concurrently with the quarterly review of risk appetite, adjustments were included in the form of delegation of credit powers with the dual objective of limiting the admission of risk in off-appetite segments and simultaneously maintaining agility in the process of admission to ensure good support to the economy with borrowers in the best segments and in the best guaranteed exposures (e.g. Covid credit lines with SGM guarantee);
- Covid credit lines with SGM guarantee - in view of Novo Banco's natural market share and the strong commitment of the government and the banking sector to support the economy, guaranteeing the lack of interruption in access to credit by small and medium-sized companies, were created specific credit lines with SGM guarantee with coverage between 80% to 90%. This type of credit facility has grown continuously throughout the year, reaching a total portfolio volume of approximately € 1,000 m. This growing materiality justified the preparation of a set of management information that allowed the Bank's different management bodies to monitor which risk was approved, the volume of new production contracted, and to know the profile of corporate clients in which these lines were granted;
- Operationalization and monitoring of legal and private initiative moratorium regimes: After an initial phase in which the priority was to create an operational context of great agility in the way the Bank confirmed the borrowers' eligibility and ensured the registration of the moratorium conditions in each contract covered, the dimension reached of the portfolios of corporate and individuals that remained under this regime has justified the immediate creation of management information that characterizes the evolution of this component of the portfolio and allowed to deepen the knowledge about its profile, which has been permanently monitored by the Bank's management bodies.

In addition to this global monitoring of the portfolio, in the following months Novo Banco undertook different initiatives in order to monitor the profile of customers who adhered to these regimes, and their standard of compliance and solvency, in order to identify in advance those who have not capacity to cpmply with future debt service after the end of the moratorium period, they may need other forms of support or restructuring, preventing their entry into default, notably:

i. Creation of a company evaluation questionnaire - initially having only historical economic and financial elements and in view of the need to reassess the companies' rating based on updated information that reflected the impact of the pandemic, Novo Banco created a questionnaire for evaluating companies with a significant set of questions that will allow them to collect information on the impact that the pandemic has had to date on these debtors, on the level of impact estimated by them in the full year 2020, as well as an estimate of impact on the activity in 2021. From its launch, the information in this questionnaire is now integrated into the recurring credit risk admission and follow-up process, so that all new decisions and policies marked are already informed with these data. Additionally, using the results obtained with this questionnaire, and after relying on the responses collected, Novo Banco has information that allows it to individualize the impacts of the pandemic at the level of each debtor, and simulate the effects on a change in the rating level and on an eventual migration of the Stage in which it is integrated;

ii. Indicators of financial deterioration of individuals - for individual customers, in addition to the current procedures for the prevention of default (PARI) and the management of default (PERSI), Novo Banco explored new sources of behavioral and transactional information for its customers, that allow it to identify internal or external signs of financial degradation. This set of enriched information will allow its customer base to be segmented by different levels of propensity to enter into default, and to implement a screening action and different support strategies adapted to the situation of each customer, preventing early entry in delinquency in view of the end date of the moratorium.

With priority for debtors under moratorium regime, for whom the Bank failed to observe data of compliance of debt service, but in which it is crucial to avoid the "cliff effect" that could originate with the end of the moratoriums through an identification and offering support in advance to those who are in financial difficulties, a wide range of variables from the behavioural scoring models, the Default model, the PARI regime, transactional data and different sources of internal and external information were analyzed. The exercise carried out based on analytical support and a multidisciplinary expert judgment, allowed to choose the variables understood as the most predictive for the situation of financial difficulty and to define the materiality triggers that will better identify those debtors.

The choice of these indicators will allow the Bank to segment its portfolio of individuals into homogeneous groups of customers with a similar probability of future entry into default, in order to prioritize its performance: with immediate priority for the group of debtors who already exhibit financial difficulties, with a secondary priority for those who have a high propensity to default, and with low priority for those who do not register warning signs or have indicators of resilience.

In order to reinforce the set of operational measures now initiated to deal with the impacts of the pandemic on credit risk management, by the end of 2020 and in the course of 2021, Novo Banco will continue to develop different initiatives to ensure correct identification and early offer of support to debtors who may be experiencing difficulties at the end of the moratorium period.

Internal rating models for Corporates, Institutions and stocks portfolios

Regarding the rating models for corporate portfolios, different approaches are adopted depending on the size and sector of activity of the clients. Specific models are also used, adapted to loan operations of project finance, acquisition finance, object finance, commodity finance and real estate development finance.

Below is a summary table on the types of risk models adopted in the internal assignment of credit ratings:

Expert Judgement ↑↓ **Statistical**	**Segmentation criteria**	**Model Type**	**Description**
	Sector, Size, Product • Large entreprises • Finantial institutions • Municipalities • Institutional • Local and regional administrations • Realestate (Investment/Promotion) • Acquisition Finance • Project Finance • Object Finance • Commodity Finance	Template	Ratings atributed by teams of analyst, using specific models by sector (templates) and financial and qualitative information.
	Medium entreprises	Semi-automatic	Rating model based in financial, qualitative and behavioral information, validated by analysts.
	Small entreprises Start-Up's and individual entrepreneurs	Automatic	Rating model based in financial, qualitative and behavioral information. Rating model based in qualitative and behavioral information.

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating models are not available are:

- Insurance and Pension Funds;
- Churches, political parties and non-profit associations with a turnover of less than Euro 500 thousand.

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and Specialized Loans - namely Project Finance, Object Finance, Commodity Finance and Acquisition Finance - the credit ratings are assigned by the Bank's Rating representation. This structure is made up of 7 multisectoral teams that comprise a team leader and several specialized technical analysts. The attribution of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of "expert-based" rating models (templates) that are based on qualitative and quantitative variables, strongly correlated with the sector or sectors of activity in which the clients under analysis operate. With the exception of assigning a rating to specialized loans, the methodology used by the Rating representation is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company in the respective economic group. The internal credit ratings are validated daily in a Rating Committee composed of members of the Rating Department's Management and the various specialized teams.

For the medium-sized companies segment, statistical rating models are used, which combine financial data with qualitative and behavioral information. However, the publication of credit ratings requires the execution of a previous validation process that is carried out by a technical team of risk analysts, who also take into account behavioral variables. In addition to rating, these teams also monitor the customers' loan portfolio of the Bank through the preparation of risk analysis reports, as provided for in internal regulations, in accordance with the current responsibilities / customer rating binomial, which may include specific recommendations on the credit relationship with a given customer, as well as technical advice on investment support operations, restructuring, or other operations subject to credit risk.

For the business segment, statistical scoring models are also used which have, in addition to financial and qualitative information, the behavioral variables of the companies and the partner(s) in the calculation of credit ratings.

There are also implemented scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and individual entrepreneurs (ENI). These customers together with the small companies, depending on the exposure value, are included in the regulatory retail portfolios.

Finally, for companies in the real estate sector (companies dedicated to the activity of real estate promotion and investment, especially small and medium-sized companies), taking into account their specificities, the respective ratings are assigned by a specialized central team, based on use of specific models that combine the use of quantitative and technical variables (real estate appraisals carried out by specialized offices), as well as qualitative and behavioral variables.

With regard to exposures equated to shares held by the Bank, directly or indirectly through the holding of investment funds, as well as shareholders loans and supplementary capital contributions, all included in the risk class of shares for the purposes of calculating credit risk weighted assets, they are classified in the various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented above. These segmentation criteria determine the type of rating model to be applied to the issuers of the shares (or borrowers of the shareholders loans / supplementary capital contributions) and, therefore, to them.

Relationships between internal and external ratings

The assignment of an internal rating to entities with an external rating is made through the Markets Template available in the Rating Calculation application. The Markets Template gathers the external ratings that were assigned to a specific entity by the rating agencies Standard & Poor's (S&P), Moody's and Fitch.

Specifically, the functionality of providing external ratings from S&P - XpressFeed feeds the application of External Ratings on a daily basis, which allows the external ratings published by these agencies for a given entity to be filled in the Markets Template. The external ratings assigned by Moody's and Fitch are not obtained automatically, having to be entered manually in the Markets Template, after consulting the websites www.moodys.com and www.fitchratings.com.

The internal rating results, in the majority of situations, from the S&P equivalent external rating and, in exceptional situations, from the S&P equivalent external rating plus an internal adjustment, which must always be accompanied by justifying comments prepared by the analyst.

It should be noted that the S&P equivalent external rating is obtained by making a correspondence between the available external ratings and the rating scale of the referred financial rating agencies. The internal ratings produced by the Markets Template and which have had adjustments must be mandatorily approved and validated by the Rating Committee

The table below shows the correspondence between the external ratings S&P, Moody's and Fitch and the equivalent external rating S&P:

S&P	Moody's	Fitch	Equivalent external rating S&P
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	Lower than CCC
CC	Ca	CC	
SD	C	C	
D		RD/D	

Internal scoring models for Individual portfolios

With regard to scoring models for individual portfolios, NB has origination / concession and behavioral scoring models (applied to operations older than 6 months).

These models are automatic, based on statistical models developed with internal information, considering socio-demographic information, loan characteristics, behavioral information and automatic penalties (if there are warning signs). In the case of behavioral models, information on the remaining loans of the contract holders is also considered.

NB is authorized by Bank of Portugal to use internal models in the calculation of regulatory capital requirements for the main portfolios of individuals: Mortgage Loans and Individual Loans. In addition, it has origination and behavioral scorings for the Credit Card, Overdraft and Loan Accounts products, which it uses for the purposes of designing and monitoring credit quality, however, not being IRB portfolios.

The table below displays the assets impaired, or overdue by not impaired:

(in thousands of Euros)

	31.12.2020					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	303 252	-	314 138	617 390	(250 138)	367 252
Securities held for trading	267 016	-	-	267 016	-	267 016
Bonds issued by government and other public entities	*267 016*	-	-	*267 016*	-	*267 016*
Securities at fair value through profit/loss - mandatory	160 184	-	-	160 184	-	160 184
Bonds issued by other entities	*160 184*	-	-	*160 184*	-	*160 184*
Securities at fair value through other comprehensive income	7 820 072	-	22 770	7 842 842	(3 697)	7 839 145
Bonds issued by government and other public entities	*6 490 076*	-	-	*6 490 076*	*(3 132)*	*6 486 944*
Bonds issued by other entities	*1 329 996*	-	*22 770*	*1 352 766*	*(565)*	*1 352 201*
Securities at amortised cost	2 312 708	-	119 605	2 432 313	(201 237)	2 231 076
Bonds issued by government and other public entities	*421 249*	-	-	*421 249*	*(579)*	*420 670*
Bonds issued by other entities	*1 891 459*	-	*119 605*	*2 011 064*	*(200 658)*	*1 810 406*
Loans and advances to customers	23 026 101	7 276	2 183 432	25 216 809	(1 599 775)	23 617 034

(in thousands of Euros)

	31.12.2019					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	330 768	-	381 501	712 269	(77 088)	635 181
Securities held for trading	254 848	-	-	254 848	-	254 848
Bonds issued by government and other public entities	*254 848*	-	-	*254 848*	-	*254 848*
Securities at fair value through profit/loss - mandatory	57 590	-	-	57 590	-	57 590
Bonds issued by other entities	*57 590*	-	-	*57 590*	-	*57 590*
Securities at fair value through other comprehensive income	8 724 040	-	45 520	8 769 560	(5 556)	8 764 004
Bonds issued by government and other public entities	*7 108 022*	-	-	*7 108 022*	*(4 527)*	*7 103 495*
Bonds issued by other entities	*1 616 018*	-	*45 520*	*1 661 538*	*(1 029)*	*1 660 509*
Securities at amortised cost	1 676 844	-	104 475	1 781 319	(158 774)	1 622 545
Bonds issued by government and other public entities	*459 260*	-	-	*459 260*	*(704)*	*458 556*
Bonds issued by other entities	*1 217 584*	-	*104 475*	*1 322 059*	*(158 070)*	*1 163 989*
Loans and advances to customers	24 080 163	15 645	2 958 914	27 054 722	(1 852 495)	25 202 227

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - which corresponds to Stage 3); and (ii) exposures classified as having specific impairment after individual impairment assessment.

The exposures classified as not having impairment relate to (i) all exposures that do not show signs of significant deterioration in credit risk - exposures classified in Stage 1; (ii) exposures that, showing signs of significant deterioration in credit risk, have no objective evidence of loss or specific impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(in thousands of Euros)

	31.12.2020					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	34 726	5 194	15 240
3 months to 1 year	-	15 126	-	-	1 133	57 544
1 to 3 years	-	10 330	-	-	357	93 105
3 to 5 years	-	34 444	-	-	290	233 020
More than 5 years	-	82 475	-	-	302	219 616
	-	**142 375**	**-**	**34 726**	**7 276**	**618 525**
Due						
Up to 3 months	-	-	-	-	-	37 599
3 months to 1 year	-	-	-	-	-	308 017
1 to 3 years	-	-	-	-	-	273 779
3 to 5 years	-	-	-	-	-	149 134
More than 5 years	-	-	-	279 412	-	796 378
	-	**-**	**-**	**279 412**	**-**	**1 564 907**
	-	**142 375**	**-**	**314 138**	**7 276**	**2 183 432**

(in thousands of Euros)

	31.12.2019					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	-	13 090	21 488
3 months to 1 year	-	6 770	-	-	643	68 364
1 to 3 years	-	56 070	-	-	1 015	315 286
3 to 5 years	-	87 155	-	-	742	351 725
More than 5 years	-	-	-	-	155	337 681
	-	**149 995**	**-**	**-**	**15 645**	**1 094 544**
Due						
Up to 3 months	-	-	-	-	-	117 606
3 months to 1 year	-	-	-	-	-	333 782
1 to 3 years	-	-	-	-	-	488 369
3 to 5 years	-	-	-	-	-	163 804
More than 5 years	-	-	-	381 501	-	760 809
	-	**-**	**-**	**381 501**	**-**	**1 864 370**
	-	**149 995**	**-**	**381 501**	**15 645**	**2 958 914**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2020				31.12.2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	314 138	-	314 138	-	381 501	-	381 501
Securities at fair value through other comprehensive income	-	-	22 770	22 770	-	-	45 520	45 520
Securities at amortised cost	-	-	119 605	119 605	-	-	104 475	104 475
Loans and advances to customers	1 679	5 597	2 183 432	2 190 708	944	14 701	2 958 914	2 974 559
	1 679	**319 735**	**2 325 807**	**2 647 221**	**944**	**396 202**	**3 108 909**	**3 506 055**

Regarding assets that are neither past due nor impaired, the distribution by rating level is presented below. For the debt instruments, the rating assigned by the Rating Agencies is taken into account, for the credit to clients and cash and deposits with credit institutions, the internal rating and scoring models are used, that assign a risk rating, which is periodically reviewed. For the purposes of presenting the information, the ratings have been aggregated into five major risk groups, with the last group including the unrated exposures.

(in thousands of Euros)

	31.12.2020					
	Prime +High grade	***Upper Medium Grade***	***Lower Medium grade***	***Non Investment Grade Speculative + Highly speculative***	**Others**	**Total**
Deposits with and loans and advances to banks	1 096	139 859	48 121	38 073	76 103	303 252
Securities held for trading	-	-	267 016	-	-	267 016
Bonds issued by government and other public entities	-	-	*267 016*	-	-	*267 016*
Securities at fair value through profit/loss - mandatory	-	32 670	-	-	127 514	160 184
Bonds issued by other entities	-	*32 670*	-	-	*127 514*	*160 184*
Securities at fair value through other comprehensive income	1 415 572	2 335 007	3 330 418	-	739 075	7 820 072
Bonds issued by government and other public entities	*966 035*	*2 322 904*	*2 946 842*	-	*254 295*	*6 490 076*
Bonds issued by other entities	*449 537*	*12 103*	*383 576*	-	*484 780*	*1 329 996*
Títulos ao custo amortizado	-	51 608	140 510	37 958	2 082 632	2 312 708
Bonds issued by government and other public entities	-	-	-	-	*421 249*	*421 249*
Bonds issued by other entities	-	*51 608*	*140 510*	*37 958*	*1 661 383*	*1 891 459*
Loans and advances to customers	3 734 056	8 854 914	2 469 068	6 855 355	1 112 709	23 026 101

(in thousands of Euros)

	31.12.2019					
	Prime +High grade	*Upper Medium Grade*	*Lower Medium grade*	*Non Investment Grade Speculative + Highly speculative*	Others	Total
Deposits with and loans and advances to banks	45	5 004	13 411	41 607	270 701	330 768
Securities held for trading	-	5 070	249 778	-	-	254 848
Bonds issued by government and other public entities	-	*5 070*	*249 778*	-	-	*254 848*
Securities at fair value through profit/loss - mandatory	-	47 340	-	-	10 250	57 590
Bonds issued by other entities	-	*47 340*	-	-	*10 250*	*57 590*
Securities at fair value through other comprehensive income	1 615 203	2 407 116	3 935 197	-	766 524	8 724 040
Bonds issued by government and other public entities	*1 169 578*	*2 400 889*	*3 537 275*	-	*280*	*7 108 022*
Bonds issued by other entities	*445 625*	*6 227*	*397 922*	-	*766 244*	*1 616 018*
Títulos ao custo amortizado	-	-	101 711	35 479	1 539 654	1 676 844
Bonds issued by government and other public entities	-	-	-	-	*459 260*	*459 260*
Bonds issued by other entities	-	-	*101 711*	*35 479*	*1 080 394*	*1 217 584*
Loans and advances to customers	3 031 066	9 323 234	2 657 812	7 493 726	1 574 325	24 080 163

As at 31 December 2020 and 2019, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2020													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay <= 90 days		Days of delay > 90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	12 109 249	328 589	7 200	645	12 116 449	329 234	940 235	471 147	816 374	544 639	1 756 609	1 015 786	13 873 058	1 345 020
Mortgage loans	9 723 675	17 526	65 067	1 706	9 788 742	19 232	110 577	17 312	111 134	29 301	221 711	46 613	10 010 453	65 845
Consumer and other loans	1 116 057	21 113	12 129	2 391	1 128 186	23 504	147 730	122 182	57 382	43 224	205 112	165 406	1 333 298	188 910
Total	**22 948 981**	**367 228**	**84 396**	**4 742**	**23 033 377**	**371 970**	**1 198 542**	**610 641**	**984 890**	**617 164**	**2 183 432**	**1 227 805**	**25 216 809**	**1 599 775**

(in thousands of Euros)

Segment	31.12.2019													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay <= 90 days		Days of delay > 90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	12 583 643	154 399	59 792	3 154	12 643 435	157 553	1 089 904	504 311	1 498 692	983 700	2 588 596	1 488 011	15 232 031	1 645 564
Mortgage loans	10 034 807	16 649	39 485	615	10 074 292	17 264	70 000	19 745	119 983	29 985	189 983	49 730	10 264 275	66 994
Consumer and other loans	1 280 872	3 101	7 217	389	1 288 089	3 490	149 700	54 426	120 627	82 021	270 327	136 447	1 558 416	139 937
Total	**23 899 322**	**174 149**	**106 494**	**4 158**	**24 005 816**	**178 307**	**1 309 604**	**578 482**	**1 739 302**	**1 095 706**	**3 048 906**	**1 674 188**	**27 054 722**	**1 852 495**

As at 31 December 2020 and 2019, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euros)

	31.12.2020											
Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	4 508	253 737	12 541	70 884	1 525 145	15 028	732 974	54 539	16 638	808 366	1 833 421	44 207
2005	801	66 294	6 277	8 760	363 661	3 964	10 920	7 453	388	20 481	437 408	10 629
2006	1 047	228 528	52 349	14 695	672 558	5 747	18 044	9 413	1 029	33 786	910 499	59 125
2007	1 311	308 621	46 549	21 786	1 003 716	9 050	25 665	12 887	1 567	48 762	1 325 224	57 166
2008	1 275	507 028	30 559	14 578	709 233	5 732	20 567	10 778	775	36 420	1 227 039	37 066
2009	991	282 231	41 733	9 533	492 528	4 356	12 380	19 179	8 274	22 904	793 938	54 363
2010	1 224	303 769	76 409	8 908	508 778	4 276	19 274	29 123	1 381	29 406	841 670	82 066
2011	1 208	214 814	48 687	4 847	226 201	2 214	22 191	20 942	1 145	28 246	461 957	52 046
2012	1 500	379 756	133 774	2 626	96 782	1 418	28 413	18 224	1 873	32 539	494 762	137 065
2013	2 065	506 226	116 278	3 041	149 827	1 520	25 794	27 293	8 798	30 900	683 346	126 596
2014	2 141	456 374	193 612	1 933	107 869	743	25 229	23 155	1 101	29 303	587 398	195 456
2015	3 442	730 681	146 759	2 977	185 390	787	30 078	124 058	82 465	36 497	1 040 129	230 011
2016	4 910	806 562	62 679	6 108	424 352	1 627	49 529	92 372	22 336	60 547	1 323 286	86 642
2017	7 939	1 124 252	66 057	9 475	762 490	3 039	56 275	129 533	10 083	73 689	2 016 275	79 179
2018	8 993	1 914 976	117 147	10 800	1 006 802	2 716	67 185	198 768	10 025	86 978	3 120 546	129 888
2019	10 488	2 771 828	137 204	10 672	1 035 025	2 358	74 966	304 366	13 832	96 126	4 111 219	153 394
2020	17 700	3 017 381	56 406	7 339	740 096	1 270	48 711	251 215	7 200	73 750	4 008 692	64 876
Total	**71 543**	**13 873 058**	**1 345 020**	**208 962**	**10 010 453**	**65 845**	**1 268 195**	**1 333 298**	**188 910**	**1 548 700**	**25 216 809**	**1 599 775**

(in thousands of Euros)

	31.12.2019											
Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	6 216	353 552	57 502	77 022	1 791 552	37 053	786 731	92 963	20 101	869 969	2 238 067	114 656
2005	1 296	112 000	11 771	9 502	412 770	2 494	15 980	12 119	332	26 778	536 889	14 597
2006	1 623	288 533	36 673	15 487	746 767	3 452	20 584	18 010	1 032	37 694	1 053 310	41 157
2007	2 035	426 192	42 231	22 824	1 100 894	5 434	29 054	23 832	1 459	53 913	1 550 918	49 124
2008	1 792	672 225	27 953	15 330	780 754	3 328	23 428	23 398	968	40 550	1 476 377	32 249
2009	1 409	369 324	42 067	10 095	542 438	2 266	14 421	28 184	4 717	25 925	939 946	49 050
2010	1 885	409 205	84 735	9 630	565 222	2 866	25 617	40 828	1 842	37 132	1 015 255	89 443
2011	1 641	349 494	54 693	5 198	254 617	1 277	25 716	26 981	1 188	32 555	631 092	57 158
2012	2 068	645 741	301 778	2 883	113 753	770	34 406	31 603	3 681	39 357	791 097	306 229
2013	3 006	718 017	194 251	3 319	172 221	882	30 278	48 750	13 377	36 603	938 988	208 510
2014	3 734	669 259	199 342	2 162	130 315	418	30 312	37 954	2 056	36 208	837 528	201 816
2015	5 238	970 889	136 138	3 257	213 195	603	38 060	142 049	37 492	46 555	1 326 133	174 233
2016	7 248	1 159 554	101 604	6 607	474 544	955	60 776	140 138	30 690	74 631	1 774 236	133 249
2017	10 328	1 748 742	159 893	10 163	840 918	2 788	68 816	202 931	11 014	89 307	2 792 591	173 695
2018	11 048	2 622 431	99 052	11 420	1 078 898	1 191	79 907	272 589	5 617	102 375	3 973 918	105 860
2019	21 838	3 716 873	95 881	10 529	1 045 417	1 217	77 853	416 087	4 371	110 220	5 178 377	101 469
Total	**82 405**	**15 232 031**	**1 645 564**	**215 428**	**10 264 275**	**66 994**	**1 361 939**	**1 558 416**	**139 937**	**1 659 772**	**27 054 722**	**1 852 495**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of NOVO BANCO.

As at 31 December 2020 and 2019, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by segment, is presented as follows:

(in thousands of Euros)

	31.12.2020					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 667 521	951 926	12 205 537	393 094	13 873 058	1 345 020
Mortgage loans	4 551	220	10 005 902	65 625	10 010 453	65 845
Consumer and other loans	155 734	136 305	1 177 564	52 605	1 333 298	188 910
Total	**1 827 806**	**1 088 451**	**23 389 003**	**511 324**	**25 216 809**	**1 599 775**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2019					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	2 358 394	1 391 397	12 873 637	254 167	15 232 031	1 645 564
Mortgage loans	11 065	2 395	10 253 210	64 599	10 264 275	66 994
Consumer and other loans	200 414	115 384	1 358 002	24 553	1 558 416	139 937
Total	**2 569 873**	**1 509 176**	**24 484 849**	**343 319**	**27 054 722**	**1 852 495**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee
(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

In the case of credits analyzed by the Impairment Committee for which the impairment determined automatically by the Impairment Model has not been changed, they are included and presented in the "Collective assessment".

As at 31 December 2020 and 2019, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, is presented as follows:

(in thousands of Euros)

	31.12.2020					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 621 724	938 644	21 294 043	471 246	22 915 767	1 409 890
Spain	29 762	17 762	410 771	13 019	440 533	30 781
United Kingdom	-	-	272 723	6 682	272 723	6 682
France	-	-	256 544	3 351	256 544	3 351
Switzerland	-	-	231 385	1 573	231 385	1 573
Luxembourg	-	-	167 956	20	167 956	20
Other	176 320	132 045	755 581	13 415	931 901	145 460
Total	**1 827 806**	**1 088 451**	**23 389 003**	**509 306**	**25 216 809**	**1 597 757**

* Loans and advances which the final impairment was determined and approved by the Impairment Committee
** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2019					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	2 210 925	1 291 749	21 196 952	304 530	23 407 877	1 596 279
Luxembourg	-	-	109 318	310	109 318	310
United Kingdom	481	116	219 905	1 401	220 386	1 517
Spain	105 236	49 141	1 838 788	28 332	1 944 024	77 473
Cayman Island	-	-	298	6	298	6
Ireland	-	-	17 759	31	17 759	31
Other	253 231	168 170	1 101 829	8 709	1 355 060	176 879
Total	**2 569 873**	**1 509 176**	**24 484 849**	**343 319**	**27 054 722**	**1 852 495**

* Loans and advances which the final impairment was determined and approved by the Impairment Committee
** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

In order to mitigate credit risk, credit operations have associated guarantees, namely mortgages or pledges. The fair value of these guarantees is determined at the date of granting the credit and is periodically reassessed. Below is the gross value of the credits and the respective fair value of the collateral, limited to the value of the associated credit:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	9 801 563	9 786 018	10 083 366	10 065 713
Pledges	113 702	113 198	82 044	81 368
Not collateralized	95 188	-	98 865	-
	10 010 453	**9 899 216**	**10 264 275**	**10 147 081**
Individuals - Other				
Mortgages	219 239	216 301	268 964	263 156
Pledges	267 102	148 584	342 268	210 696
Not collateralized	846 957	-	947 184	-
	1 333 298	**364 885**	**1 558 416**	**473 852**
Corporate				
Mortgages	3 622 160	3 130 712	2 915 576	2 572 755
Pledges	2 210 683	836 026	5 017 404	2 585 665
Not collateralized	8 040 215	-	7 299 051	-
	13 873 058	**3 966 738**	**15 232 031**	**5 158 420**
Total	**25 216 809**	**14 230 839**	**27 054 722**	**15 779 353**

The difference between the value of the credit and the fair value of the collateral represents the total credit exposure that exceeds the value of the collateral, this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

Collateral intervals [a)]	31.12.2020							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5€mn	202 981	9 593 284	5 107	200 866	9 748	505 417	217 836	10 299 567
>= 0,5€mn and <1,0€mn	248	146 377	26	8 552	2 202	264 144	2 476	419 073
>= 1,0€mn and <5,0€mn	36	46 357	3	6 883	7 537	839 109	7 576	892 349
>= 5,0€mn and <10,0€mn	-	-	-	-	5 979	401 084	5 979	401 084
>= 10,0€mn and <20,0€mn	-	-	-	-	4 014	477 539	4 014	477 539
>= 20,0€mn and <50,0€mn	-	-	-	-	170	471 926	170	471 926
>=50€mn	-	-	-	-	1 566	171 493	1 566	171 493
	203 265	**9 786 018**	**5 136**	**216 301**	**31 216**	**3 130 712**	**239 617**	**13 133 031**

[a)] The allocation by intervals was based on the total amount of collateral per credit agreement

(in thousands of Euros)

Collateral intervals [a)]	31.12.2019							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5€mn	210 236	9 878 305	5 398	228 186	8 605	408 838	224 239	10 515 329
>= 0,5€mn and <1,0€mn	235	138 719	45	16 666	2 132	242 563	2 412	397 948
>= 1,0€mn and <5,0€mn	46	48 689	18	18 304	6 416	705 489	6 480	772 482
>= 5,0€mn and <10,0€mn	-	-	-	-	692	323 224	692	323 224
>= 10,0€mn and <20,0€mn	-	-	-	-	3 267	303 545	3 267	303 545
>= 20,0€mn and <50,0€mn	-	-	-	-	222	518 961	222	518 961
>=50€mn	-	-	-	-	1	70 135	1	70 135
	210 517	**10 065 713**	**5 461**	**263 156**	**21 335**	**2 572 755**	**237 313**	**12 901 624**

[a)] The allocation by intervals was based on the total amount of collateral per credit agreement

The values of collateral - mortgages, presented above, represent the maximum coverage value of the covered assets, that is, that compete up to the gross value of the individual credits covered.

In assessing the risk of an operation or set of operations, the elements of credit risk mitigation associated with them are taken into account, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:

- Real estate, where the value considered is the correspondent to the last available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of being a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collateral as a guarantee for credit operations refers to the need to define and implement risk mitigation techniques to which these collaterals are exposed. Thus, and as an approach to this matter, the Group stipulated a set of procedures applicable to collateral (namely financial and real estate), which cover, among others, the volatility of the collateral value, its liquidity and also an indication as to the recovery rates associated with each type of collateral.

The internal rules on credit powers thus have a specific chapter on this point, "Acceptance of collateral - techniques for mitigating the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process for real estate is performed by independent valuation experts registered in CMVM, following the methodologies as described in Note 2.11.

The analysis of risk exposure by sector of activity, as at 31 December 2020 and 2019, is presented as follows:

(in thousands of Euros)

	31.12.2020												
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivates	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss - mandatory	Derivatives - hedge accounting	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	333 150	(11 213)	-	690	-	-	-	29 227	(13)	19 196	(26)	12 411	(6 004)
Mining	74 587	(18 626)	-	-	-	-	-	-	-	18 380	(4)	8 013	(193)
Food, Beverages and Tobacco	535 893	(16 677)	-	10 113	-	-	-	-	-	73 076	(2 277)	50 449	(295)
Textiles and Clothing	358 937	(15 812)	-	255	-	-	-	-	-	1 197	-	9 336	(2 608)
Leather and Shoes	72 598	(3 184)	-	-	-	-	-	-	-	-	-	2 074	(107)
Wood and Cork	116 943	(3 946)	-	236	-	-	-	-	-	12 512	(49)	6 546	(46)
Paper and Printing Industry	204 175	(19 003)	-	27	-	-	-	-	-	31 483	(48)	3 542	(32)
Refining of Petroleum	9 867	(14)	-	-	-	-	-	-	-	40 135	(20)	1 804	-
Chemicals and Rubber	323 798	(5 175)	-	1 576	-	-	-	19 597	(13)	131 643	(67)	18 684	(122)
Non-metallic Minerals	126 754	(7 884)	-	-	-	-	-	16 483	(14)	3 441	(4)	18 496	(269)
Metallurgical Industries and Metallic Products	361 426	(12 497)	-	281	-	-	-	16 533	(10)	1 498	(21)	42 633	(384)
Production of Machinery, Equipment and Elect	141 484	(9 161)	-	349	-	-	-	42 692	(26)	45 059	(22)	64 780	(979)
Production of Transport Material	118 960	(2 999)	-	78	-	-	-	-	-	15 039	(8)	12 297	(638)
Other Transforming Industries	141 682	(11 021)	-	-	-	-	-	-	-	4 987	(35)	18 390	(2 359)
Electricity, Gas and Water	337 076	(19 073)	-	22 809	-	-	-	33 978	(25)	138 950	(418)	101 060	(194)
Construction and Public Works	1 401 976	(166 456)	-	97 763	-	-	-	-	-	199 316	(60 786)	888 736	(39 174)
Wholesale and Retail Trade	1 388 289	(61 648)	-	3 741	-	-	-	41 174	(27)	45 435	(51)	202 637	(2 177)
Tourism	980 980	(80 486)	-	362	-	-	-	182	-	-	-	62 419	(7 129)
Transport and Communication	874 941	(53 234)	-	67 527	-	-	-	99 577	(63)	11 639	(16)	376 637	(1 794)
Financial Activities	470 353	(61 084)	-	163 798	-	882 971	12 972	749 263	(249)	369 587	(938)	133 476	(749)
Real Estate Activities	1 776 935	(221 118)	-	8 147	-	-	-	867	-	100 777	(26 181)	214 027	(21 151)
Services Provided to Companies	2 322 854	(305 367)	-	9 034	-	75 613	-	102 139	(53)	705 450	(109 627)	386 795	(4 264)
Public Administration and Services	591 860	(26 300)	267 016	-	-	-	-	6 490 358	(3 125)	421 249	(579)	24 295	(191)
Other activities of collective services	688 940	(143 175)	-	1 471	-	2 378	-	99 878	(58)	42 264	(60)	142 419	(824)
Mortgage Loans	10 010 453	(65 845)	-	-	-	-	-	-	-	-	-	35	-
Consumers Loans	1 333 298	(188 910)	-	-	-	-	-	-	-	-	-	6 584	-
Others	118 600	(69 867)	-	-	-	-	-	165 639	(14)	-	-	17 615	(480)
TOTAL	**25 216 809**	**(1 599 775)**	**267 016**	**388 257**	**-**	**960 962**	**12 972**	**7 907 587**	**(3 690)**	**2 432 313**	**(201 237)**	**2 826 190**	**(92 163)**

(in thousands of Euros)

	31.12.2019												
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivates	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss - mandatory	Derivatives - hedge accounting	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	374 469	(17 182)	-	511	-	-	-	31 712	(15)	5 968	(15)	12 979	(517)
Mining	84 012	(12 676)	-	-	-	-	-	109	-	-	-	8 217	(115)
Food, Beverages and Tobacco	510 044	(19 984)	-	10 863	-	-	-	-	-	22 640	(2 218)	56 171	(413)
Textiles and Clothing	306 688	(13 773)	-	199	-	-	-	9 988	(9)	3 596	(3)	9 964	(4 545)
Leather and Shoes	57 665	(4 321)	-	51	-	-	-	-	-	1 999	(1)	1 660	(107)
Wood and Cork	91 620	(3 405)	-	178	-	-	-	-	-	996	(2)	6 347	(32)
Paper and Printing Industry	201 151	(34 597)	-	-	-	-	-	-	-	2 498	(5)	4 344	(30)
Refining of Petroleum	9 337	(56)	-	-	-	-	-	-	-	-	-	5 210	-
Chemicals and Rubber	327 606	(7 888)	-	958	-	-	-	19 305	(16)	2 985	(6)	25 461	(176)
Non-metallic Minerals	127 028	(16 282)	-	-	-	-	-	16 664	(16)	3 648	(3)	17 138	(370)
Metallurgical Industries and Metallic Products	406 350	(10 453)	-	750	-	-	-	21 142	(18)	6 706	(17)	40 531	(326)
Production of Machinery, Equipment and Elect	131 352	(7 118)	-	788	-	-	-	20 643	(12)	492	(1)	60 648	(1 127)
Production of Transport Material	98 639	(2 952)	-	87	-	-	-	-	-	-	-	10 413	(106)
Other Transforming Industries	144 628	(8 094)	-	1	-	-	-	-	-	4 987	(17)	26 382	(767)
Electricity, Gas and Water	434 743	(22 595)	-	31 996	-	-	-	54 410	(42)	195 061	(1 002)	79 249	(69)
Construction and Public Works	1 411 666	(236 081)	-	94 989	-	-	-	-	-	183 129	(34 604)	897 348	(43 165)
Wholesale and Retail Trade	1 383 933	(84 799)	-	1 435	-	-	-	40 450	(29)	13 834	(9)	246 231	(3 961)
Tourism	911 311	(37 090)	-	520	-	-	-	144	-	-	-	70 407	(6 347)
Transport and Communication	1 079 857	(72 770)	-	105 644	-	-	-	134 815	(89)	10 227	(11)	387 299	(9 108)
Financial Activities	555 298	(66 979)	-	217 480	-	1 237 207	7 452	698 324	(220)	79 083	(371)	145 391	(871)
Real Estate Activities	2 105 462	(214 942)	-	7 898	-	2 751	-	35 355	(19)	117 986	(18 163)	234 056	(15 604)
Services Provided to Companies	2 890 012	(411 570)	-	15 910	-	62 506	-	322 734	(77)	656 224	(101 424)	464 381	(4 218)
Public Administration and Services	663 576	(26 294)	254 848	1 391	-	-	-	7 108 366	(4 527)	459 260	(704)	25 100	(279)
Other activities of collective services	807 890	(274 143)	-	2 235	-	12 278	-	172 519	(447)	10 000	(198)	130 767	(1 109)
Mortgage Loans	10 264 275	(66 994)	-	-	-	-	-	-	-	-	-	33	-
Consumers Loans	1 558 416	(139 937)	-	-	-	-	-	-	-	-	-	12 490	(345)
Others	117 694	(39 520)	-	-	-	-	-	163 216	(20)	-	-	15 568	(227)
TOTAL	**27 054 722**	**(1 852 495)**	**254 848**	**493 884**	**-**	**1 314 742**	**7 452**	**8 849 896**	**(5 556)**	**1 781 319**	**(158 774)**	**2 993 785**	**(93 934)**

The Group proceeds to the identification and register of restructured credit contracts due to the client's financial difficulties whenever there are changes to the terms and conditions of a contract in which the client has defaulted, that is, it is foreseeable that it will default, with a financial obligation. It is considered that there is a change to the terms and conditions of the contract when (i) there are contractual changes to the benefit of the customer, such as extending the term, introducing grace periods, reducing the rate or partial debt forgiveness; (ii) there is a contracting of a new credit operation to settle the existing debt (total or partial); or (iii) the new terms of the contract are more favorable than those applied to other customers with the same risk profile.

The cancellation of a restructured credit due to the client's financial difficulties can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively fulfilled: (i) regular payment of capital and interest; (ii) the customer has no capital or interest due; and (iii) there were no debt restructuring mechanisms by the client in that period.

The amounts of the restructured loans due to financial difficulties of the customer as at 31 December 2020 and 2019, are as follows

(in thousands of Euros)

	31.12.2020	31.12.2019
Corporate	1 782 137	2 388 446
Mortgage loans	154 216	135 361
Consumer and other loans	147 775	205 795
Total	**2 084 128**	**2 729 602**

The details of the restructuring measures applied to loans restructured up to 31 December 2020 and 2019 are the following:

(in thousands of Euros)

Solution	31.12.2020								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	43	57 740	3 921	150	177 807	107 513	193	235 547	111 434
Assets received in partial settlement of loan	20	1 104	159	22	2 078	1 924	42	3 182	2 083
Capitalization of interest	44	12 994	1 002	181	123 462	74 085	225	136 456	75 087
New loan in total or partial payment of existing loan	1 483	90 212	10 130	575	231 373	145 655	2 058	321 585	155 785
Extension of repayment period	2 063	514 009	81 700	921	590 946	382 265	2 984	1 104 955	463 965
Introduction of grace period of principal or interest	339	33 881	1 504	111	60 421	28 147	450	94 302	29 651
Decrease in the interest rates	101	13 859	466	30	65 171	23 549	131	79 030	24 015
Changes of the lease payment plan	122	9 698	787	72	39 634	21 771	194	49 332	22 558
Changes in the interest paymen	5	20	1	2	2 769	2 380	7	2 789	2 381
Other	1 409	47 127	1 304	656	9 823	1 159	2 065	56 950	2 463
Total	**5 629**	**780 644**	**100 974**	**2 720**	**1 303 484**	**788 448**	**8 349**	**2 084 128**	**889 422**

(in thousands of Euros)

Solution	31.12.2019								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	38	50 181	5 330	207	239 255	135 618	245	289 436	140 948
Assets received in partial settlement of loan	10	144	3	26	3 344	2 481	36	3 488	2 484
Capitalization of interest	26	49 312	454	213	153 804	76 982	239	203 116	77 436
New loan in total or partial payment of existing loan	1 637	141 909	6 240	824	420 775	292 376	2 461	562 684	298 616
Extension of repayment period	974	415 161	26 675	909	636 007	375 184	1 883	1 051 168	401 859
Introduction of grace period of principal or interest	585	61 338	1 413	219	174 544	88 264	804	235 882	89 677
Decrease in the interest rates	124	57 293	1 706	54	99 258	33 641	178	156 551	35 347
Changes of the lease payment plan	54	16 547	862	46	36 674	10 548	100	53 221	11 410
Changes in the interest paymen	6	3 142	60	6	13 954	12 548	12	17 096	12 608
Other	2 270	97 382	1 564	1 214	59 578	20 696	3 484	156 960	22 260
Total	**5 724**	**892 409**	**44 307**	**3 718**	**1 837 193**	**1 048 338**	**9 442**	**2 729 602**	**1 092 645**

The movement of restructured loans throughout the years 2020 and 2019 was as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Opening balance	2 729 602	4 832 774
Restructured credits in the period	402 874	609 428
Credits reclassified to "normal"	(101 157)	(229 312)
Credits written off	(300 821)	(1 055 863)
Others	(646 370)	(1 427 425)
Total	**2 084 128**	**2 729 602**

Market risk

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

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2020				31.12.2019			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	915	2 187	6 215	757	3 876	2 223	2 412	1 204
Interest rate risk	14 433	35 495	70 332	14 433	42 292	29 127	50 203	11 231
Shares and commodities	183	192	378	80	295	333	207	784
Volatility	37	139	523	37	314	470	78	180
Credit spread	2 652	5 051	12 960	1 640	1 771	3 547	3 401	3 821
Diversification effect	(2 411)	(5 289)	(14 596)	(1 138)	(4 393)	(5 512)	(4 383)	(3 742)
Total	**15 809**	**37 775**	**75 812**	**15 809**	**44 155**	**30 188**	**51 918**	**13 478**

NOVO BANCO Group has a VaR of Euro 15,809 thousand (31 December 2019: Euro 44,155 thousand) in respect of its trading positions. The decrease is mainly explained by the lower position in derivatives to hedge interest rate risk in the banking portfolio.

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2018/02, NOVO BANCO Group calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2020						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 761 847	-	2 706 153	4 150	12 088	39 456	-
Loans and advances to customers	25 513 997	-	9 063 624	3 709 340	3 159 080	6 930 509	2 651 443
Securities	9 618 019	-	1 365 092	335 434	702 515	4 045 230	3 169 748
Other assets	1 254 599	-	656 287	598 312	-	-	-
Total			**13 791 156**	**4 647 236**	**3 873 683**	**11 015 195**	**5 821 191**
Deposits from banks	10 078 636	-	5 328 425	3 959 431	350 779	214 911	225 089
Due to customers	28 556 210	-	15 019 258	2 729 378	4 455 507	6 312 032	40 035
Debt securities issued	2 579 547	-	38 502	875	1 784	-	2 538 386
Other liabilities	238 502	-	114 981	25 600	48 199	49 721	1
Total			**20 501 166**	**6 715 284**	**4 856 269**	**6 576 664**	**2 803 511**
Balance sheet GAP (Assets - Liabilities)	(2 304 432)		(6 710 010)	(2 068 048)	(982 586)	4 438 532	3 017 680
Off-Balance sheet	17 178		2 587 591	1 548 714	(121 465)	(1 807 383)	(2 190 279)
Structural GAP	**(2 287 254)**		**(4 122 419)**	**(519 334)**	**(1 104 051)**	**2 631 150**	**827 401**
Accumulated GAP			**(4 122 419)**	**(4 641 753)**	**(5 745 805)**	**(3 114 655)**	**(2 287 254)**

(in thousands of Euros)

	31.12.2019						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 208 463	230 656	1 637 131	28 348	5 968	306 360	-
Loans and advances to customers	25 332 075	-	14 844 924	4 883 296	2 689 944	1 759 049	1 154 862
Securities	12 334 723	2 774 971	1 110 175	832 147	197 390	3 697 178	3 722 862
Total			**17 592 230**	**5 743 791**	**2 893 302**	**5 762 587**	**4 877 724**
Deposits from banks	9 846 463	-	4 160 092	3 517 272	85 141	2 083 958	-
Due to customers	28 076 547	-	13 976 901	3 022 732	4 990 307	5 987 582	99 025
Debt securities issued	1 068 385	-	150 554	-	-	2 233	915 597
Total			**18 287 547**	**6 540 004**	**5 075 448**	**8 073 773**	**1 014 622**
Balance sheet GAP (Assets - Liabilities)	(2 121 761)		(695 317)	(796 213)	(2 182 146)	(2 311 187)	3 863 103
Off-Balance sheet	871		2 097 110	2 561 159	(18 473)	(1 780 690)	(2 858 234)
Structural GAP	**(2 120 890)**		**1 401 792**	**1 764 945**	**(2 200 619)**	**(4 091 877)**	**1 004 869**
Accumulated GAP			**1 401 792**	**3 166 738**	**966 118**	**(3 125 758)**	**(2 120 890)**

Sensitivity analyzes are carried out for the interest rate risk of the banking portfolio based on the current difference in the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of displacement of the parallel yield curves (displacements of +/- 200 bp) and non-parallel (short rate shock up / down, steepener / flattener shocks), according to the outliers tests defined by the EBA.

(in thousands of Euros)

	31.12.2020					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	(71 576)	52 191	(87 671)	49 728	13 859	8 430
Exercise average	109 070	(13 786)	109 047	(16 353)	(83 437)	106 919
Exercise maximum	216 808	52 191	235 284	49 728	13 859	182 690
Exercise minimum	(71 576)	(57 778)	(87 671)	(85 746)	(180 041)	8 430

(in thousands of Euros)

	31.12.2019					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	(44 487)	29 403	76 935	(42 071)	(176 020)	102 796
Exercise average	(85 848)	54 406	95 216	(103 194)	(238 745)	123 974
Exercise maximum	10 744	87 692	147 247	(16 798)	(176 020)	155 873
Exercise minimum	(163 540)	29 403	69 224	(317 456)	(301 807)	102 796

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Group proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Group did not record significant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were subject to the same change (hedged and hedged items).

The following table presents the average interest rates for the Group's major financial asset and liability categories, as at 31 December 2020 and 2019, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Average balance of the period	**Interest of the exercise**	**Average interest rate**	**Average balance of the period**	**Interest of the exercise**	**Average interest rate**
Monetary assets	2 993 238	16 361	0,54%	1 441 545	19 357	1,32%
Loans and advances to customers	24 939 140	534 229	2,11%	28 557 937	592 057	2,04%
Securities and other	10 664 515	136 602	1,26%	10 344 022	124 997	1,19%
Financial assets and differentials	**38 596 893**	**687 192**	**1,76%**	**40 343 504**	**736 411**	**1,80%**
Monetary Liabilities	9 913 212	(23 410)	-0,23%	8 931 365	16 817	0,19%
Due to customers	25 787 192	71 688	0,27%	27 949 264	97 286	0,34%
Differential liabilities	1 815 289	10 128	0,00%	2 383 273	8 573	0,00%
Financial liabilities and differentials	**38 596 893**	**132 058**	**0,34%**	**40 343 504**	**195 798**	**0,48%**
Net interest income		**555 134**	**1,42%**		**540 613**	**1,32%**

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2020 and 2019, is analyzed as follows:

(in thousands of Euros)

		31.12.2020				31.12.2019			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(754 078)	780 879	99	26 900	(965 967)	1 007 651	(16 381)	25 303
GBP	GREAT BRITISH POUND	(66 761)	69 964	(2 067)	1 136	3 298	3 076	6 878	13 252
BRL	BRAZILIAN REAL	73 444	(72 362)	-	1 082	103 672	(52 218)	-	51 454
MOP	MACAO PATACA	2 127	-	-	2 127	4 414	-	-	4 414
JPY	JAPANESE YEN	(133)	-	2 067	1 934	(152)	311	-	159
CHF	SWISS FRANC	(8 540)	10 903	-	2 363	(8 133)	12 981	(208)	4 640
SEK	SWEDISH KRONE	19 612	(19 334)	-	278	47 140	(47 019)	-	121
NOK	NORWEGIAN KRONE	46 751	(46 086)	-	665	48 672	(47 344)	976	2 304
CAD	CANADIAN DOLLAR	(621)	3 518	-	2 897	(20 391)	44 657	-	24 266
ZAR	SOUTH AFRICAN RAND	(35)	(230)	-	(265)	550	(491)	-	59
AUD	AUSTRALIAN DOLLAR	5 053	(4 615)	-	438	3 349	10 753	-	14 102
VEB	VENEZUELAN BOLIVAR	1	-	-	1	1	-	-	1
PLN	POLISH ZLOTY	28 281	(29 125)	-	(844)	36 794	(5 988)	-	30 806
MAD	MOROCCAN DIRHAN	(3 081)	2 984	-	(97)	(2 748)	2 708	-	(40)
MXN	MEXICAN PESO	(197)	373	-	176	(318)	608	-	290
AOA	ANGOLAN KWANZA	8 781	-	-	8 781	13 053	-	-	13 053
CVE	CAPE VERDEAN ESCUDO	(81)	-	-	(81)	(65)	-	-	(65)
HKD	HONG-KONG DOLLAR	(1 545)	1 766	-	221	(2)	-	-	(2)
CZK	CZECH KORUNA	9 573	(9 979)	-	(406)	9 218	960	-	10 178
DZD	ALGERIAN DINAR	4 447	-	-	4 447	7 338	-	-	7 338
CNY	YUAN REN-MIN-BI	9 427	(9 487)	-	(60)	9 211	946	-	10 157
	OTHER	(16 072)	(11 306)	-	(27 378)	266	3 023	-	3 289
		(643 647)	**667 863**	**99**	**24 315**	**(710 800)**	**934 614**	**(8 735)**	**215 079**

Note: assets / (liabilities)

Exposure to sovereign debt of "peripheral" Eurozone countries

As at 31 December 2020 and 2019, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2020					
	Loans and advances to customers	Securities held for trading	Derivative instruments (1)	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	591 859	267 016	(16)	2 780 473	420 670	4 060 002
Spain	-	-	-	2 039 075	-	2 039 075
Ireland	-	-	-	237 844	-	237 844
Italy	-	-	-	134 238	-	134 238
	591 859	**267 016**	**(16)**	**5 191 630**	**420 670**	**6 471 159**

(1) Net values: receivable / (payable)

(in thousands of Euros)

	31.12.2019					
	Loans and advances to customers	Securities held for trading	Derivative instruments (1)	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	627 469	249 778	(41)	3 362 756	458 556	4 698 518
Spain	35 924	5 070	-	2 181 282	-	2 222 276
Ireland	-	-	-	227 581	-	227 581
Italy	-	-	-	118 828	-	118 828
	663 393	**254 848**	**(41)**	**5 890 447**	**458 556**	**7 267 203**

(1) Net values: receivable / (payable)

Except for Loans and advances to customers, all the exposures presented above, except those relating to loans and advances to customers, are recorded in the Group's balance sheet at fair value, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities is as follows:

(in thousands of Euros)

31.12.2020	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**2 420 973**	**2 753 428**	**27 045**	**2 780 473**	**-**	**129 520**
Maturity up to 1 year	227 455	231 102	1 760	232 862	-	798
Maturity exceeding 1 year	2 193 518	2 522 326	25 285	2 547 611	-	128 722
Spain	**1 894 750**	**2 012 871**	**26 204**	**2 039 075**	**-**	**75 509**
Maturity up to 1 year	380 000	382 512	1 060	383 572	-	1 480
Maturity exceeding 1 year	1 514 750	1 630 359	25 144	1 655 503	-	74 029
Ireland	**193 600**	**236 205**	**1 639**	**237 844**	**-**	**39 340**
Maturity exceeding 1 year	193 600	236 205	1 639	237 844	-	39 340
Italy	**129 821**	**133 655**	**583**	**134 238**	**-**	**4 177**
Maturidade até 1 ano	80 000	81 801	393	82 194	-	1 616
Maturity exceeding 1 year	49 821	51 854	190	52 044	-	2 561
	4 639 144	**5 136 159**	**55 471**	**5 191 630**	**-**	**248 546**
Securities at amortised cost						
Portugal	213 500	264 033	2 983	267 016	-	-
Spain	-	-	-	-	-	-
	213 500	**264 033**	**2 983**	**267 016**	**-**	**-**
Securities held for trading						
Portugal	**419 438**	**478 998**	**1 811**	**420 670**	**579**	**-**
Maturity exceeding 1 year	419 438	478 998	1 811	420 670	579	-
	419 438	**478 998**	**1 811**	**420 670**	**579**	**-**

(in thousands of Euros)

31.12.2019	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**2 831 709**	**3 325 924**	**36 832**	**3 362 756**	**-**	**161 516**
Maturity up to 1 year	369	377	10	387	-	1
Maturity exceeding 1 year	2 831 340	3 325 547	36 822	3 362 369	-	161 515
Spain	**2 007 130**	**2 154 408**	**26 874**	**2 181 282**	**-**	**74 753**
Maturity exceeding 1 year	2 007 130	2 154 408	26 874	2 181 282	-	74 753
Ireland	**200 000**	**225 855**	**1 726**	**227 581**	**-**	**22 419**
Maturity exceeding 1 year	200 000	225 855	1 726	227 581	-	22 419
Italy	**115 606**	**118 261**	**567**	**118 828**	**-**	**2 816**
Maturity exceeding 1 year	115 606	118 261	567	118 828	-	2 816
	5 154 445	**5 824 448**	**65 999**	**5 890 447**	**-**	**261 504**
Securities at amortised cost						
Portugal	202 280	245 105	4 673	249 778	-	-
Spain	5 000	5 065	5	5 070	-	-
	207 280	**250 170**	**4 678**	**254 848**	**-**	**-**
Securities held for trading						
Portugal	**457 230**	**526 916**	**2 030**	**458 556**	**704**	**-**
Maturity exceeding 1 year	457 230	526 916	2 030	458 556	704	-
	457 230	**526 916**	**2 030**	**458 556**	**704**	**-**

Liquidity risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its liabilities as they mature, without incurring substantial losses.

Liquidity risk can be divided into two types:

- Liquidity of assets (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to the lack of liquidity in the market, which translates into the widening of the bid / offer spread or the application of a haircut to the market value;
- Financing (funding liquidity risk) - consists of the impossibility of financing the assets in the market and / or refinancing the debt that is maturing, in the terms and in the desired currency. This impossibility can be reflected through a strong increase in the cost of financing or the requirement for collateral to obtain funds. The difficulty of (re) financing can lead to the sale of assets, even if incurring significant losses. The risk of (re) financing must be minimized through an adequate diversification of funding sources and maturity terms.

Banks are subject to liquidity risk due to their maturity transformation business (long-term lenders and short-term depositors), so prudent liquidity risk management is therefore crucial.

As at 31 December 2020, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 16.7 billion (31 December 2019: Euro 15.3 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 2.5 billion.

During 2020, gross financing from the ECB increased by Euro 910 million to a total of Euro 7.0 billion.

The liquidity of NOVO BANCO Group is managed in a centralized manner, in the Headquarters, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. As at 31 December 2020 and 2019, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2020						
	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
OUTPUT							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	153 890					9	153 881
Liabilities from guaranteed lending operations and operations associated to financial markets	9 161 995	68 874	106 104	53 504	150 000	264 458	8 519 055
Behavioral output from deposits	30 328 564	302 562	116 570	147 268	174 392	423 579	29 164 193
Exchange swaps and derivatives	625 681	110 144	144 781	283 894	32 623	34 865	19 374
Other output	550 075			140 000	11 515		398 560
Total Output	**40 820 205**	**481 580**	**367 455**	**624 666**	**368 530**	**722 911**	**38 255 063**
INPUT							
Secured lending operations and operations associated to financial markets	203 306	60 917					142 389
Behavioral inputs from loans and advances	28 076 498	75 788	58 182	166 741	236 943	472 123	27 066 721
Exchange swaps and derivatives	897 437	103 389	145 071	287 285	48 500	71 166	242 026
Own portfolio securities maturing and other entries	12 128 378	103 580	155 916	376 999	835 242	898 046	9 758 595
Total Input	**41 305 619**	**343 674**	**359 169**	**831 025**	**1 120 685**	**1 441 335**	**37 209 731**
Net contractual deficit	485 417	(137 906)	(8 286)	206 360	752 156	718 425	(1 045 332)
Accumulated net contractual deficit		**(137 906)**	**(146 192)**	**60 168**	**812 324**	**1 530 749**	**485 417**
CAPACITY TO READJUSTMENT	Stock Inicial	até 7 dias	de 7 dias até 1 mês	de 1 a 3 meses	de 3 a 6 meses	de 6m a 1 ano	superior a 1 ano
Cash	149 205						
Deployable reserves from the central bank	2 030 915	(2 030 915)					
Negotiable and non-negotiable assets eligible for the central bank	8 033 197	67 249	106 994	(123 762)	(91 281)	(587 185)	(7 262 493)
Authorized facilities and not utilized received		(29 275)	(55 212)	(199 759)	(350 461)	(288 680)	923 388
Net variation of capacity to adjustment		(1 992 941)	51 782	(323 521)	(441 742)	(875 865)	(6 339 105)
Accumulated capacity to readjustment	**10 213 317**	**8 220 376**	**8 272 158**	**7 948 637**	**7 506 895**	**6 631 030**	**291 925**

(in thousands of Euros)

	31.12.2019						
	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
OUTPUT							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	317 370	2 247	4 593	-	-	-	310 530
Liabilities from guaranteed lending operations and operations associated to financial markets	8 572 412	182 428	1 064 096	1 334 720	3 210 000	-	2 781 168
Behavioral output from deposits	30 163 144	389 848	145 906	271 957	473 958	572 820	28 308 655
Exchange swaps and derivatives	584 667	9 073	52 238	401 015	46 635	43 769	31 937
Other output	409 894	-	-	-	11 515	-	398 379
Total Output	**40 047 487**	**583 596**	**1 266 833**	**2 007 692**	**3 742 108**	**616 589**	**31 830 669**
INPUT							
Secured lending operations and operations associated to financial markets	-	-	-	-	-	-	-
Behavioral inputs from loans and advances	26 664 085	65 307	24 399	39 856	58 074	123 646	26 352 803
Exchange swaps and derivatives	870 310	8 500	48 381	404 527	79 972	62 781	266 149
Own portfolio securities maturing and other entries	11 843 305	70 687	73 279	43 601	1 254 462	203 771	10 197 505
Total Input	**39 377 700**	**144 494**	**146 059**	**487 984**	**1 392 508**	**390 198**	**36 816 457**
Net contractual deficit	(669 786)	(439 103)	(1 120 773)	(1 519 709)	(2 349 600)	(226 391)	4 985 790
Accumulated net contractual deficit	**-**	**(439 103)**	**(1 559 876)**	**(3 079 585)**	**(5 429 185)**	**(5 655 576)**	**(669 786)**

CAPACITY TO READJUSTMENT	*Stock* Inicial	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Cash	179 219						
Deployable reserves from the central bank	1 141 351	(1 141 351)					
Negotiable and non-negotiable assets eligible for the central bank	7 749 500	182 063	1 117 471	78 479	(22 239)	(201 402)	(8 781 071)
Authorized facilities and not utilized received	-	(39 646)	(79 970)	(227 545)	1 655 230	(167 165)	(1 140 903)
Net variation of capacity to adjustment	-	(998 934)	1 037 501	(149 066)	1 632 991	(368 567)	(9 921 974)
Accumulated capacity to readjustment	**9 070 070**	**8 071 136**	**9 108 637**	**8 959 571**	**10 592 562**	**10 223 995**	**302 021**

As at 31 December 2020, there was an accumulated 1-year net contractual surplus of Euro 1,700 million, having shifted at the end of 2019 to an accumulated 1-year net contractual deficit of Euro 5,656 million. This improvement is due to that, at the end of 2019, there was a Euro 6,410 million takeover to the ECB in less than 1 year. The 1-year counterbalancing capacity at the end of 2020 was Euro 6,631 million, Euro 3,593 million less than the figure recorded at the end of 2019 (Euro 10,224 million).

In order to anticipate possible negative impacts, internal liquidity stress scenarios representative of the types of crisis that may occur are carried out, based on idiosyncratic scenarios (characterized by a loss of confidence in the Bank), and market scenarios.

In addition, and given the importance of liquidity risk management, the regulatory legislation includes a liquidity coverage ratio (Liquidity Coverage Ratio - LCR) and a stable financing ratio (Net Stable Funding Ratio - NSFR). The LCR aims to promote banks' resilience to short-term liquidity risk, ensuring that they hold high-quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable financing for their assets and off-balance sheet operations, for a period of one year.

In accordance with current regulatory legislation, the Group is obliged to comply with a minimum limit of 100% in the LCR. The Group continues to follow regulatory changes in order to comply with all obligations, namely the implementation of the NSFR and the respective limit.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of Bank of Portugal (note that this information is prepared from a prudential perspective, where the consolidation perimeter differs from that used in the financial statements presented) is shown in the table below:

				(in thousands of Euros)
	31.12.2020			
Assets	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**12 868 205**	**n/a**	**31 849 466**	**n/a**
Equity instruments	-	-	1 866 679	1 866 679
Debt securities	1 999 618	1 999 618	8 500 364	8 500 364
Other assets	10 868 587	n/a	21 482 423	n/a

				(in thousands of Euros)
	31.12.2019			
Assets	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**13 323 907**	**n/a**	**32 236 016**	**n/a**
Equity instruments	-	-	2 434 131	2 434 131
Debt securities	2 375 384	2 375 384	8 329 159	8 329 159
Other assets	10 948 523	n/a	21 472 726	n/a

				(in thousands of Euros)
	31.12.2020		31.12.2019	
Collateral received	Fair value of encumbered collateral received or of own debt securities issued	Fair value of collateral received or of own debt securities issued and encumberable	Fair value of encumbered collateral received or of own debt securities issued	Fair value of collateral received or of own debt securities issued and encumberable
Collateral received	**-**	**-**	**-**	**-**
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**-**	**-**

				(in thousands of Euros)
	31.12.2020		31.12.2019	
Encumbered assets, encumbered collateral received and associated liabilities	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS
Carrying book value of the selected financial liabilities	9 250 342	12 868 205	8 715 669	13 323 906

The encumbered assets are represented essentially by credits and securities used in financing operations with the ECB, in repo operations, in mortgage bond issues and in securitizations. There are also assets given in collateral to hedge the Bank's counterparty risk in derivative transactions.

Operational risk

Operational risk generally translates into the probability of the occurrence of events with negative impacts, in the results or in the capital, resulting from the inadequacy or deficiency of procedures and information systems, the behavior of people or motivated by external events, including legal risks. Thus, operational risk is understood as the calculation of the following risks: operational, information systems, compliance and reputation.

For the management of operational risk, a system was developed and implemented to ensure the uniformity, systematization and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organizational structure, integrated in the Global Risk Department exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the departments, branches and subsidiaries considered relevant, which are responsible for complying with the procedures. and the day-to-day management of this Risk in its areas of competence.

Capital Management and Solvency Ratio

The main objective of the Group's capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) – the entity directly responsible for the supervision of the Bank - and by the Bank of Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the Group objectives.

The capital ratios of the Group are calculated based on the rules defined in Directive 2013/36/EU and Regulation (EU) no. 575/2013 (CRR) that define the criteria for the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities, in particular to the calculation of the ratios mentioned above.

The Group is authorized to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of NOVO BANCO Group. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of the Bank entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (common equity Tier I or CET I), additional own funds of level 1 (additional Tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or Tier II) which added to the Tier I represent the total own funds.

The total own funds of NOVO BANCO Group are composed by elements of CET I and Tier II

Additional information on the evolution and composition of NOVO BANCO Group's capital ratios can be found in the Group's Market Discipline Document (point 3. Capital Adequacy).

The summary of own funds, risk weighted assets and capital ratios capital of NOVO BANCO Group as at 31 December 2020 and 2019 are presented in the following table:

(in million Euros)

		31.12.2020 [1]	31.12.2019
Realised ordinary share capital, issue premiums and own shares		5 900	5 900
Reserves and Retained earnings		(1 447)	(869)
Net income for the year attributable to shareholders of the Bank		(1 329)	(1 058)
Non-controlling interests (minorities)		17	18
A - Equity (prudential perspective)		**3 141**	**3 992**
Non-controlling interests (minorities)		(10)	(11)
Adjustments of additional valuation		(11)	(13)
Transitional period to IFRS9		356	225
Goodwill and other intangibles		(57)	(34)
Insufficiency of provisions given the expected losses		(59)	(85)
Deferred tax assets and shareholdings in financial companies		(51)	(9)
Outros		(280)	(68)
B - Regulatory adjustments to equity		**(113)**	**4**
C - Own principal funds level 1 - CET I (A+B)		**3 029**	**3 996**
Other eligible instruments for additional Tier 1		1	1
D - Additional own funds Level 1 - Additional Tier 1		**1**	**1**
E - Level 1 own funds - Tier I (C+D)		**3 030**	**3 998**
Subordinated liabilities elegible for Tier II		399	398
Other elements elegible for Tier II		113	124
Regulatory adjustments for Tier II		-	(45)
F - Level 2 own funds - Tier II		**512**	**478**
G - Eligible own funds (E+F)		**3 542**	**4 475**
Credit risk		23 848	26 243
Market risk		1 279	1 857
Operational risk		1 592	1 479
H - Risk Weighted Assets		**26 718**	**29 579**
Solvability ratio			
CET I ratio	**(C/H)**	**11,3%**	**13,5%**
Tier I ratio	**(E/H)**	**11,3%**	**13,5%**
Solvability ratio	**(G/H)**	**13,3%**	**15,1%**
Leverage ratio [2]		**6,5%**	**8,4%**

[1] Preliminary. The accounts contain an aggregate provision of 166 million euros in relation to the discontinuation of Spanish operations. As there is a potential for dispute between the parties and therefore potential barrier to immediate access of this amount, the Bank, as a matter of prudence, has deducted this amount from regulatory capital calculation.

[2] The leverage ratio results from spliting Tier 1 for the exposure measure in accordance to the terms of the CRR

NOTE 43 – Relevant transaction occurred in the financial years of 2020 and 2019

Financial year 2020

Sale of a portfolio of non-performing loans (called Project Carter)

On 23 December 2020, NOVO BANCO entered into a purchase and sale agreement for a portfolio of non-performing loans (non-performing loans) and related assets (together, the Carter Project), with a net book value of Euro 37.0 million (gross amount of Euro 82.8 million), to a company owned by affiliated companies and advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The impact of this operation on the net income for the year 2020 was reflected in a gain of Euro 2.9 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2020
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	3 337
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-405
Impact on Net Income	**2 932**

2019 Exercise

Sale of Non-Performing Loans portfolio (Project Nata II)

In the last quarter of 2019, NOVO BANCO and Fundo Arrábida signed a promissory purchase and sale Agreement with Burlington Loan Management DAC, a company affiliated and advised by Davidson Kempner European Partners, Llp, for the sale of a portfolio of overdue loans and exposures related (NATA II Project). The impact of this operation on the balance sheet resulted in a reduction of net assets of Euro -84.0 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Net interest income	69
Other operational income	-3 734
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	1 720
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-82 374
Provisions or reversal of provisions	611
Impact on Net Income	**-83 950**

Sale of a portfolio of real estate assets (called Project Sertorius)

In August 2019, the Group signed a promissory purchase and sale agreement with entities indirectly held by funds managed by Cerberus Capital Management, LP, a New York-based company, for the sale of a portfolio of real estate assets called Project Sertorius. The impact of this operation on the balance sheet resulted in a reduction of net assets of Euro -229,2 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Other operational income	-34 961
Impairment on othe assets net of reversals	-165 703
Non-controlling interests	-1 875
Impact on Net Income	**-198 789**

Sale of a portfolio of non-performing loans and real estate assets (referred to as Project Albatros)

In August 2019, the Group, through its Spanish Branch and Novo Banco Servicios Corporativos, S.L entered into a purchase and sale agreement with Waterfall Asset Management LLC, an asset management company based in New York, for the sale of a portfolio of real estate assets and non-performing loans, designated Project Albatros. The impact of this operation on the income statementresulted in a reduction of net assets of Euro -33.9 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	-7 443
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-53 544
Impairment on other assets net of reversals	-7 543
Provisions or reversal of provisions	35 200
Impact on Net Income	**-33 330**

Sale of GNB Vida

Following the contract for the purchase and sale of the entire share capital of GNB Vida, entered into with Bankers Insurance Holdings, SA, a company of the Global Bankers Insurance Group, LLC, on September 12, 2018, the Group proceeded to derecognise this investment in September 2019, after obtaining the necessary regulatory authorizations. The impact of this operation on the income statement resulted in a reduction of net income of Euro -4.1 million.

(in thousands of Euros)

Impact on Income Statement	**31.12.2019**
Impairment on other assets net of reversals	-4 082
Impact on Net Income	**-4 082**

NOTE 44 – Non-current assets held for sale - Discontinued operations

The financial statements as at 31 December 2020 and 2019 of the discontinued units, mentioned in Note 30 and when applicable, are as follows:

BALANCE SHEET AS AT 31 DECEMBER 2020 AND 2019

(in thousands of Euros)

	NOVO BANCO Sucursal de Espanha	NB Servicios	NOVO Vanguarda	Greendraive	
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2019
ASSETS					
Cash, cash balances at central banks and other demand deposits	31 190	23	162	68	114
Financial assets held for trading	44 203	-	-	-	-
Financial assets designated at fair value through profit or loss	2 813	-	-	-	-
Financial assets at fair value through other comprehensive income	34 348	-	-	-	-
Financial assets at amortised cost	1 828 912	-	-	-	-
Loans and advances to banks	282 617	-	-	-	-
Loans and advances to customers	1 546 295	-	-	-	-
Derivatives – Hedge accounting	101	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2 021	-	-	-	-
Investments in subsidiaries, joint ventures and associates	183	-	-	-	-
Tangible assets	5 877	-	-	343	309
Tangible fixed assets	5 877	-	-	343	309
Intangible assets	2 390	-	-	-	-
Tax assets	39 078	3 673	48	-	-
Current Tax Assets	7 711	27	23	-	-
Deferred Tax Assets	31 367	3 646	25	-	-
Other assets	52 051	7 085	-	934	453
Non-current assets and disposal groups classified as held for sale	1 469	4 162	-	-	-
TOTAL ASSETS	**2 044 636**	**14 943**	**210**	**1 345**	**876**
LIABILITIES					
Financial liabilities held for trading	46 773	-	-	-	-
Financial liabilities measured at amortised cost	1 969 627	18 470	-	-	-
Deposits from banks	35 044	18 470	-	-	-
Due to customers	1 934 583	-	-	-	-
Derivatives – Hedge accounting	2 241	-	-	-	-
Provisions	41 554	-	-	-	-
Tax liabilities	3 203	-	-	-	-
Deferred Tax Liabilities	3 203	-	-	-	-
Other liabilities	21 019	562	27	3 549	1 726
TOTAL LIABILITIES	**2 084 417**	**19 032**	**27**	**3 549**	**1 726**
EQUITY					
Capital	-	1 057	500	60	60
Other equity	-	-	-	4 530	4 190
Accumulated other comprehensive income	842	-	-	-	-
Retained earnings	-	-	-	(5 906)	(4 424)
Other reserves	-	(4 665)	(286)	-	-
Profit or loss attributable to Shareholders of the parent	(40 623)	(481)	(31)	(888)	(676)
TOTAL EQUITY	**(39 781)**	**(4 089)**	**183**	**(2 204)**	**(850)**
TOTAL LIABILITIES AND EQUITY	**2 044 636**	**14 943**	**210**	**1 345**	**876**

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

(in thousands of Euros)

	NOVO BANCO Sucursal de Espanha	NB Servicios	NOVO Vanguarda	Greendraive	
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2019
Interest Income	33 028	-	-	-	-
Interest Expenses	(2 403)	(265)	-	-	(65)
Net Interest Income	**30 625**	**(265)**	**-**	**-**	**(65)**
Dividend income	13	-	-	-	-
Fee and comission income	13 304	23	-	-	-
Fee and comission expenses	(3 495)	(399)	-	-	-
Gains or losses on financial assets and liabilities held for trading	439	-	-	-	-
Gains or losses on financial assets mandatorily at fair value through profit or loss	(7)	-	-	-	-
Gains or losses from hedge accounting	107	-	-	-	-
Exchange differences	36	-	-	-	-
Gains or losses on derecognition of non-financial assets	275	(2 118)	-	-	-
Other operating income	4 939	2 162	393	1 694	3 524
Other operating expenses	(2 458)	(29)	(13)	(115)	(289)
Operating Income	**43 778**	**(626)**	**380**	**1 579**	**3 170**
Administrative expenses	(30 428)	(15)	(403)	(2 467)	(3 741)
Staff expenses	(15 778)	-	(99)	(489)	(1 732)
Other administrative expenses	(14 650)	(15)	(304)	(1 978)	(2 009)
Depreciation	(2 748)	-	-	-	(96)
Provisions or reversal of provisions	1 749	-	-	-	-
Commitments and guarantees given	(113)	-	-	-	-
Other provisions	1 862	-	-	-	-
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(43 240)	-	-	-	-
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	(31)	-	-	-	-
Impairment or reversal of impairment on non-financial assets	(5 310)	-	-	-	-
Profit or loss before tax from continuing operations	**(36 230)**	**(641)**	**(23)**	**(888)**	**(667)**
Tax expense or income related to profit or loss from continuing operations					
Current tax	-	-	*(8)*	-	*(9)*
Deferred tax	-	*160*	-	-	-
Profit or loss after tax from continuing operations	**(36 230)**	**(481)**	**(31)**	**(888)**	**(676)**

CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

(in thousands of Euros)

	NOVO BANCO Sucursal de Espanha	NB Servicios	NOVO Vanguarda	Greendraive	
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2019
Cash flows from operating activities					
Interest received	31 555	-	-	-	-
Interest paid	(2 802)	(265)	-	(65)	(53)
Fees and commissions received	13 304	23	-	1 694	4 082
Fees and commissions paid	(3 645)	(399)	-	-	-
Recoveries on loans previously written off	381	-	-	-	-
Cash payments to employees and suppliers	(30 428)	(15)	-	(2 467)	(4 559)
	8 365	**(656)**	**-**	**(838)**	**(530)**
Changes in operating assets and liabilities:					
Financial assets mandatorily at fair value through profit or loss	(1 579)	-	-	-	-
Financial assets at fair value through other comprehensive income	1 244	-	-	-	-
Financial assets at amortised cost	76 348	23	4	-	-
Loans and advances to banks	151 228	23	4	-	-
Loans and advances to customers	(74 880)	-	-	-	-
Financial liabilities at amortised cost	(56 816)	(1 685)	-	-	-
Deposits from banks	52 594	(1 685)	-	-	-
Due to customers	(109 410)	-	-	-	-
Other operating assets and liabilities	(44 687)	4 003	(4)	192	5
Net cash from operating activities before corporate income tax	**2 407**	**23**	**4**	**(646)**	**(525)**
Corporate income taxes paid	(3 559)	-	-	-	(117)
Net cash from operating activities	**(1 152)**	**23**	**4**	**(646)**	**(642)**
Cash flows from investing activities					
Sale of investments in subsidiaries and associated companies	(31)	-	-	-	-
Acquisition of tangible fixed assets	(1 010)	-	-	(12)	(23)
Sale of intangible assets	769	-	-	-	-
	(272)	**-**	**-**	**(12)**	**(23)**
Net cash from investing activities					
Cash flows from financing activities					
Issuance of subordinated liabilities	-	-	-	612	2 990
Interest on other equity instruments	-	-	-	-	(2 233)
Net cash from financing activities	**-**	**-**	**-**	**612**	**757**
Net changes in cash and cash equivalents	**(1 424)**	**23**	**4**	**(46)**	**92**
Cash and cash equivalents at the beginning of the period	32 614	-	158	114	22
Cash and cash equivalents at the end of the period	31 190	23	162	68	114
	(1 424)	**23**	**4**	**(46)**	**92**
Cash and cash equivalents include:					
Cash	-	-	-	5	16
Deposits with banks	31 190	-	-	63	98
Total	**31 190**	**-**	**-**	**68**	**114**

NOTE 45 – NPL Disclosures

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non Performing Exposures) ratio greater than 5% must publish a set of information regarding NPE, restructured loans and foreclosed assets, according to a standard format, which we present below (we emphasize that this information is prepared from a prudential perspective, whose consolidation perimeter differs from the consolidation perimeter of the financial statements presented):

Credit quality of forborne exposure

(in thousands of Euros)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which defaulted	Of which subject to impairment				
Loans and advances	780 644	1 318 902	1 318 902	1 318 902	-100 974	-792 682	823 943	396 148
Central banks	0	0	0	0	0	0	0	0
General governments	5 996	50	50	50	-566	-39	4 797	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	4 968	137 193	137 193	137 193	-16	-52 509	79 795	76 337
Non-financial corporations	632 703	1 016 644	1 016 644	1 016 644	-98 230	-609 893	588 013	295 905
Households	136 977	165 014	165 014	165 014	-2 162	-130 240	151 338	23 906
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	9 659	1 132	1 132	1 132	0	0	0	0
Total	**790 303**	**1 320 034**	**1 320 034**	**1 320 034**	**-100 974**	**-792 682**	**823 943**	**396 148**

Credit quality of performing and non-performing exposures by past due days

(in thousands of Euros)

	Gross carrying amount/nominal amount											
		Performing exposures		Non-performing exposures								
		Not past due or past due < =30 days	Past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <=90 days	Past due > 90 days <=180 days	Past due > 180 days <=1 year	Past due > 1 year <= 2 years	Past due > 2 years >=5 years	Past due > 5 years >=7 years	Past due > 7 years	Of which defaulted
Cash in Central Banks	**2 541 160**	**2 541 160**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 012 416**	**22 928 020**	**84 396**	**2 512 984**	**1 528 094**	**62 612**	**199 673**	**133 418**	**334 744**	**183 612**	**70 831**	**2 512 984**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**404 477**	404 476	0	**527**	112	0	1	0	414	0	0	527
Credit institutions	**44 943**	44 943	0	**314 138**	314 138	0	0	0	0	0	0	314 138
Other financial corporations	**277 651**	277 563	89	**148 854**	81 348	185	52	57	55 415	1 230	10 568	148 854
Non-financial corporations	**11 424 372**	11 417 261	7 111	**1 622 643**	874 190	48 401	145 730	101 687	245 948	166 765	39 921	1 622 643
Of which SMEs	***6 561 785***	*6 556 781*	*5 005*	***1 036 502***	*629 960*	*12 833*	*37 807*	*97 484*	*86 961*	*135 730*	*35 727*	*1 036 502*
Households	**10 860 972**	10 783 776	77 196	**426 823**	258 306	14 026	53 889	31 674	32 967	15 618	20 342	426 823
Debt securities	**10 217 594**	**10 217 594**	**0**	**220 306**	**77 931**	**15 126**	**0**	**4 830**	**39 944**	**82 475**	**0**	**220 306**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**6 914 457**	6 914 457	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**701 735**	701 735	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**458 726**	458 726	0	**22 770**	0	0	0	1 940	20 830	0	0	22 770
Non-financial corporations	**2 142 676**	2 142 676	0	**197 536**	77 931	15 126	0	2 890	19 114	82 475	0	197 536
Off-balance-sheet exposures	**9 871 398**			**386 019**								**386 019**
Central banks	0			0								0
General governments	34 983			17								17
Credit institutions	555 283			8 520								8 520
Other financial corporations	59 495			7 625								7 625
Non-financial corporations	8 208 623			367 140								367 140
Households	1 013 015			2 718								2 718
Total	**45 642 568**	**35 686 774**	**84 396**	**3 119 309**	**1 606 025**	**77 738**	**199 673**	**138 248**	**374 688**	**266 087**	**70 831**	**3 119 309**

Performing and non-performing exposures and related provisions

(in thousands of Euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Das quais, *Stage 1*	Das quais, *Stage 2*		Das quais, *Stage 2*	Das quais, *Stage 3*			
Cash in Central Banks	**2 541 160**	**2 541 160**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 012 416**	**18 981 637**	**4 030 779**	**2 512 984**	**0**	**2 512 984**	**-372 821**	**-62 817**	**-310 004**	**-1 491 696**	**0**	**-1 491 696**	**-565 334**	**13 315 570**	**694 808**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	404 477	380 427	24 050	527	0	527	-1 269	-556	-713	-451	0	-451	0	37 681	56
Credit institutions	44 943	44 848	95	314 138	0	314 138	-851	-851	0	-249 287	0	-249 287	0	0	0
Other financial corporations	277 651	257 036	20 615	148 854	0	148 854	-2 730	-1 256	-1 474	-58 976	0	-58 976	-164 902	151 379	78 731
Non-financial corporations	11 424 372	8 460 936	2 963 437	1 622 643	0	1 622 643	-325 235	-47 926	-277 309	-970 963	0	-970 963	-398 988	3 127 336	430 658
Of which SMEs	6 561 785	4 866 462	1 695 323	1 036 502	0	1 036 502	-144 330	-32 044	-112 286	-552 324	0	-552 324	-45 866	2 302 265	311 587
Households	10 860 972	9 838 390	1 022 582	426 823	0	426 823	-42 735	-12 227	-30 508	-212 020	0	-212 020	-1 444	9 999 174	185 363
Debt securities	**10 217 594**	**9 906 693**	**310 901**	**220 306**	**77 931**	**142 375**	**-95 274**	**-7 622**	**-87 652**	**-109 660**	**0**	**-109 660**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	6 914 457	6 914 457	0	0	0	0	-3 711	-3 711	0	0	0	0	0	0	0
Credit institutions	701 735	701 735	0	0	0	0	-217	-217	0	0	0	0	0	0	0
Other financial corporations	458 726	455 681	3 045	22 770	0	22 770	-970	-486	-484	0	0	0	0	0	0
Non-financial corporations	2 142 676	1 834 820	307 856	197 536	77 931	119 605	-90 376	-3 208	-87 168	-109 660	0	-109 660	0	0	0
Off-balance-sheet exposures	**9 871 398**	**8 484 827**	**1 386 571**	**386 019**	**0**	**386 019**	**35 061**	**6 983**	**28 078**	**66 929**	**0**	**66 929**		**162 625**	**14 837**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	34 983	25 499	9 483	17	0	17	22	22	0	0	0	0		4 617	0
Credit institutions	555 283	544 506	10 776	8 520	0	8 520	74	18	56	4	0	4		1 543	59
Other financial corporations	59 495	55 233	4 263	7 625	0	7 625	104	30	75	701	0	701		9 096	0
Non-financial corporations	8 208 623	6 867 362	1 341 261	367 140	0	367 140	31 475	3 651	27 825	66 000	0	66 000		135 436	14 598
Households	1 013 015	992 227	20 788	2 718	0	2 718	3 385	3 263	122	224	0	224		11 933	179
Total	**45 642 568**	**39 914 317**	**5 728 251**	**3 119 309**	**77 931**	**3 041 378**	**-433 035**	**-63 456**	**-369 579**	**-1 534 426**	**0**	**-1 534 426**	**-565 334**	**13 478 195**	**709 645**

Quality of non-productive exhibitions by geography

(in thousands of Euros)

	Gross carrying amount/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance-sheet exposures	**38 504 460**	**2 733 290**	**2 733 290**	**38 077 260**	**-2 069 451**		**0**
Portugal	30 121 182	2 194 332	2 194 332	29 766 568	-1 626 811		0
Other countries	8 383 278	538 958	538 958	8 310 693	-442 640		0
Off-balance-sheet exposures	**10 257 417**	**386 019**	**386 019**			**101 990**	
Portugal	8 363 278	376 616	376 616			100 159	
Other countries	1 894 139	9 403	9 403			1 831	
Total	**48 761 877**	**3 119 309**	**3 119 309**	**38 077 260**	**-2 069 451**	**101 990**	0

Credit quality of loans and advances by industry

(in thousands of Euros)

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	348 666	15 403	15 403	348 666	-13 340	0
Mining and quarrying	81 033	37 337	37 337	81 033	-22 965	0
Manufacturing	2 571 297	145 241	145 241	2 571 297	-117 088	0
Electricity, gas, steam and air conditioning supply	301 457	32 445	32 445	301 457	-19 577	0
Water supply	139 268	14 775	14 775	139 268	-11 240	0
Construction	1 516 554	254 782	254 782	1 516 554	-201 471	0
Wholesale and retail trade	1 469 940	90 961	90 961	1 469 940	-73 478	0
Transport and storage	870 282	55 586	55 586	870 282	-62 924	0
Accommodation and food service activities	1 029 150	139 423	139 423	1 029 150	-97 281	0
Information and communication	179 409	23 388	23 388	179 409	-19 347	0
Financial and insurance activities	710 795	123 193	123 193	710 795	-140 273	0
Real estate activities	1 615 048	276 429	276 429	1 615 048	-187 998	0
Professional, scientific and technical activities	1 070 828	151 477	151 477	1 070 828	-114 977	0
Administrative and support service activities	299 120	14 535	14 535	299 120	-15 512	0
Public administration and defence, compulsory social security	8 696	0	0	8 696	-28	0
Education	42 703	3 196	3 196	42 703	-1 619	0
Human health services and social work activities	233 448	43 441	43 441	233 448	-23 558	0
Arts, entertainment and recreation	236 077	93 037	93 037	236 077	-63 604	0
Other services	323 245	107 993	107 993	323 245	-109 916	0
Total	**13 047 015**	**1 622 643**	**1 622 643**	**13 047 015**	**-1 296 198**	**0**

Collateral valuation – loans and advances

(in thousands of Euros)

	Loans and advances											
		Performing		Non-performing								
			Of which past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <= 90 days	Past due > 90 days						
							Of which past due >90 days <= 180 days	Of which: past due > 180 days <= 1 year	Of which: past due > 1 years <= 2 years	Of which: past due > 2 years <= 5 years	Of which: past due > 5 years <=7 years	Of which: past due > 7 years
Gross carrying amount	**25 525 400**	23 012 416	84 396	**2 512 984**	1 528 094	**984 890**	62 612	199 673	133 418	334 744	183 612	70 831
Of which secured	**16 573 754**	15 026 393	69 853	**1 547 361**	891 541	**655 819**	54 555	138 209	100 843	173 197	142 724	46 290
Of which secured with immovable property	**14 059 236**	12 891 519	68 521	**1 167 717**	651 717	**516 000**	27 833	84 910	96 925	152 248	111 633	42 451
Of which instruments with LTV higher than 60% and lower or equal to 80%	**5 009 815**	4 836 251		**173 563**	86 003	87 561						
Of which instruments with LTV higher than 80% and lower or equal to 100%	**1 500 075**	1 284 058		**216 018**	145 801	70 217						
Of which instruments with LTV higher than 100%	**1 267 336**	750 074		**517 262**	283 808	233 454						
Accumulated impairment for secured assets	**-996 410**	-215 228	-2 112	**-781 182**	-434 166	**-347 016**	-32 256	-49 743	-56 000	-93 777	-86 570	-28 670
Collateral												
Of which value capped at the value of exposure	**13 973 102**	13 281 584	67 610	**691 518**	395 212	**296 305**	22 192	80 731	43 569	76 670	55 777	17 364
Of which immovable property	**12 972 629**	12 374 924	66 397	**597 706**	358 226	**239 479**	17 031	52 320	41 178	68 332	43 523	17 094
Of which value above the cap	**21 628 284**	19 539 311	62 882	**2 088 973**	748 300	**1 340 673**	1 340 673	0	0	0	0	0
Of which immovable property	**15 754 125**	15 043 727	60 361	**710 398**	368 584	**341 813**	341 813	0	0	0	0	0
Financial guarantees received	**37 276**	33 986	23	**3 290**	2 366	**924**	107	255	549	11	0	1
Accumulated partial write-off	**-565 334**	-26	-26	**-565 308**	-358	**-564 950**	0	-1 068	-9 604	-468 800	-79 756	-5 721

Changes in the stock of non-performing loans and advances

(in thousands of Euros)

	Gross carrying amount
Initial stock of non-performing loans and advances	3 445 821
Inflows to non-performing portfolios	528 442
Outflows from non-performing portfolios	-1 461 279
Outflow to performing portfolio	-157 051
Outflow due to loan repayment, partial or total	-195 764
Outflow due to collateral liquidation	0
Outflow due to taking possession of collateral	-23 070
Outflow due to sale of instruments	-376 963
Outflow due to risk transfer	0
Outflow due to write-off	-504 225
Outflow due to other situations	-204 206
Outflow due to reclassification as held for sale	0
Final stock of non-performing loans and advances	2 512 984

Collateral obtained by taking possession and execution processes

(in thousands of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**0**	**0**
Other than PP&E	**589 907**	**-277 322**
Residential immovable property	141 144	-38 478
Commercial Immovable property	349 959	-216 309
Movable property (auto, shipping, etc.)	3 488	-2 285
Equity and debt instruments	67 922	-9 229
Other	27 394	-11 022
Total	**589 907**	**-277 322**

Collateral obtained by taking possession and execution processes – vintage breakdown

(in thousands of Euros)

	Total collateral obtained by taking possession									
			Foreclosed <=2 years		Foreclosed > 2 years <=5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
Collateral obtained by taking possession classified as PP&E	0	0								
Collateral obtained by taking possession other than that classified as PP&E	**589 907**	**-277 322**	**117 878**	**-42 001**	**221 000**	**-99 647**	**251 029**	**-135 674**	**0**	**0**
Residential immovable property	141 144	-38 478	25 195	-4 844	47 660	-12 345	68 290	-21 289	0	0
Commercial immovable property	349 959	-216 309	48 333	-20 039	137 098	-86 598	164 528	-109 672	0	0
Movable property (auto, shipping, etc.)	3 488	-2 285	1 061	-175	0	0	2 427	-2 110	0	0
Equity and debt instruments	67 922	-9 229	15 896	-5 922	36 243	-704	15 783	-2 603	0	0
Other	27 394	-11 022	27 394	-11 022	0	0	0	0	0	0
Total	**589 907**	**-277 322**	**117 878**	**-42 001**	**221 000**	**-99 647**	**251 029**	**-135 674**	**0**	**0**

NOTE 46 – Disclosures about exposures resulting from measures related to the pandemic covid-19

Following the recommendations of the European Banking Authority and according with Instruction no. 19/2020 on the reporting and disclosure of information on exposures subject to measures applied in response to the Covid-19 crisis as per EBA (EBA/GL/2020/07), we present below the following details referring to default and loans granted under the new public guarantee plans, which are fully applicable to the consolidation perimeters of Nani Holdings, SGPS; SA and LSF Nani Investments S.à.r.l:

Information on loans and advances subject to legislative and non-legislative moratorias

(in thousands of Euros)

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value resulting from credit risk							Gross carrying amount
		Productive			Non-productive						Non-productive				
			Of which: exposures subject to restructuring measures	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days		Of which: exposures subject to restructurin g measures	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days	Of which: Reduced probability of payment that has not been due or has been due for a long time <= 90 dias	Entries to non-productive exhibitions
Loans and advances subject to a moratorium	6 878 599	6 138 006	546 662	2 056 137	740 594	412 022	659 514	-523 884	-205 061	-80 393	-189 404	-318 823	-183 211	-286 987	201 360
of which: private	2 251 137	2 144 377	72 183	401 600	106 760	13 804	82 142	-32 906	-16 435	-1 021	-14 775	-16 471	-2 403	-12 192	79 732
of which: secured by residential properties	*2 035 738*	*1 943 797*	*68 278*	*324 786*	*91 941*	*11 989*	*71 973*	*-16 634*	*-6 153*	*-636*	*-5 433*	*-10 480*	*-1 638*	*-8 106*	*71 740*
of which: non-financial corporations	4 618 006	3 984 223	474 342	1 653 722	633 783	398 168	577 322	-490 853	-188 540	-79 370	-174 590	-302 313	-180 769	-274 756	121 628
of which: small and medium-sized enterprises	*3 009 464*	*2 544 369*	*210 132*	*958 483*	*465 096*	*322 099*	*447 804*	*-280 222*	*-84 641*	*-20 122*	*-74 092*	*-195 581*	*-139 716*	*-187 309*	*120 364*
of which: secured by commercial real estate	*1 625 319*	*1 283 209*	*174 122*	*625 756*	*342 111*	*209 712*	*301 198*	*-244 170*	*-63 398*	*-18 290*	*-58 397*	*-180 772*	*-99 810*	*-160 189*	*50 464*

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual term of the moratoria

(in thousands of Euros)

	Number of debtors	Gross carrying amount							
			Of which: legislative moratoriums	Of which: expired	Residual deadline for default				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances that have been offered a moratorium	39 437	6 878 599							
Loans and advances subject to a moratorium (applied)	39 437	6 878 599	6 123 365	0	592 124	161 249	6 125 226	0	0
of which: households		2 251 137	1 500 379	0	591 434	157 463	1 502 241	0	0
of which: secured by residential properties		*2 035 738*	*1 461 827*	*0*	*573 911*	*0*	*1 461 827*	*0*	*0*
of which: non-financial corporations		4 618 006	4 613 530	0	690	3 786	4 613 530	0	0
of which: small and medium-sized enterprises		*3 009 464*	*3 004 991*	*0*	*687*	*3 786*	*3 004 991*	*0*	*0*
of which: secured by commercial real estate		*1 625 319*	*1 625 319*	*0*	*0*	*0*	*1 625 319*	*0*	*0*

Information on new loans and advances granted under new public guarantee systems introduced in response to the COVID-19 crisis

(in thousands of Euros)

	Gross carrying amount		Maximum amount of guarantee that can be considered	Gross carrying amount
		of which: restructured	Public guarantees received	Entries to non-productive exhibitions
New loans and advances subject to public guarantee systems	997 673	901	823 162	14
of which: households	0			0
of which: secured by residential properties	*0*			*0*
of which: non-financial corporations	995 776	901	821 614	14
of which: small and medium-sized enterprises	835 055			14
of which: secured by commercial real estate	0			0

NOTE 47 – Recently issued accounting standards and interpretations

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

In June 2020, the IASB issued amendments to IFRS 17. These amendments follow from the Exposure Draft (ED) on proposed Amendments to IFRS 17 Insurance Contracts.

As a result of its re-deliberations, the IASB has made changes to the following main areas of IFRS 17:

- Deferral of the effective date of IFRS 17 and IFRS 9 for qualifying insurance entities by two years to annual reporting periods beginning on or after 1 January 2023)
- Scope of the standard
- Expected recovery of insurance acquisition cash flows from insurance contract renewals
- CSM relating to investment activities
- Applicability of the risk mitigation option for contracts with direct participation features
- Reinsurance contracts held - expected recovery of losses on underlying onerous contracts
- Simplified presentation of insurance contracts in the statement of financial position
- Additional transition reliefs

In addition to the above changes, the amendments also include several other minor and editorial changes to IFRS 17.

No material impacts are expected on the Group's financial statements.

Definition of business activity - Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to developor convert acquired inputs into outputs; and (b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)).

No material impacts are expected on the Group's financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to IFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss
- The assessment of the economic relationship between the hedged item and the hedging instrument

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.

Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied.

The amendments to IAS 39

The corresponding amendments are consistent with those for IFRS 9, but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows
- of the hedging instrument are based, are not altered as
- result of IBOR reform.
- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

Transition

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

No material impacts are expected on the Group's financial statements.

Reform of interest rate reference indices - Phase 2 - changes to IFRS 9, IAS 39 and IFRS 7

On 27 August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are

substantial, the instrument is derecognized. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognized in profit or loss.
The practical expedient is required for entities applying IFRS 4 that are using the exemption from IFRS 9 (and, therefore, apply IAS 39) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the endof the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 and IAS 39 to measure and recognise hedge ineffectiveness.

Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR. The cash flow hedge reserve is released to profit or loss in the same period or periods in which the hedged cash flows based on the RFR affect profit or loss. For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero. This relief applies when the exception to the retrospective assessment ends.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, they will be transferred to sub-groups of instruments that reference RFRs as the hedged risk. As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform. The phase two reliefs cease to apply once all changes have been made to financial instruments and hedging relationships, as required by IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

Changes are mandatory for annual periods beginning on or after 1 January 2021, with earlier application permitted. Hedging relationships must be re-established if the hedging relationship was discontinued only due to changes required by the IBOR reform and would not have been discontinued if the changes in phase two had been applied at that time. Although the application is retrospective, an entity is not required to restate previous periods.

Definition of Material - Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to 'users' but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term 'users' may be interpreted too widely.

This amendment is effective for annual reporting periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

No material impacts are expected on the Group's financial statements.

Covid-19-Related Rent Concessions - Amendments to IFRS 16

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment does not apply to lessors.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if specific conditions are met.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020.

No material impacts are expected on the Group's financial statements.

Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively.

No material impacts are expected on the Group's financial statements.

Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively.

No material impacts are expected on the Group's financial statements.

Onerous contracts: costs of fulfilling the contract - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'.

The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

No material impacts are expected on the Group's financial statements.

The amendments clarify that a gain or loss is fully recognized when a transfer to an associate or joint venture involves a business activity as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that do not constitute a company, is only recognized to the extent of the interests of unrelated investors in the associate or joint venture.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor to its associate or joint ventures

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

No material impacts are expected on the Group's financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It establishes a comprehensive set of concepts for financial reporting, standards, guidance for preparers in the development of consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and criteria for recognizing assets and liabilities and clarifies some important concepts. It is organized into eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial
- information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The amended conceptual framework for the financial reporting is not a standard and none of its concepts prevails on the concepts set out in other standards or requirements of any standard. It is applicable to entities that develop their accounting principles based on the conceptual framework applicable to annual reporting periods beginning on or after 1 January 2020.

No material impacts are expected on the Group's financial statements.

Classification of Liabilities as current and non-current - Amendments to IAS 1

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

Right to defer settlement

The Board decided that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception.

In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

This amendment is effective for annual reporting periods beginning on or after 1 January 2023.

Improvement to IFRS - 2018-2020 cycle (issued in May 2020)

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

IFRS 9 - Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

IFRS 16 - Leases

The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

IAS 41 - Agriculture

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

NOTE 48 - Subsequent events

On March 5, 2021, NOVO BANCO reported that, after completing a competitive sale process, it entered into with BURLINGTON LOAN MANAGEMENT DAC, a company affiliated and advised by DAVIDSON KEMPNER EUROPEAN PARTNERS, LLP, a promissory Purchase and Sale Agreement of a portfolio of non-performing loans (NPL) and related assets (together, Project Wilkinson) with a gross balance sheet value of Euro 216.3 million, still subject to usual perimeter adjustments in operations of this nature . The sale value of the portfolio amounts to Euro 67.5 million, and the completion of the operation, under the terms agreed, should have a marginally positive direct impact on capital and in the 2021 income statement.

NOVO BANCO, S.A. Separate income statement for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019*
Interest Income	4	760 111	732 291
Interest Expenses	4	(192 112)	(214 722)
Net Interest Income		**567 999**	**517 569**
Dividend income	5	16 928	17 270
Fees and commissions income	6	279 878	318 119
Fee and commissions expenses	6	(41 438)	(44 286)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	86 183	59 376
Gains or losses on financial assets and liabilities held for trading	8	(91 208)	(61 168)
Gains or losses on financial assets mandatorily at fair value through profit or loss	9	(521 059)	(372 654)
Gains or losses from hedge accounting	10	(12 053)	(2 445)
Exchange differences	11	(2 000)	38 486
Gains or losses on derecognition of non-financial assets	12	2 272	14 507
Other operating income	13	87 599	56 534
Other operating expenses	13	(89 879)	(74 783)
Operating Income		**283 222**	**466 525**
Administrative expenses		(367 635)	(376 360)
Staff expenses	14	*(223 604)*	*(223 363)*
Other administrative expenses	16	*(144 031)*	*(152 997)*
Contributions to resolution funds and deposit guarantee	17	(34 766)	(34 448)
Depreciation	24, 25	(35 033)	(33 358)
Provisions or reversal of provisions	30	(187 839)	(121 954)
Commitments and guarantees given		*(21 595)*	*56 287*
Other provisions		*(166 244)*	*(178 241)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	21	(750 975)	(544 187)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	23	(41 285)	(36 036)
Impairment or reversal of impairment on non-financial assets	27, 28	(215 397)	(284 893)
Profit or loss before tax from continuing operations		**(1 349 708)**	**(964 711)**
Tax expense or income related to profit or loss from continuing operations	26	4 216	(38 726)
Current tax		13 400	(2 541)
Deferred tax		(9 184)	(36 185)
Profit or loss after tax from continuing operations		**(1 345 492)**	**(1 003 437)**
Profit or loss before tax from discontinued operations	28	(28 754)	(84 147)
Profit or loss for the period		**(1 374 246)**	**(1 087 584)**
Basic earnings per share (in euros)	18	(0,14)	(0,11)
Diluted earnings per share (in euros)	18	(0,14)	(0,11)
Basic earnings per share of continuing activities (in Euros)	18	(0,14)	(0,10)
Diluted earnings per share of continuing activities (in Euros)	18	(0,14)	(0,10)

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A. Separate statement of comprehensive income for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019
Net profit / (loss) for the period		(1 374 246)	(1 087 584)
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***(125 636)***	***(104 596)***
Actuarial gains / (losses) on defined benefit plans	a)	(122 199)	(106 026)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(14 320)	4 301
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	10 883	(2 871)
Items that may be reclassified to results		***8 410***	***223 579***
Financial assets at fair value through other comprehensive income	a)	8 410	223 579
Total other comprehensive income/(loss) for the period		**(1 491 472)**	**(968 601)**

a) See Statement of Changes in Equity

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A. Separate balance sheet as at 31 December 2020 and 2019

(in thousands of Euros)

	Notes	31.12.2020	31.12.2019
ASSETS			
Cash, cash balances at central banks and other demand deposits	19	2 524 868	1 674 826
Financial assets held for trading	20	655 327	748 836
Non-trading financial assets mandatorily at fair value through profit or loss	21	2 445 605	3 044 724
Financial assets at fair value through other comprehensive income	21	7 813 584	8 758 131
Financial assets at amortised cost	21	24 804 483	26 042 243
Debt securities		2 873 753	2 392 843
Loans and advances to Banks		245 472	495 252
(of which, Repurchase Agreement)		-	*8*
Loans and advances to customers		21 685 258	23 154 148
Derivatives – Hedge accounting	22	13 606	7 992
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	60 976	49 884
Investments in subsidiaries, joint ventures and associates	23	189 924	231 425
Tangible assets		188 968	194 753
Tangible fixed assets	24	188 968	194 753
Intangible assets	25	48 331	26 043
Tax assets	26	771 854	892 713
Current Tax Assets		-	680
Deferred Tax Assets		771 854	892 033
Other assets	27	2 956 010	3 333 586
Non-current assets and disposal groups classified as held for sale	28	1 568 912	21 273
TOTAL ASSETS		**44 042 448**	**45 026 429**
LIABILITIES			
Financial liabilities held for trading	20	554 343	544 400
Financial liabilities measured at amortised cost	29	37 895 984	39 924 564
Deposits from banks		10 778 468	10 542 549
(of which, Repurchase Agreement)		*1 625 724*	*2 168 488*
Due to customers		25 778 507	27 980 577
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		974 996	1 044 445
Other financial liabilities		364 013	356 993
Derivatives – Hedge accounting	22	72 543	58 854
Provisions	30	438 572	371 744
Tax liabilities	26	5 536	9 239
Current Tax liabilities		5 536	9 239
Other liabilities	31	314 611	471 626
Liabilities included in disposal groups classified as held for sale	28	2 007 770	-
TOTAL LIABILITIES		**41 289 359**	**41 380 427**
EQUITY			
Capital	32	5 900 000	5 900 000
Accumulated other comprehensive income	33	(749 259)	(632 033)
Retained earnings	33	(7 202 828)	(6 115 245)
Other reserves	33	6 179 422	5 580 864
Profit or loss attributable to Shareholders of the parent		(1 374 246)	(1 087 584)
TOTAL EQUITY		**2 753 089**	**3 646 002**
TOTAL LIABILITIES AND EQUITY		**44 042 448**	**45 026 429**

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A. Separate statement of changes in equity for the years ended 31 December 2020 and 2019

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the period attributable to shareholders of the Bank	Total
Balance as at 31 December 2018		**5 900 000**	**(751 016)**	**(4 682 368)**	**4 565 538**	**(1 432 875)**	**3 599 279**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 432 877)**	**1 015 326**	**1 432 875**	**1 015 324**
*Appropriation to retained earnings of net profit / (loss) of the previous period**		-	-	*(1 432 875)*	-	*1 432 875*	-
Reserve of Contingent Capital Agreement		-	-	-	*1 037 013*	-	*1 037 013*
Fusion reserve BES GMBH		-	-	-	*(195 267)*	-	*(195 267)*
Fusion reserve BESIL		-	-	-	*173 679*	-	*173 679*
Fusion reserve ES Plc		-	-	-	*(97)*	-	*(97)*
Other movements		-	-	*(2)*	*(2)*	-	*(4)*
Total comprehensive income for the period		**-**	**118 983**	**-**	**-**	**(1 087 584)**	**(968 601)**
Changes in fair value, net of tax		-	*228 454*	-	-	-	*228 454*
Remeasurement of defined benefit plans, net of tax		-	*(106 026)*	-	-	-	*(106 026)*
Credit risk changes of financial liabilites at fair value, net of tax		-	*(2 871)*	-	-	-	*(2 871)*
Reserves of impairment of securities at fair value through OCI		-	*4 301*	-	-	-	*4 301*
Reserves of sales of securities at fair value through OCI		-	*(4 875)*	-	-	-	*(4 875)*
Net income of the period		-	-	-	-	*(1 087 584)*	*(1 087 584)*
Balance as at 31 December 2019		**5 900 000**	**(632 033)**	**(6 115 245)**	**5 580 864**	**(1 087 584)**	**3 646 002**
Other Increase / (Decrease) in Equity		**-**		**(1 087 583)**	**598 558**	**1 087 584**	**598 559**
Appropriation to retained earnings of net profit / (loss) of the previous period		-		*(1 087 584)*	-	*1 087 584*	-
Reserve of Contingent Capital Agreement	33	-		-	*596 315*	-	*596 315*
Other movements		-		*1*	*2 243*	-	*2 244*
Total comprehensive income for the period		**-**	**(117 226)**	**-**	**-**	**(1 374 244)**	**(1 491 472)**
Changes in fair value, net of tax	33	-	*12 284*	-	-	-	*12 284*
Remeasurement of defined benefit plans, net of tax	15	-	*(122 199)*	-	-	-	*(122 199)*
Credit risk changes of financial liabilities at fair value, net of tax	33	-	*10 883*	-	-	-	*10 883*
Reserves of impairment of securities at fair value through OCI	33	-	*(1 838)*	-	-	-	*(1 838)*
Reserves of sales of securities at fair value through OCI	33	-	*(16 356)*	-	-	-	*(16 356)*
Net profit / (loss) for the period		-	-	-	-	*(1 374 246)*	*(1 374 246)*
Balance as at 31 December 2020		**5 900 000**	**(749 259)**	**(7 202 828)**	**6 179 422**	**(1 374 246)**	**2 753 089**

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A. Separate cash flow statement for the years ended on 31 December 2020 and 2019

(in thousands of Euros)

	31.12.2020	31.12.2019
Cash flows from operatins activities		
Interest received	741 134	751 730
Interest paid	(239 631)	(222 520)
Fees and commissions received	279 878	333 902
Fees and commissions paid	(41 438)	(48 049)
Recoveries on loans previously written off	29 596	30 230
Contributions to the pension fund	(266 833)	-
Cash contributions to resolution funds and deposit guarantee schemes	(34 766)	(34 448)
Cash payments to employees and suppliers	(358 667)	(399 539)
	109 273	**411 306**
Changes in operating assets and liabilities:		
Deposits with / from Central Banks	915 128	(297 651)
Financial assets mandatorily at fair value through profit or loss	(507 149)	(839 719)
Financial assets designated at fair value through profit or loss	191	164 896
Financial assets at fair value through other comprehensive income	804 356	(907 485)
Financial assets at amortised cost	500 648	(1 172 699)
Securities	*(511 297)*	*(29 161)*
Loans and advances to banks	*59 217*	*63 182*
Loans and advances to customers	*952 728*	*(1 206 720)*
Financial liabilities at amortised cost	(2 837 350)	1 263 360
Deposits from banks	*(671 335)*	*1 716 126*
Due to customers	*(2 166 015)*	*(452 766)*
Derivatives - Hedge accounting	(3 017)	(1 880)
Other operating assets and liabilities	907 336	1 132 133
Net cash from operating activities before corporate income tax	**(110 584)**	**(247 739)**
Corporate income taxes paid	(18 356)	(30 308)
Net cash from operating activities	**(128 940)**	**(278 047)**
Cash flows from investing activities		
Dividends received	16 928	17 313
Acquisition of tangible fixed assets	(43 398)	(17 130)
Sale of tangible fixed assets	2 790	16 387
Acquisition of intangible assets	(26 508)	(26 137)
Sale of intangible assets	-	-
Net cash from investing activities	**(50 188)**	**(9 567)**
Cash flows from financing activities		
Contingent Capital Agreement	1 035 016	1 149 295
Reimbursement of bonds and other debt securities	(589)	467
Net cash from financing activities	**1 034 427**	**1 149 762**
Net changes in cash and cash equivalents	**855 299**	**862 148**
Cash and cash equivalents at the beginning of the period	**1 406 347**	**544 199**
Net changes in cash and cash equivalents	855 299	862 148
Cash and cash equivalents at the end of the period	**2 261 646**	**1 406 347**
Cash and cash equivalents include:		
Cash	142 325	174 156
Deposits with Central Banks	2 292 797	1 408 908
(of which, Restricted balances)	(263 222)	(268 479)
Deposits with banks	89 746	91 762
Total	**2 261 646**	**1 406 347**

The accompanying explanatory notes are an integral part of these separate financial statements

Notes to the Separate Financial Statements as at 31 December 2020

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

NOTA 1 –Activity

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO focused on the banking activity, having been incorporated on the 3rd of August 2014 per deliberation of the Board of Directors of Bank of Portugal (the Central Bank of Portugal) dated 3rd of August 2014 (8 p.m.), under No. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF))[1], approved by Decree-Law No. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to NOVO BANCO (NOVO BANCO or the Bank).

As a result of the resolution measure applied, Fundo de Resolução ("Resolution Fund") became the sole owner of the share capital of NOVO BANCO, in the amount of Euro 4,900 million, with the status of a transition bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively. Thus, as at 30 June 2020 and 31 December 2019, the share capital of NOVO BANCO amounted to Euro 5,900 million, represented by 9,799,999,997 nominative shares, with no nominal value.

Within the sale process, a Contingent Capital Agreement was created with the sale process, which in case its capital ratios decrease below the regulatory requirements defined for NOVO BANCO, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euro 3,890 million.

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition Bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon. LSF Nani Investments S.à.r.l., headquartered in Luxembourg, is the parent company of the Group.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

As at 31 December 2020, NOVO BANCO has a retail network comprising 340 branches in Portugal and abroad (31 December 2019: 368 branches), branches in Spain and Luxembourg and 4 representative offices in Switzerland (31 December 2019: 4 representative offices).

During 2019, the subsidiaries BES GMBH, BESIL and ESPLC were merged into NOVO BANCO. The branches in London and the Cayman Islands were also closed.

1. References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

NOTE 2 – Main accounting policies

2.1. Basis of presentation

In accordance with Regulation (EC) No. 1606/2002 of 19 July 2002 of the European Council and the Parliament and Notices 5/2015 of the Bank of Portugal, the consolidated financial statements from NOVO BANCO, S.A. (NOVO BANCO) were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2020.

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

The separate financial statements of NOVO BANCO are presented as at 31 December 2020. The accounting policies used by the Bank in their preparation are consistent with those used in the preparation of the financial statements as at 31 December 2019. except in what concerns with the new standards issued. These changes are presented below.

The accounting standards and interpretations recently issued, but which have not yet entered into force and which the Bank has not yet applied in the preparation of its financial statements can also be analyzed in Note 41.

The separate financial statements are expressed in thousands of Euros, rounded to the are expressed in thousands of Euro, rounded to the nearest thousand. They have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

Changes in accounting policies

The preparation of the financial statements in accordance with IFRS requires the Bank to make judgments and estimates and use assumptions that affect the application of accounting policies and the amounts of income, costs, assets and liabilities. Changes in such assumptions or differences in relation to reality may have an impact on current estimates and judgments. The areas that involve a higher level of judgment or complexity or where significant assumptions and estimates are used in the preparation of the financial statements are analyzed in Note 3.

The separate financial statements and the Management Report of 31 December 2020 were approved at the Executive Board of Directors' meeting held on 24 March 2021 and will be submitted to the General Assembly of Shareholders, which has the power to justifiably decide to change them. However, it is Executive Board of Directors conviction that these separate financial statements will be approved without changes.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognized in the income statement.

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

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognized in other comprehensive income.

2.3. Derivative financial instruments and hedge accounting

Classification

The Bank classifies its derivatives portfolio into (i) hedging derivatives and (ii) trading derivatives, which include, in addition to the trading book, other derivatives contracted for the purpose of hedging certain assets and liabilities designated at fair value through profit or loss but not classified as hedging (fair value option).

Recognition and measurement

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

Derivatives traded on organized markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 27 and 31) and comprise the minimum collateral mandatory for open positions.

The fair value of the remaining derivative financial instruments corresponds to their market value, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appro-priate.

Hedge accounting

Classification criteria

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

i. Hedging instruments and hedged items are eligible for the hedge relationship;

ii. At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

iii. There is an economic relationship between the hedged item and the hedging instrument;

iv. The effect of credit risk does not dominate the changes in value that result from this economic relationship;

v. The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

For the cases in which the Bank uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Bank carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged item in the portion attributed to the hedged risk. Any ineffectiveness found is recognized in the income statement when it occurs in gains or losses of hedge accounting.

The use of derivatives is framed in the Bank's risk management strategy and objectives.

Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognized in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Bank may adjust the hedging operation in order to meet the eligibility (rebalancing) criteria.

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument is amortised via the income statement over the period to its maturity, using the effective interest rate method.

Cash Flow Hedge

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

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

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of reference interest rates, which led to the transition from EONIA (Euro OverNight Index Average) to € STR (Euro Short Term Rate), in the course of 2020, the Bank changed the discount curve of its positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the implementation principle of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Bank did not record any relevant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships (hedged and hedged items) were subject to the same change.

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 2.4.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and

c. the hybrid contract is not measured at fair value and changes in fair value are recognized in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

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

2.4. Other financial assets: Placements with credit institutions, customer loans and securities

The Bank initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding;
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognized in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets were acquired with the objective of being traded in the short term, they are classified as held for trading.

Initial recognition and measurement and derecognition

These financial assets are initially recognized at fair value plus transaction costs, except for financial assets at fair value through profit or loss, where transaction costs are directly recognized in the income statement.

Deposits and loans and advances to banks and loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterparty. Acquisitions and disposals of securities are recognized on the trade date, that is, on the date on which the Bank undertakes to acquire or dispose of the asset.

Financial assets at amortised cost or accounted at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

i. The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

ii. The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Bank determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Bank's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Bank determines whether it is part of an existing business model or if it reflects a new business model. The Bank reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IFRS 16 – Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment assessment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently measured at fair value with changes in the fair value recognized in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognized in reserves are reclassified to the caption Gains and losses on financial assets and liabilities designated at fair value through profit or loss. In the specific case of equity instruments, the cumulative gains/ (losses) previously recognized in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognized in profit or loss.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest calculated at the effective interest rate are recognized in profit or loss.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss present the following characteristics:

- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or,
- it is designated at fair value through profit or loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement.

Reclassifications

If the Bank changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment

The Bank records impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Debt instruments at amortised cost or at fair value through other comprehensive income are in the scope of the impairment calculation.

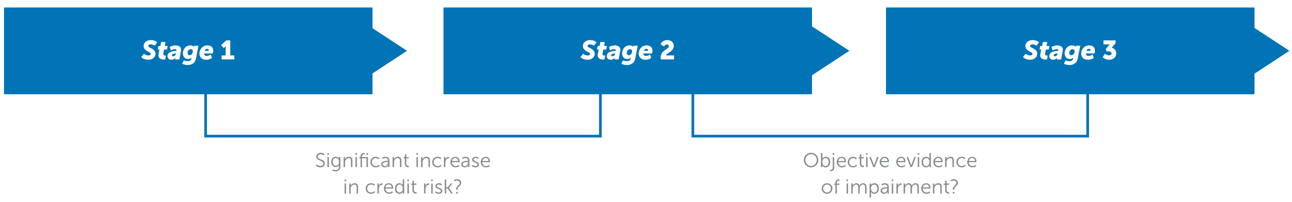
Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

Staging

The impairment calculation approach distinguishes between the 12 months' expected credit losses - Stage 1 - and the lifetime expected credit losses. To determine expected lifetime losses, the approach considers the projection of contractual cash flows - Stage 2 - or the present value of the expected recoveries - Stage 3. Thus, the model of impairment calculation by Stage is summarized as follows:

- expected credit loss resulting from a potential loss event occurring within the next 12 months after the calculation date (Stage 1); or
- expected credit loss, resulting from all potential loss events expected over the lifetime, applied to the projection of contractual cash flows (Stage 2); or
- expected credit loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure1 (Stage 3).

Therefore, for the determination of impairment, the classification by Stage for all exposures according to their level of credit risk, as summarized in the figure below, is made beforehand:



Stage 3

The process of assigning Stage to an exposure starts by checking if the Stage 3 criteria applies. If the exposure is classified as Default - according to the current internal definition1 - this exposure is classified as Stage 3.

Thus, the classification of exposures in Stage 3 is based on the occurrence of a default event, with objective evidence of loss occurring at the time from which a significant change occurs in the creditor-debtor relationship, being the creditor exposed to a monetary loss.

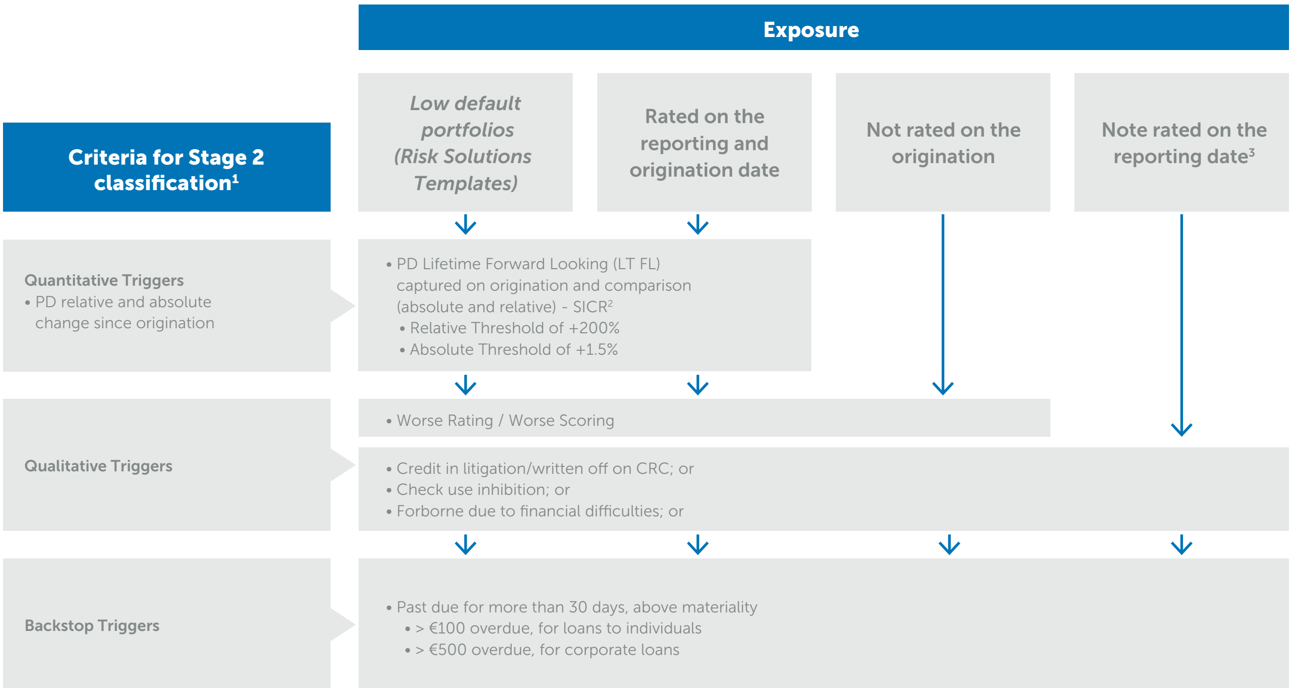
Considering the measure of specific triggers of Default or the Stage 3 determination indicators, the result will be the determination of Default and Stage 3 accordingly, taking as a starting point the default setting.

Stage 2

Exposures are classified as Stage 2 whenever there is a significant increase in credit risk, since initial recognition. If there is no objective evidence of loss associated with the exposure, criteria are analyzed to determine whether exposure has significantly increased its credit risk.

The significant increase in credit risk is assessed through qualitative and quantitative evidence. Once it is verified that - at least - one of these triggers is active, the exposure is classified in Stage 2.

The table below describes the criteria and respective applicable thresholds:



1. To some of the criteria presented, there are applicable concept of contamination and cure period.
2. SICR not applicable in the case the rating/scoring atribute to the contract/client represents a PD lower than 0.75 (3 x Investment Grade Rating)
3. For unrated exposures it is only applicable qualitative and backstop triggers, in order to assess if they classify as for Stage 2.

As explained in the IFRS 9 regulation, the assessment of a significant increase in credit risk involves - also - comparing the current level of risk of an exposure against the level of risk existing in origination.

The Bank assigns an internal credit risk grade to the exposure / borrower, depending on its quality and associated with the probability of default. In assessing whether the exposure credit risk has increased significantly since initial recognition, the Bank compares, at the reporting date, the lifetime probability of default with the probability of default at origination of the exposure. Depending on whether the observed variation falls above a defined threshold - relative and / or absolute - the exposure is classified in Stage 2.

In addition to this event, the Bank considers other events, that if verified imply the classification in Stage 2 - e.g.: material default for more than 30 days, risk events in the financial system, internal credit risk grade above a certain threshold, among others.

Stage 1

The classification of exposures in Stage 1 depends on:

i. absence of active events that qualify for Stage 3 and Stage 2, which were mentioned and described above; or

ii. the framing of these exposures under the low-credit risk exemption. These exposures, if not in Stage 3, are automatically classified in Stage 1.

The outlined vision is based not only on the requirement in IFRS 9, but also on the approach defined for capital calculation, where for these exposures a 0% risk weight is considered. Thus, entities that are not classified as default and fully comply with the conditions mentioned above are classified as low credit risk, being assigned stage 1. Each month the list of entities in these conditions is reviewed, whose majority is composed of Portuguese public debt, public debt in the Euro zone, American public debt and / or equivalent.

Segmentation

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Bank's credit risk management process. For each of these homogeneous risk groups, risk factors are estimated and then applied for impairment assessment purposes.

For the purpose of determining collective impairment, operations are allocated to risk sub-segments in accordance with the following definitions in the table below:

1st Segmentation	Client Type	
	Corporate	Individuals
2nd Segmentation	Risk Segment	Product Type
	Large Companies Real Estate Medium Companies Small Companies Start-ups Financial Institutions Sovereign	Mortgage Consumer Loans Credit Cards Other Individuals
3rd Segmentation	Rating Notation	Scoring Notation
4th Segmentation	Collaterals - LTV	
	Typically, Corporate segments consider the value of collateral for segmentation purposes	The mortgage segment considers the value of the financed asset for the purposes of segmentation

Scenarios

As required by IFRS 9, the Banks's impairment assessment reflects different expectations of macroeconomic developments, i.e., it incorporates multiple scenarios. In order to incorporate the effects of future macroeconomic behavior on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios consider the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Bank (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Bank uses in internal and / or regulatory planning exercises;
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

Write-offs

Write-off is defined as the derecognition of a financial asset from the Group's balance sheet, which should only occur when cumulatively:

i. the total amount of the credit has been demanded, that is, the credit must be fully recognized as overdue credit. Exemptions from this requirement are extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial/ extra-judicial decision;

ii. All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered) and additional efforts to recover the asset will not be considered economically viable.

iii. The credit recovery expectations are very low, leading to an extreme scenario of total impairment– 100% impairment. This rule is only applicable for contracts without real estate collateral and if the whole contract is classified as overdue. In all other cases, it is necessary to ensure that the amount to be written off is fully impaired (at least in the month prior to the month of the write-off); and

iv. A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries at other operating income.

Derecognition

Financial assets are derecognized from the balance sheet when (i) the Bank contractual rights relating to the respective cash flows have expired, (ii) the Bank has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Bank having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognized in other equity is not reclassified to profit or loss, being transferred between equity items.

In the specific case of loans to customers, at the time of sale, the difference between the sale value and the book value must be 100% provisioned, and at the time of the sale, the credit sold will be derecognized against the funds / assets received. and consequent use of impairment on the balance sheet.

2.5. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognized from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognized in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.4. Securities received under borrowing agreements are not recognized in the balance sheet.

Short sales correspond to securities sold that are not included in the Bank's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognized directly in the income statement in Gains or Losses from financial assets and liabilities held for trading.

2.6. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities at fair value through profit or loss when:

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Bank's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

The structured products issued by the Bank – except for the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the above-mentioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Bank establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Bank accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognizes of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognized in the income statement.

If the Bank repurchases debt securities issued, these are derecognized from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognized in the income statement cost is recognized in the income statement.

2.7. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognized in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognized on initial recognition and (ii) the amount of any financial obligation arising as result of the guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Bank normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Bank, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognized at the contract date is equal to the amount of the commission initially received, which is recognized in the income statement over the period to which it relates. Subsequent periodic fees are recognized in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Bank has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.8. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

2.9. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events and must be enforceable in the course of the normal activity of the NOVO BANCO, as well as in the event of default, bankruptcy or insolvency of the Bank or the counterparty.

2.10. Foreclosed properties and non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are in condition for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell.

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF), banks are prevented, unless authorized by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Bank changed the classification of this real estate properties from Non-current assets held for sale to Other assets, due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. Unrealized losses on these assets, so determined, are recorded in the income statement.

The valuation of these real estate properties is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

i. Market Method
The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the zone.

ii. Income Method
Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

iii. Cost Method
This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analyzed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Additionally, since these are assets whose level in fair value hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Bank proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value supported by additional internal or external valuations.

2.11. Tangible fixed assets

The Bank's tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with tangible fixed assets are only recognized when it is probable that future economic benefits associated with them will flow to the Bank. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of tangible fixed assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Own use properties	35 a 50
Leased building improvements	10
Computer equipment	4 a 8
Furniture and material	4 a 10
Indoor facilities	5 a 10
Safety equipment	4 a 10
Machines and tools	4 a 10
Transport material	4
Other equipment	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires its recoverable amount to be estimated and an impairment loss recognized when the book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the net carrying book value is recognized under the caption Other operating income and expenses.

2.12. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalized, as are additional costs incurred by the Bank to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

All remaining costs associated with information technology services are recognized as an expense as incurred.

2.13. Leases

IFRS 16 – Leases

A. Lease Definition

Determining whether an Agreement Contains a Lease. The Bank assesses whether a contract is or contains a lease based on the lease definition. In accordance with IFRS 16, a contract is or contains a lease if it has the right to control the use of an identified asset for a certain period of time, in exchange for retribution.

The Bank has adopted some practical expedients provided for in the standard in applying IFRS 16:

- Applies the exception, mentioned above, of non-recognition of assets under right of use and liabilities for short-term leases (i.e. with a lease term of 12 months or less);
- Apply the exception, mentioned above, of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- For leases in which the entity is a lessee, it was decided not to separate the non-lease components and account for the lease and non-lease components as a single lease component.

The option of not applying this standard to leases of intangible assets was also used.

B. As Lessee

In accordance with IFRS 16, the Bank recognizes leased assets and lease liabilities for some asset classes, i.e., these leases are on the entity's balance sheet.

Lease contracts are recorded at the inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognized in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank leases various assets, including real estate, vehicles and IT equipment.

As previously mentioned, the Bank has opted not to recognize assets under right of use and liabilities for short-term leases, with a lease term of 12 months or less, and low value asset leases (e.g. IT equipment) with a new value of less than Euro 5 thousand. The Bank recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term in income statement as “Other administrative expenses – rents and rentals”.

The Bank presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property.

The Bank presents the lease liabilities under "Other liabilities" in the statement of financial position.

Significant judgment in determining contract lease term

The Bank has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Bank determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and recognized right-of-use assets.

The Bank has the option, namely in real estate lease agreements, to lease assets for additional periods from 1 month to 20 years. The Bank applies judgment in assessing whether it is reasonably right to exercise the renewal option. That is, it considers all the relevant factors that create an economic incentive for renewal.

Measurement and remeasurement of assets under right of use and lease liabilities

Lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve plus the Bank’s risk spread, applied over the weighted average term of each lease.

The lease liability is initially recorded at the present value of the future cash flows from the lease and is subsequently measured (i) by increasing it’s carrying amount to reflect interest on it, (ii) by decreasing its carrying amount by to reflect lease payments.

An asset under right of use, initially measured at cost, must take into account the present value of the future cash flows of the lease liability, being subsequently subject to depreciation / amortization according to the lease term of each contract and to tests of impairment.

C. As lessor

In accordance with IFRS 16, lessors will continue to classify leases as financial or operational.

Financial leases

Transactions in which the risks and benefits inherent in the ownership of an asset are substantially transferred to the lessee are classified as finance leases. Financial leasing contracts are recorded in the balance sheet as credits granted for an amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in rents charged to customers is recorded as income while capital amortizations, also included in rents, are deducted from the amount of credit granted to customers. The recognition of interest reflects a constant periodic rate of return on the lessor's remaining net investment.

Operating leases

All lease transactions that do not fall under the definition of finance lease are classified as operating leases. Payments made by the Bank under operating lease agreements, from the perspective of the lessee, are recorded in costs in the periods to which they relate.

2.14. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 15, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Bank companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the NOVO BANCO Group.

The pension plans of the Bank are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semi-annually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

The Bank determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan's net assets / liabilities (liabilities net of the fair value of the fund's assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds' assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognized in equity under the caption other comprehensive income.

The Bank recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognized as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Bank assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Bank provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year, recorded on a monthly basis in personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

The calculation and recognition of the Bank's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Career bonus

The ACT provides for the payment by the Group of a career bonus, due at the time immediately prior to the employee's retirement if he retires at the Group's service, corresponding to 1.5 of his salary at the time of payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The amount of the Bank's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement, in Personnel Expenses.

Employees' variable remuneration and other obligations

The Bank recognizes under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Bank recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy

  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.15. Corporate Income tax

NOVO BANCO and its subsidiaries are subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC Code).

The total amount of corporate income tax comprises current tax and deferred tax.

Corporate income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized under deferred tax reserves (other comprehensive income). Corporate income tax recognized directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognized in the income statement when the gains or losses giving rise to said income tax are also recognized in the income statement.

Current Taxes

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognized in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Current tax is calculated based on taxable income for the period, which differs from accounting income due to adjustments resulting from expenses or income not relevant for tax purposes or which will only be considered in subsequent years.

Deferred taxes

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for: i) goodwill non-deductible for tax purposes; ii) differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit; iii) that do not result from a business combination, and iv) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Bank does not control the timing of the reversal of the timing differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of Bank.

Taxable income or tax loss reported by the Bank may be corrected by the Portuguese Tax Authorities within a period of four years, except when any deduction was made or a tax credit was used, in which case this period corresponds to the period during which this right may be exercised (5 or 12 years in the case of tax losses, depending on the financial year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in interpretation of tax legislation, will not have a material effect on the financial statements.

The Bank, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax with regard to the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax, with no material impact on its financial statements resulting from its application.

2.16. Provisions and Contingent liabilities

Provisions are recognized when: (i) the Bank has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Bank to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors, both internal and external.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognized in financial expenses.

Restructuring provisions are recognized when the Bank has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognized when the benefits expected to be derived by the Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not likely, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

2.17. Recognition of interest income and expense

Interest income and expense is recognized in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Bank estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest and similar income includes interest from financial assets for which were recognized impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities at fair value through profit or loss (see Note 2.3).

2.18. Recognition of fees and commissions income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 2.17.

2.19. Recognition of dividend income

Dividend income is recognized when the right to receive the dividend payment is established.

2.20. Report by Segment

In accordance with the paragraph 4 of IFRS 8 – Operational Segments, the Bank is waived to present the report by segment on an individual basis, since the separated financial statements are presented together with the consolidated financial statements.

2.21. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three months from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.23. Provision of insurance or reinsurance mediation services

NOVO BANCO is an entity authorized by the Instituto de Seguros de Portugal for the practice of insurance mediation activity in the category of Mediator of Linked Insurance, in accordance with Article 8, a), i), of Decree-Law no. 144/2006, of July 31, developing the activity of insurance intermediation through sale of life and non-life insurance contracts. As remuneration for the rendered services of insurance mediation, the Bank receives commissions that are defined in agreements / protocols established between the Bank and the Insurers.

The commissions received by the services of insurance mediation cover the following modalities:

- commissions that include a fixed and variable component. The fixed component is calculated by applying a predetermined rate on the value of the subscriptions made through the Bank and the variable component is calculated monthly according to pre-established criteria, with the total annual commission equal to the sum of the commissions calculated monthly;
- other variable commissions, which are calculated and paid annually by insurer in the beginning of the following year.

The commissions received by the insurance mediation services are recognized in accordance with the principle of accruals accrual, so that commissions paid at a different time than the period to which they relate are registered as an amount receivable under Other Assets.

NOTE 3 – Main accounting estimates and judgements used in preparing the financial statements

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Bank are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

The Bank does not have projects or intentions for actions that could question the continuity of the operations.

The COVID-19 pandemic, despite the government and regulatory response measures adopted, resulted in an additional high level of uncertainty about the Portuguese and European economy and in particular banking activity, with an impact on the judgments and estimates used in the financial statements. However, the internal control policies and standards adopted by the Bank allow us to consider that these judgments and estimates were made independently and appropriately as of 31 December 2020.

The relevant judgments made by Management in the application of the Bank's accounting policies and the main sources of uncertainty in the estimates were the same as those described in the last report of the Financial Statements.

3.1. Impairment of financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognized impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 2.5 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with

the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;

- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by NOVO BANCO and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with NOVO BANCO. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Bank monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: the Bank uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS 9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

3.2. Fair value of derivative financial instruments and other financial assets and liabilities at fair value

Fair value is based on listed market prices when available; otherwise fair value is determined based on similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Bank uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarized in Note 37.

3.3. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 26.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 15 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the NOVO BANCO for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

3.5. Provisions and Contingent liabilities

The recognition of provisions involves a significant degree of complex judgment, namely identifying whether there is a present obligation and estimating the probability and timing, as well as quantifying the outflows that may arise from past events. When events are at an early stage, judgments and estimates can be difficult to quantify due to the high degree of uncertainty involved. The Executive Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognized. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognized provisions may also be sensitive to the assumptions used, which may result in a variety of potential results that require judgment in order to determine a level of provision that is considered appropriate in view of the event in question.

The Bank recognises provisions intended to cover for losses arising from commercial offers approved by the Executive Board of Directors of the Bank, when these are not opposed by Bank of Portugal. The amount of the provisions reflects NOVO BANCO's best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (i) due to variations in the assumptions used (ii) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (iii) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 30.

3.6. Assets received from credit recovery and Non-current assets held for sale and Non-current assets and disposal groups classified as held for sale

Assets received from credit recovery and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations carried out by independent entities specializing in this type of service, using the market, income or cost methods defined in Note 2.10. The valuation reports are analyzed internally, namely comparing the sales values with the revalued values of the properties in order to maintain the valuation parameters and processes aligned with the market evolution.

The use of alternative methodologies and different assumptions could result in a different level of fair value with an impact on the respective balance sheet amount recognized.

NOTE 4 – NET INTEREST INCOME

The breakdown of this caption as at 31 December 2020 and 2019 is as follows:

(in thousands of Euros)

	31.12.2020				31.12.2019*			
	Calculated by the effective interest method		Other		Calculated by the effective interest method		Other	
	From assets / liabilities at fair value through other comprehensive income and assets at amortised cost	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at fair value through other comprehensive income and assets at amortised cost	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income								
Interest from loans and advances	521 389	-	-	521 389	543 824	-	-	543 824
Interest from deposits with and loans and advances to banks	19 835	39 401	-	59 236	21 344	3 118	-	24 462
Interest from securities	141 054	-	27 709	168 763	136 251	-	18 939	155 190
Interest from derivatives held for risk management purposes	-	1 669	8 545	10 214	-	523	6 854	7 377
Other interest and similar income	509	-	-	509	1 438	-	-	1 438
	682 787	**41 070**	**36 254**	**760 111**	**702 857**	**3 641**	**25 793**	**732 291**
Interest Expenses								
Interest on debt securities issued	34 206	-	-	34 206	35 807	-	-	35 807
Interest on amounts due to customers	69 990	-	-	69 990	91 660	-	-	91 660
Interest on deposits from Central Banks and other banks	26 620	2 750	-	29 370	31 352	1 864	-	33 216
Interest on subordinated liabilities	34 165	-	-	34 165	34 166	-	-	34 166
Interest on derivatives held for risk management purposes	-	5 771	10 816	16 587	-	4 114	8 969	13 083
Other interest and similar expenses	7 463	331	-	7 794	6 643	147	-	6 790
	172 444	**8 852**	**10 816**	**192 112**	**199 628**	**6 125**	**8 969**	**214 722**
	510 343	**32 218**	**25 438**	**567 999**	**503 229**	**(2 484)**	**16 824**	**517 569**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Interest on amounts due to customers and deposits from Central banks and other banks include, as at 31 December 2020, respectively, the amounts of Euro -16 thousand and Euro 822 thousand related to repurchase agreement operations (31 December 2019: Euro -2 thousand of interest from deposits with and loans and advances to banks, Euro 16 thousand in customer resources and Euro 2,166 thousand in interest on deposits from Central Banks and other banks).

As of 31 December 2020, interest from loans and advances to customers includes Euro 35,385 thousand related to finance lease operations (31 December 2019: Euro 40,035 thousand).

Interest income and expense items related to derivative interest include, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.3 e 2.6.

The measures adopted to reduce the cost of customer deposits justify the decrease in the interest expense related to these liabilities.

NOTE 5 – Dividend income

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Financial assets mandatorily at fair value through profit or loss		
Shares	1 765	3 365
Participation units	5 324	3 656
Others	-	137
Financial assets at fair value through other comprehensive income		
Shares	7 750	1 734
Financial assets in investments in associates and subsidiaries	2 089	8 378
	16 928	**17 270**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

In 2020, dividend income of Euro 16,928 thousand was recorded (31 December 2019: Euro 17,270 thousand), which are broken down as follows:

- Euro 7,089 thousand in financial assets that are mandatorily accounted for at fair value through profit or loss, which include dividends received from the Fundo Solução Arrendamento in the amount of Euro 3,141 thousand, from the Fundo Arrendamento Mais in the amount of Euro 1,593 thousands and from Euronext NV in the amount of Euro 1,391 thousand (31 December 2019: Euro 7,158 thousand, which include dividends received from Euronext in the amount of Euro 1,348 thousand, from Fundo Soluções Arrendamento in the amount of Euro 1,767 thousand and from Sealion Ltd of Euro 989 thousand); and
- Euro 7,750 thousand in financial assets accounted for at fair value through other comprehensive income, which include dividends received from FLITPTREL X in the amount of Euro 6,000 thousand, from SIBS SGPS in the amount of Euro 887 thousand and from ESA Energia in the Euro 657 thousand (31 December 2019: Euro 1,734 thousand, which includes dividends received and from SIBS SGPS in the Euro 887 thousand); and
- Euro 2,089 thousand financial assets in investments in associates and subsidiaries, which include dividends received from Locarent in the amount of Euro 958 thousand, from Edenred in the amount of Euro 583 thousand and from ESEGUR in the amount of Euro 548 thousand (31 December 2019: Euro 8,378 thousand, which include dividends received from Unicre in the amount of Euro 4,165 thousand, from GNB Seguros in the amount of Euro 1,500 thousand and from NB Açores in the amount of Euro 1,083 thousand).

NOTE 6 – Fees and commissions income and expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Fees and commissions income		
From banking services	198 376	215 926
From guarantees provided	34 762	42 783
From transaction of securities	3 718	4 780
From commitments to third parties	8 062	7 792
From transactions carried out on behalf of third parties - cross-selling	32 254	36 379
Other fee and commission income	2 706	10 459
	279 878	**318 119**
Fees and commissions expenses		
With banking services rendered by third parties	31 497	35 267
With guarantees received	1 755	1 900
With transaction of securities	2 259	2 052
Other fee and commission income	5 927	5 067
	41 438	**44 286**
	238 440	**273 833**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 7 – Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019*		
	Gains	Losses	Total	Gains	Losses	Total
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	93 160	6 529	86 631	65 735	2 021	63 714
Issued by other entities	1 010	7 482	(6 472)	2 442	443	1 999
	94 170	**14 011**	**80 159**	**68 177**	**2 464**	**65 713**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	6 281	154	6 127	2 050	-	2 050
Loans	8 336	8 439	(103)	23 610	31 997	(8 387)
	14 617	**8 593**	**6 024**	**25 660**	**31 997**	**(6 337)**
	108 787	**22 604**	**86 183**	**93 837**	**34 461**	**59 376**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 8 - Gains or losses on financial assets and liabilities held for trading

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019*		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	13 710	13 121	589	26 480	10 963	15 517
Issued by other entities	5	-	5	-	-	-
Financial Derivatives						
Foreign exchange rate contracts	68 245	52 681	15 564	24 576	26 351	(1 775)
Interest rate contracts	602 631	711 014	(108 383)	729 666	803 868	(74 202)
Equity / Index contracts	82 551	81 243	1 308	93 119	92 296	823
Credit default contracts	42	44	(2)	78 241	78 622	(381)
Other	488	777	(289)	1 702	2 852	(1 150)
	767 672	**858 880**	**(91 208)**	**953 784**	**1 014 952**	**(61 168)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

In accordance with the accounting policies followed by the Bank, financial instruments are measured, at their initial recognition, at their fair value. The transaction value of the instrument is assumed to correspond to the best estimate of its fair value on the date of its initial recognition. However, in certain circumstances, the initial fair value of a financial instrument, determined on the basis of valuation techniques, may differ from the transaction value, especially by the existence of an intermediary margin, resulting in a day one profit.

The Bank recognizes in profit or loss the gains arising from the day one profit generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, on the date of their initial recognition and subsequently, is determined only by the Bank based on observable market variables and reflects the Bank's access to the wholesale market.

As at 31 December 2020, gains recognized in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 5,100 thousand (31 December 2019: Euro 3,114 thousand).

NOTE 9 - Gains or losses on financial assets mandatorily at fair value through profit or loss

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019*		
	Gaines	Losses	Total	Gaines	Losses	Total
Gains or losses in financial assets mandatorily at fair value through profit or loss						
Securities						
Bonds and other fixed income securities Issued by other entities	17 920	90 440	(72 520)	8 337	10 625	(2 288)
Shares	23 229	141 374	(118 145)	34 575	90 862	(56 287)
Other variable income securities	1 709	332 103	(330 394)	17 482	331 561	(314 079)
	42 858	**563 917**	**(521 059)**	**60 394**	**433 048**	**(372 654)**
	42 858	**563 917**	**(521 059)**	**60 394**	**433 048**	**(372 654)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

As at 31 December 2020, gains or losses on financial assets mandatorily at fair value through profit or loss – securities - shares and other variable income securities, include a loss of Euro 300.2 million, resulting from the completion of an independent valuation to the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotes provided by third parties whose parameters used are not observable in the market). NOVO BANCO requested an independent assessment from an international consulting firm in conjunction with real estate consulting firms. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets (see Note 21), which led to the recording of the said loss of Euro 300.2 million in 2020 (see Note 37).

NOTE 10 – Gains or losses from hedge accounting

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019*		
	Gains	Losses	Total	Gains	Losses	Total
Fair value changes of hedging instruments						
Interest rate contracts	75 803	97 972	(22 169)	49 993	66 301	(16 308)
Fair value changes of hedging item attributable to hedged risk	43 804	33 688	10 116	34 904	21 041	13 863
	119 607	**131 660**	**(12 053)**	**84 897**	**87 342**	**(2 445)**
Compensations for hedging operations interruptions (see Note 13)	438	-	438	461	-	461
Amount net of compensations	**120 045**	**131 660**	**(11 615)**	**85 358**	**87 342**	**(1 984)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 11 – Exchange differences

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019*		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 282 775	1 284 775	(2 000)	1 052 463	1 013 977	38 486
	1 282 775	**1 284 775**	**(2 000)**	**1 052 463**	**1 013 977**	**38 486**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

This caption includes the results of foreign exchange revaluation of monetary assets and liabilities registered in foreign currency in accordance with the accounting policy described in Note 2.2.

NOTE 12 – Gains or losses on derecognition of non-financial assets

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Real Estate	1 167	12 954
Equipment	(520)	(479)
Other	1 625	2 033
	2 272	**14 507**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 13 – Other operating income and expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Other operating income		
Gains / (losses) on recoveries of loans	29 596	29 589
Non-recurring advisory services	264	1 299
Other income	57 739	25 646
	87 599	**56 534**
Other operating expenses		
Direct and indirect taxes	(5 175)	(7 757)
Contribution to the Banking Sector (see Note 26)	(32 193)	(26 647)
Membership subscriptions and donations	(1 580)	(1 409)
Charges with Supervisory entities	(2 321)	(2 456)
Other expenses	(48 610)	(36 514)
	(89 879)	**(74 783)**
Other operating income / (expenses)	**(2 280)**	**(18 249)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

As of 31 December 2020, the amount received relating to compensation for interruption of hedging operations, included in other income, amounts to Euro 438 thousand (31 December 2019: Euro 461 thousand) (see Note 10).

NOTE 14 – Staff expenses

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Wages and salaries	167 702	167 601
Remuneration	166 758	166 752
Long-term service / Career bonuses (see Note 15)	944	849
Mandatory social charges	51 170	52 161
Costs with post-employment benefits (see Note 15)	432	-
Other costs	4 300	3 601
	223 604	**223 363**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The provisions and costs related to the restructuring process are presented in Note 30.

As at 31 December 2020 and 2019, the number of employees of the Bank, considering the staff and the contracted term, presents the following breakdown by professional category:

	31.12.2020	31.12.2019
Directive functions	384	400
Management functions	485	541
Specific functions	2 036	2 169
Administrative and other functions	1 351	1 318
	4 256	**4 428**

NOTE 15 – Employee benefits

Pension and health-care benefits

In compliance with the Collective Labour Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the years of service, applied to each year's negotiated salary table for the active workforce.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS) managed by the Union. As a result of the signing of the new Collective Labor Agreement (ACT) on July 5, 2016, with publication in Labor Bulletin No. 29 of August 8, 2016, the contributions to SAMS, under the responsibility of the Group, as of February 1, 2017 started to correspond to a fixed amount (according to Annex VI of the new ACT) for each employee, 14 times in a year. The calculation and recording of the Group's obligations with health benefits attributable to workers at retirement age are carried out in a similar way to pension liabilities. These benefits are covered by the Pension Fund, which integrates all liabilities with pensions and health benefits.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law No. 1-A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime that considers the number of years of contributions under that regime. The Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees on the behalf of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Bank of Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Bank of Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Bank of Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

On 16 June 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the previous Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the Novo Mercado Pension Fund Bank. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - NOVO BANCO and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of NOVO BANCO or BES until the final decision of the court (limit of article 402), so NOVO BANCO transferred the amount of 19.2 million euros of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 31 December 2020, the amount of Euro 535 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2019: Euro 492 thousand).

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2020		31.12.2019	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	1,00%	2,41%	1,35%	6,82%
Discount rate	1,00%	-	1,35%	-
Pension increase rate	0,25%	1,34%	0,25%	0,49%
Salary increase rate	0,50%	3,07%	0,50%	1,20%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-2 years		TV 88/90-2 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2020 and 2019 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

Pension plan participants are detailed as follows:

	31.12.2020	31.12.2019
Employees	4 318	4 399
Pensioners and survivors	6 870	6 761
TOTAL	**11 188**	**11 160**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2020 and 2019 is as follows:

(in thousands of euros)

	31.12.2020	31.12.2019
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 892 669)**	**(1 811 526)**
Pensioners	(1 345 899)	(1 275 193)
Employees	(546 770)	(536 333)
Coverage		
Fair value of plan assets	**1 867 977**	**1 659 246**
Net assets / (liabilities) in the balance sheet (see Note 31)	**(24 692)**	**(152 280)**
Accumulated actuarial deviations recognized in other comprehensive income	**705 596**	**583 396**

According to the policy defined in Note 2.14 - Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

As at 31 December 2019, the net balance sheet value includes 30,4 million euros related to NOVO BANCO's share of the deficit of the complementary plan CE. With respect to the base plan and complementary net liabilities on 31 December 2019, the Bank made the necessary contribution in early 2020.

As at 31 December 2020 and 2019, the sensitivity analysis to a 0.25% change in the assumptions rate used and one year in the mortality table results in the following changes in the current value of liabilities determined for past services:

(in thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the change:**			
	31.12.2020		**31.12.2019**	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(72 395)	77 186	(68 028)	72 833
Salary increase rate	26 348	(16 750)	27 028	(18 679)
Pension increase rate	56 848	(52 114)	53 868	(49 940)
	of +1 year	of -1 year	of +1 year	of -1 year
Mortality table	(69 944)	70 931	(63 877)	64 542

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Retirement pension liabilities at beginning of exercise	**1 811 526**	**1 641 964**
Current service cost	432	-
Interest cost	23 425	31 121
Plan participants' contribution	2 577	2 605
Contributions from other entities	232	281
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	99 466	122 794
- Experience adjustments (gains) / losses	49 383	63 084
Pensions paid by the fund / transfers and once-off bonuses	(72 200)	(68 896)
Amount of the responsabilities transferred to defined contribution plans	(54 679)	-
Early retirement	31 592	15 670
Foreign exchange differences and other	915	2 903
Retirement pension liabilities at end of exercise	**1 892 669**	**1 811 526**

The evolution of the value of the pension funds can be analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Fair value of fund assets at beginning of exercise	**1 659 246**	**1 615 249**
Net return from the fund	46 131	107 384
- Share of the net interest on the assets	19 482	27 496
- Return on assets excluding net interest	26 649	79 888
Group contributions	266 834	-
Plan participants' contributions	2 577	2 605
Pensions paid by the fund / transfers and once-off bonuses	(72 200)	(68 896)
Transfer to Undivided Party	(35 523)	-
Foreign exchange differences and other	912	2 904
Fund balance at the end of the year	**1 867 977**	**1 659 246**

The assets of the pension funds can be analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	39 034	-	39 034	162 928	59 309	222 237
Debt instruments	1 093 577	-	1 093 577	1 000 530	-	1 000 530
Investment funds	306 217	66 761	372 978	201 927	52 836	254 763
Structured debt	-	-	-	5 984	7 733	13 717
Derivatives	-	-	-	-	1	1
Real estate properties	-	115 855	115 855	-	107 166	107 166
Cash and cash equivalents	-	246 533	246 533	-	60 832	60 832
Total	**1 438 828**	**429 149**	**1 867 977**	**1 371 369**	**287 877**	**1 659 246**

The assets of the pension funds used by the Bank or representative of securities issued by the Bank are detailed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Real estate properties	63 630	75 851
Total	**63 630**	**75 851**

The evolution of the actuarial gains in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**583 396**	**477 370**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	99 466	122 794
- Plan assets return (excluding net interest)	22 734	(16 804)
Other	-	36
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**705 596**	**583 396**

The costs of retirement pensions and health benefits for the years ended 31 December 2020 and 2019 can be analyzed as follows:

(in thousand of Euros)

	31.12.2020	31.12.2019
Current service cost	432	-
Net interest	3 943	3 625
Cost with post-employment benefits	**4 375**	**3 625**

The evolution of net assets/ (liabilities) on balance sheet may be analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
At the beginning of the exercise	**(152 280)**	**(26 715)**
Cost for period	(4 375)	(3 625)
Actuarial gains / (losses) recognized in other comprehensive income	(122 200)	(106 026)
Contributions made in the period	266 834	-
Undivided transfer and reduction of responsabilities	19 156	-
Other	(31 827)	(15 914)
At the end of the exercise	**(24 692)**	**(152 280)**

In 2020, the value of early retirements was Euro 31.6 million (31 December 2019: Euro 15.7 million), which fall within the bank's restructuring process and, as such, they were recognized against the use of the provision for restructuring (see Note 30). These amounts are considered in Others in the previous table.

The summary of the last five years of the funds' liabilities and balance, as well as experience gains and losses, is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Retirement pension liabilities	(1 892 669)	(1 811 526)	(1 641 964)	(1 629 305)	(1 542 016)
Funds balance	1 867 977	1 659 246	1 615 249	1 614 543	1 523 694
(Under) / overfunding of liabilities	**(24 692)**	**(152 280)**	**(26 715)**	**(14 762)**	**(18 322)**
(Gains) / losses on experience adjustments in retirement pension liabilities	49 383	63 084	18 400	14 859	11 667
(Gains) / losses on experience adjustments in plan assets	(26 649)	(79 888)	52 175	(91 005)	42 118

The average duration of defined benefit plan liabilities is approximately 16 years (31 December 2019: approximately 16 years). The following table shows the temporal detail of the estimated benefits to be paid:

(in thousands of Euros)

	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Estimated amount of benefits payable	73 018	73 253	219 739	1 856 158

Career bonuses

As at 31 December 2020, the liabilities assumed by the Bank amounted to Euro 7,465 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.14 – Employee benefits (31 December 2019: Euro 6,981 thousand) (see Note 31).

As at 31 December 2020, the costs recognized with career bonuses were Euro 944 thousand (31 December 2019: Euro 849 thousand) (see Note 14).

NOTE 16 – Other administrative expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Rentals	2 246	2 986
Advertising	5 799	7 380
Communication	9 360	9 212
Maintenance and repairs expenses	8 523	8 750
Travelling and representation	1 210	2 754
Transportation of valuables	4 354	4 063
Insurance	3 020	2 517
IT services	43 196	43 499
Independent work	2 080	3 015
Temporary work	1 287	1 477
Electronic payment systems	10 593	9 773
Legal costs	4 699	6 874
Consultancy and audit fees	23 589	23 625
Water, energy and fuel	3 053	3 543
Consumables	1 404	1 468
Other costs	19 618	22 061
	144 031	**152 997**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The Other costs item includes, among others, training costs and costs with services provided by the Complementary Groupings of Companies (CGC) in which NOVO BANCO participates.

The rental and rental caption includes, on 31 December 2020, an amount of Euro 196 thousand related to short-term operating lease contracts, as described in note 2.13.

The fees invoiced during financial years 2020 and 2019 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code (*Código das Sociedades Comerciais*), have the following breakdown:

(in thousands of Euros)

	31.12.2020	31.12.2019
Statutory audit of annual accounts	2 176	1 471
Other reliability assurance services	327	947
Other services	411	-
Valor total dos serviços faturados	**2 914**	**2 418**

NOTE 17 – Contributions to resolution funds and deposit guarantee

This caption on 31 December 2020 and 2019 is analyzed as follows:

(In thousands of Euros)

	31.12.2020	31.12.2019*
Contribution to the Fundo Único de Resolução	22 201	22 412
Contribution to the Fundo de Resolução Nacional	12 528	11 996
Contribution to the Fundo de Garantia de Depósitos	37	40
	34 766	**34 448**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOTE 18 – Earnings per share

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year / period.

(In thousands of Euros)

	31.12.2020	31.12.2019*
Net profit / (loss) attributable to shareholder of the Bank	**(1 374 246)**	**(1 087 584)**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**(0,14)**	**(0,11)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0,14)**	**(0,10)**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share, since there are no dilutive effects.

NOTE 19 – Cash, cash balances at central banks and other demand deposits

As at 31 December 2020 and 2019, this caption is analysed as follows:

(in thousands of Euros)	31.12.2020	31.12.2019
Cash	**142 325**	**174 156**
Demand Deposits in central banks		
Bank of Portugal	2 289 339	1 387 250
Other Central Banks	3 458	21 658
	2 292 797	**1 408 908**
Deposits in other credit institutions in the country		
Repayable on demand	13 250	11 850
Uncollected checks	50 994	50 915
	64 244	**62 765**
Deposits with banks abroad		
Repayable on demand	25 502	28 997
	25 502	**28 997**
	2 524 868	**1 674 826**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 251.8 million (31 December 2019: Euro 237,8 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 31 December 2020 and 2019, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 31 December 2020 was included in the observation period running from 16 December 2020 to 26 January 2021.

NOTE 20 – Financial assets and liabilities held for trading

As at 31 December 2020 and 2019, this caption is analysed as follows:

(in thousands of Euros)	31.12.2020	31.12.2019
Financial assets held for trading		
Securities		
Securities held for trading		
Bonds and other fixed income securities		
Issued by government and public entities	267 016	254 848
	267 016	**254 848**
Derivatives		
Derivatives held for trading with positive fair value	388 311	419 895
Fair value option derivatives with positive fair value	-	74 093
	388 311	**493 988**
	655 327	**748 836**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	554 343	544 400
	554 343	**544 400**

Securities held for trading

In accordance with the accounting policy described in Note 2.4, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As at 31 December 2020 and 2019, the analysis of the securities held for trading, by maturity, is as follows

(in thousands of Euros)

	31.12.2020	31.12.2019
From one to five years	3 734	117 227
More than five years	263 282	137 621
	267 016	**254 848**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 37.

Derivatives

As at 31 December 2020 and 2019, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Notional	Fair value		Notional	Fair value	
		Asset	Liabilities		Asset	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- acquisition	578 826	23 668	7 893	702 690	5 307	5 574
- sales	562 420			704 147		
Currency Swaps						
- acquisition	1 010 248	1 499	5 488	1 060 009	1 230	540
- sales	1 010 906			1 065 566		
Currency Interest Rate Swaps						
- acquisition	21 390	21 363	21 363	22 951	21 875	21 870
- sales	21 390			22 947		
Currency Options						
- acquisition	168 095	10 743	10 706	219 866	6 240	5 836
- sales	167 870			192 493		
		57 273	**45 450**		**34 652**	**33 820**
Interest rate contracts						
Interest Rate Swaps						
- acquisition	6 758 221	318 578	499 616	7 391 231	349 152	499 562
- sales	6 759 223			7 392 292		
Swaption - Interest Rate Options						
- acquisition	-	-	-	400 000	2 821	1 177
- sales	-			-		
Interest Rate Caps & Floors						
- acquisition	89 767	1 084	3 961	93 846	966	893
- sales	165 221			91 073		
		319 662	**503 577**		**352 939**	**501 632**
Stock / index contracts						
Equity / Index Swaps						
- acquisition	30 467	2 337	2 204	152 294	3 988	3 739
- sales	30 467			152 294		
Equity / Index Options						
- acquisition	662 425	9 039	3 096	710 616	28 315	5 167
- sales	684 421			742 699		
		11 376	**5 300**		**32 303**	**8 906**
Default risk contracts						
Credit Default Swaps						
- acquisition	2 399	-	16	2 883	1	42
- sales	2 399			2 883		
		-	**16**		**1**	**42**
		388 311	**554 343**		**419 895**	**544 400**
Economic hedge derivatives						
Interest rate contracts						
Interest Rate Swaps						
- acquisition	-	-	-	171 371	74 093	-
- sales	-			171 371		
		-	**-**		**74 093**	**-**

a) Derivatives traded on organized markets, the market value of which is settled daily against the margin account (see Note 31)

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 2.3 and 2.6, and which the Bank has not designated for hedge accounting.

The Bank calculates the Credit Valuation Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a recovery rate, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, are applied to the exposure determined, an expected loss and a recovery rate.

In 2020, the Bank recognized a loss of Euro 289 thousand related to the CVA of derivative instruments (31 December 2019: loss of Euro 1,403 thousand).

The Bank chooses not to register the Debt Valuation Adjustment (DVA), that represents the market value of Bank own credit risk of a specific negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.

As at 31 December 2020 and 2019, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Derivatives held for negotiation						
Up to 3 months	1 596 056	1 596 370	32	2 094 166	1 923 639	(647)
From 3 months to 1 year	821 366	805 003	8 725	1 053 257	843 825	16 408
From 1 to 5 years	2 329 447	2 347 986	(23 383)	2 110 078	2 097 178	1 526
More than 5 years	4 574 969	4 654 958	(151 406)	5 498 885	5 501 752	(141 792)
	9 321 838	**9 404 317**	**(166 032)**	**10 756 386**	**10 366 394**	**(124 505)**
Fair value option derivatives						
More than 5 years	-	-	-	171 371	171 371	74 093
	-	**-**	**-**	**171 371**	**171 371**	**74 093**

Credit Support Annex (CSA)

NOVO BANCO has several contracts negotiated with counterparties with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 21 – Financial assets mandatorily at fair value through profit or loss, designated at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost

As at 31 December 2020 and 2019, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2020				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 445 605	7 813 584	2 873 753	1 129	13 134 071
Loans and advances to banks	-	-	245 472	-	245 472
Loans and advances to customers	-	-	21 685 258	59 847	21 745 105
	2 445 605	**7 813 584**	**24 804 483**	**60 976**	**35 124 648**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 22)

(in thousands of Euros)

	31.12.2019				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	3 044 724	8 758 131	2 392 843	-	14 195 698
Loans and advances to banks	-	-	495 252	-	495 252
Loans and advances to customers	-	-	23 154 148	49 884	23 204 032
	3 044 724	**8 758 131**	**26 042 243**	**49 884**	**37 894 982**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 22)

Securities

As at 31 December 2020 and 2019, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	647 082	694 667
Shares	403 752	601 613
Other securities with variable income	1 394 771	1 748 444
	2 445 605	**3 044 724**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	6 406 465	7 027 343
From other issuers	1 352 759	1 661 538
Shares	54 360	69 248
Other variable income securities	-	2
	7 813 584	**8 758 131**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	415 192	459 260
From other issuers	2 661 021	2 093 737
Impairment	(202 460)	(160 154)
	2 873 753	**2 392 843**
Value adjustments for hedging operations for interest rate risk *	1 129	-
	13 134 071	**14 195 698**

* See note 22

The securities mandatorily accounted at fair value through profit or loss include the participation units held by the Bank in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 2.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

At the end of 2020, NOVO BANCO completed the independent assessment of the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and NOVO BANCO requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of 498.8 million euros for the total investment held in these assets, which led to the recording of a loss of 300.2 million euros in the financial year 2020 recorded in the item gains or losses on financial assets mandatorily accounted for at fair value through profit or loss (see Note 9). This assessment included the establishment of assumptions for the valuation of assets included in the funds, a discount at the level of the fund based on parameters equivalent to quoted funds and an appreciation of the potential evolution of the fund.

As at 31 December 2020 and 2019, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 050 592**	**356 115**	**(242)**	**6 406 465**	**(3 095)**
Residents	2 571 260	125 602	-	2 696 862	(1 405)
Non residents	3 479 332	230 513	(242)	3 709 603	(1 690)
From other issuers	**1 286 344**	**68 749**	**(2 334)**	**1 352 759**	**(565)**
Residents	29 605	107	(2 334)	27 378	(3)
Non residents	1 256 739	68 642	-	1 325 381	(562)
Shares	**407 319**	**12 548**	**(365 507)**	**54 360**	**-**
Residents	331 888	11 330	(296 014)	47 204	-
Non residents	75 431	1 218	(69 493)	7 156	-
Other securities with variable income	**2**	**-**	**(2)**	**-**	**-**
Residents	2	-	(2)	-	-
Balance as at 31 December 2020	**7 744 257**	**437 412**	**(368 085)**	**7 813 584**	**(3 660)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 705 039**	**322 996**	**(692)**	**7 027 343**	**(4 476)**
Residents	3 125 170	157 397	(490)	3 282 077	(2 107)
Non residents	3 579 869	165 599	(202)	3 745 266	(2 369)
From other issuers	**1 575 607**	**87 363**	**(1 432)**	**1 661 538**	**(1 029)**
Residents	33 212	20 711	-	53 923	(8)
Non residents	1 542 395	66 652	(1 432)	1 607 615	(1 021)
Shares	**424 304**	**19 795**	**(374 851)**	**69 248**	**-**
Residents	348 161	18 614	(311 371)	55 404	-
Non residents	76 143	1 181	(63 480)	13 844	-
Other securities with variable income	**2**	**2**	**(2)**	**2**	**-**
Residents	2	-	(2)	-	-
Non residents	-	2	-	2	-
Balance as at 31 December 2019	**8 704 952**	**430 156**	**(376 977)**	**8 758 131**	**(5 505)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

The changes in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**1 182**	**22**	**-**	**1 204**
Increases due to changes in credit risk	6 188	-	-	6 188
Decreases due to changes in credit risk	(1 725)	(18)	-	(1 743)
Utilization during the period	(137)	-	-	(137)
Other movements	(3)	(4)	-	(7)
Balance as at 31 December 2019	**5 505**	**-**	**-**	**5 505**
Increases due to changes in credit risk	3 480	38	-	3 518
Decreases due to changes in credit risk	(5 022)	-	-	(5 022)
Utilization during the period	(232)	(44)	-	(276)
Other movements	(64)	6	-	(58)
Balance as at 31 December 2020	**3 667**	**-**	**-**	**3 667**

During the financial year of 2020, the Bank sold Euro 1 295.0 million of financial instruments classified at fair value through other comprehensive income (31 December 2019: Euro 3 730.0 million), with a gain of Euro 80.2 million (31 December 2019: gain of Euro 65.7 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 16.4 million that were transferred from revaluation reserves to sales reserves (31 December 2019: loss of Euro 4.9 million).

Changes in impairment losses on amortised cost securities are as follows:

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**3 970**	**57 283**	**131 072**	**192 325**
Increases due to changes in credit risk	14 394	636 822	6 615	657 831
Decreases due to changes in credit risk	(14 664)	(640 167)	(7 247)	(662 078)
Utilization during the period	-	(1)	(28 019)	(28 020)
Other movements	58	37	1	96
Balance as at 31 December 2019	**3 758**	**53 974**	**102 422**	**160 154**
Increases due to changes in credit risk	11 256	716 961	10 533	738 750
Decreases due to changes in credit risk	(10 094)	(682 995)	(3 294)	(696 383)
Utilization during the period	(36)	(2)	-	(38)
Other movements	296	(318)	(1)	(23)
Balance as at 31 December 2020	**5 180**	**87 620**	**109 660**	**202 460**

In accordance with the accounting policy mentioned on Note 2.4, the Bank regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 3.1.

Impairments for securities reinforced during the 2020 financial year include Euro 29.0 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic.

As at 31 December 2020 and 2019, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Securities mandatorily at fair value through profit or loss		
Up to 3 months	75 553	-
From 3 months to 1 year	32 670	7
From 1 to 5 years	39 966	57 535
More than 5 years	498 893	637 126
Undetermined (Overdue Loans)	1 798 523	2 350 056
	2 445 605	**3 044 724**
Securities mandatority at fair value through other comprehensive income		
Up to 3 months	216 825	164 095
From 3 months to 1 year	760 409	179 917
From 1 to 5 years	3 904 755	4 311 899
More than 5 years	2 877 235	4 032 970
Undetermined (Overdue Loans)	54 360	69 250
	7 813 584	**8 758 131**
Securities at amortized cost (*)		
Up to 3 months	754 292	927 397
From 3 months to 1 year	113 105	131 372
From 1 to 5 years	267 980	48 500
More than 5 years	1 940 836	1 445 728
	3 076 213	**2 552 997**
	13 335 402	**14 355 852**

(*) Gross Value before impairment

The detail of the securities portfolio by fair value hierarchy is presented in Note 37.

The portfolio securities pledged by the Bank are analysed in Note 34.

Loans and advances to Banks

As at 31 December 2020 and 2019, the detail of Loans and advances to banks is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Loans and advances to banks in Portugal		
Very short-term placements	4 075	8 902
Deposits	136 440	135 411
Loans	30 429	34 013
Other loans and advances	4	3
	170 948	**178 329**
Loans and advances to banks abroad		
Deposits	10 532	10 851
Loans	-	1 645
Operations with reverse repurchase agreements	-	8
Other loans and advances	279 419	381 553
	289 951	**394 057**
Outstanding applications	**34 726**	**-**
	495 625	**572 386**
Impairment losses	**(250 153)**	**(77 134)**
	245 472	**495 252**

Loans and advances to banks are all recorded in the amortised cost portfolio.

As at 31 December 2020 and 2019, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Up to 3 months	51 484	49 834
From 3 months to 1 year	100 259	109 277
From 1 to 5 years	303 188	407 175
More than 5 years	5 968	6 100
Undetermined (Overdue Loans)	34 726	-
	495 625	**572 386**

Changes in impairment losses on loans and advances to banks are presented as follows:

(in thousands of Euros)

	Loans and advances to banks			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2018	**177**	**75 143**	**424**	**75 744**
Increases due to changes in credit risk	416	2 837	-	3 253
Decreases due to changes in credit risk	(224)	(3 038)	-	(3 262)
Utilizations	-	(22)	-	(22)
Other movements	(2)	1 421	2	1 421
Balance as at 31 December 2019	**367**	**76 341**	**426**	**77 134**
Increases due to changes in credit risk	556	2 462	317 540	320 558
Decreases due to changes in credit risk	(477)	(1 965)	(128 520)	(130 962)
Other movements	(1)	(76 836)	60 260	(16 577)
Balance as at 31 December 2020	**445**	**2**	**249 706**	**250 153**

The reinforcement of impairment for investments in credit institutions verified in 2020 results from the deterioration of the credit risk of international exposures analyzed on an individual basis, whose situation of partial default at the end of 2020 (meanwhile regularized during the month of January 2021), between other signs of impairment, led to the transfer of it to stage 3 and to the constitution of additional impairments of Euro 189.6 million, with the total impairment recorded on 31 December 2020 for this exposure being Euro 249.3 million.

Loans and advances to customers

As at 31 December 2020 and 2019, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Domestic loans and advances		
Corporate		
Current account loans	1 109 729	1 362 889
Loans	8 876 278	8 345 875
Discounted bills	80 430	119 241
Factoring	575 682	709 747
Overdrafts	7 105	3 042
Financial leases	1 421 765	1 523 226
Other loans and advances	20 974	29 477
Individuals		
Residential Mortgage loans	7 368 861	7 370 060
Consumer credit and other loans	1 007 365	1 042 745
	20 468 189	**20 506 302**
Foreign loans and advances		
Corporate		
Current account loans	851 791	687 878
Loans	146 986	1 068 038
Discounted bills	4	21 206
Factoring	51 483	138 292
Overdrafts	8 321	39 158
Financial leases	-	37 422
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	949 211	1 084 606
Consumer credit and other loans	180 022	315 483
	2 187 819	**3 392 084**
Overdue loans and advances and interests		
Under 90 days	13 457	24 025
Over 90 days	602 796	1 073 220
	616 253	**1 097 245**
	23 272 261	**24 995 631**
Impairment losses	**(1 587 003)**	**(1 841 483)**
	21 685 258	**23 154 148**
Fair value adjustaments of interest rate hedges *		
Corporate		
Loans	6 774	14 390
Individuals		
Residential Mortgage loans	53 073	35 494
	59 847	**49 884**
	21 745 105	**23 204 032**

* See note 22

During the year of 2020, a sale of a portfolio of non-performing loans (called "Carter") was carried out, and the impact of this operation on the balance sheet resulted in a reduction of net credit to customers of Euro 34.1 million (Euro 79.1 million in gross value and Euro 45 million in impairment) and the impact on results translated into a gain of Euro 2.3 million (see Note 40).

During the year of 2019, a sale of a portfolio of non-performing loans (called "NATA II") was carried out, and the impact of this operation on the balance sheet resulted in a reduction in net loans and advances to customers of Euro 128.1 million (Euro 1,189.3 million in gross value and Euro 1,061.1 million in impairment), and the impact in the income statement was a loss of Euro -79.0 million (see Note 40).

Loans to customers are all recorded in the amortised cost portfolio.

As at 31 December 2020, the caption Loans and advances to customers include Euro 6,104.8 million of mortgage loans related to the issuance of covered bonds (31 December 2019: Euro 6,076.8 million) (see Note 29).

As at 31 December 2020, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 24,765 thousand (31 December 2019: Euro 25,139 thousand).

As at 31 December 2020 and 2019, the analysis of loans and advances to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Up to 3 months	971 494	1 766 827
From 3 months to 1 year	1 243 984	1 424 761
From 1 to 5 years	5 112 417	5 084 654
More than 5 years	15 387 960	15 672 028
Unlimited duration (Overdue Loans)	616 253	1 097 245
	23 332 108	**25 045 515**

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2018	**394 119**	**106 078**	**3 571 646**	**4 071 843**
Financial assets derecognised	(803)	(13)	(1 055 717)	(1 056 533)
Increases due to changes in credit risk	665 254	105 897	700 362	1 471 513
Decreases due to changes in credit risk	(684 613)	(30 025)	(126 020)	(840 658)
Utilization during the period	(46)	(403)	(1 720 474)	(1 720 923)
Other movements	(320 846)	(44 562)	281 649	(83 759)
Balance as at 31 December 2019	**53 065**	**136 972**	**1 651 446**	**1 841 483**
Financial assets derecognised	(2)	-	(294 005)	(294 007)
Increases due to changes in credit risk	38 169	336 436	417 014	791 619
Decreases due to changes in credit risk	(114 202)	(97 277)	(59 624)	(271 103)
Utilization during the period	(16)	(113)	(438 892)	(439 021)
Other movements	83 113	(69 574)	(55 507)	(41 968)
Balance as at 31 December 2020	**60 127**	**306 444**	**1 220 432**	**1 587 003**

(a) It includes 58 046 thousand euros of impairment of credits of the Spanish Branch transferred to discontinued operations (22 427 thousand euros in stage 1 and 35 619 thousand euros in stage 3).

During the year of 2020, the credit risk impairments were additionally reinforced by Euro 218.8 million, with the updated information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic.

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Fixed rate	3 883 609	3 583 037
Variable rate	19 448 499	21 462 478
	23 332 108	**25 045 515**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Gross investment in finance leases receivable		
Up to 1 year	270 188	293 189
1 to 5 years	761 487	827 824
More than 5 years	571 105	663 672
	1 602 780	1 784 685
Unrealized finance income in finance leases		
Up to 1 year	44 830	35 558
1 to 5 years	67 455	91 219
More than 5 years	32 654	57 541
	144 939	184 318
Capital falling due		
Up to 1 year	225 358	257 631
1 to 5 years	694 032	736 605
More than 5 years	538 451	605 996
	1 457 841	1 600 232
Impairment	(220 447)	(202 575)
	1 237 394	**1 397 657**

NOTE 22 – Derivatives – hedge accounting and fair value changes of the hedged items

At 31 December 2020 and 2019, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Hedging derivatives		
Assets	13 606	7 992
Liabilities	(72 543)	(58 854)
	(58 937)	**(50 862)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 21)	1 129	-
Loans and advances to customers (see Note 21)	59 847	49 884
	60 976	**49 884**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting.

The Bank calculates the Credit Valuation Adjustment (CVA) for derivatives according to the methodology described in Note 20 – Financial assets and liabilities held for trading.

As at 31 December 2020 and 2019, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2020							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives (1)**	**Change in fair value of derivative in period**	**Fair value component of item hedged(2)**	**Change in fair value component of item hedged in period (2)**
Interest Rate Swap/CIRS	Loans and advances to customers	Interest rate and exchange rate	3 347 176	(59 602)	(8 981)	59 847	11 189
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	665	801	1 129	1 130
			3 725 176	**(58 937)**	**(8 180)**	**60 976**	**12 319**

(1) Includes accrued interest
(2) Attributable to the hedged risk

(in thousands of Euros)

31.12.2019								
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives [1]	Change in fair value of derivative in period	Fair value component of item hedged[2]	Change in fair value component of item hedged in period [2]
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	3 312 380	(50 862)	(16 124)	49 884	18 311
			3 312 380	**(50 862)**	**(16 124)**	**49 884**	**18 311**

[1] Includes accrued interest
[2] Attributable to the hedged risk

As at 31 December 2020, the ineffective portion of the fair value hedging operations resulted in a gain of Euro 4.1 million that was recognized in the income statement (31 December 2019: cost of Euro 2.2 million). The Bank periodically evaluates the effectiveness of the hedges.

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Group proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Bank did not record any relevant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships (hedged and hedged items) were subject to the same change.

As at 31 December 2020 and 2019, the analysis of derivatives held for risk management and hedging purposes, by maturity, may be analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
3 months to 1 year	173 866	173 866	(862)	-	-	-
1 to 5 years	811 060	811 060	(8 163)	781 374	781 374	(13 873)
More than 5 years	877 662	877 662	(49 912)	874 816	874 816	(36 989)
	1 862 588	**1 862 588**	**(58 937)**	**1 656 190**	**1 656 190**	**(50 862)**

NOTE 23 – Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associate companies are presented as follows:

(in thousands of Euros)

	31.12.2020				31.12.2019			
	Nº of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Nº of shares	Direct participation in capital	Nominal value (euros)	Cost of participation
NB AÇORES	2 144 404	57,53%	5,00	10 308	2 144 404	57,53%	5,00	10 308
NB FINANCE	100 000	100,00%	1,00	1 700	100 000	100,00%	1,00	1 700
BEST	62 999 700	100,00%	1,00	100 418	62 999 700	100,00%	1,00	100 418
ES TECH VENTURES	71 500 000	100,00%	1,00	71 500	71 500 000	100,00%	1,00	71 500
GNB GA	2 350 000	100,00%	5,00	86 722	2 350 000	100,00%	5,00	86 722
GNB CONCESSÕES	942 306	98,97%	5,00	20 602	942 306	98,97%	5,00	20 602
E.S. REPRESENTAÇÕES	49 995	99,99%	0,16	8	49 995	99,99%	0,22	12
LOCARENT	525 000	50,00%	5,00	2 967	525 000	50,00%	5,00	2 967
NOVO BANCO SERVICIOS	-			-	2 676 665	100,00%	0,40	1 057
NOVO VANGUARDA	-			-	500 000	100,00%	1,00	500
NB ÁFRICA	13 300 000	100,00%	5,00	66 500	13 300 000	100,00%	5,00	66 500
UNICRE	350 029	17,50%	5,00	11 497	350 029	17,50%	5,00	11 497
IJAR LEASING ALGERIE	122 499	18,85%	61,94	12 361	122 499	35,00%	74,94	12 362
EDENRED PORTUGAL	101 477 601	50,00%	0,01	4 984	101 477 601	50,00%	0,01	4 984
HERDADE DO PINHEIRINHO I	-			-	5 280 000	100,00%	1,00	5 280
HERDADE DO PINHEIRINHO II	-			-	17 200 000	100,00%	1,00	17 200
				389 567				**413 609**
Impairment				(199 643)				(182 184)
				189 924				**231 425**

During the year of 2020, the subsidiaries Herdade do Pinheirinho I and Herdade do Pinheirinho II were sold. Novo Banco Servicios e Novo Vanguarda were transferred to non-current assets and disposal groups classified as held for sale (see Note 28).

During 2019, ES PLC and BES GMBH were merged into NOVO BANCO. The associated companies GNB Seguros, ESEGUR and Multipessoal were transferred to Non-current assets held for sale because they are in active sale processes (see Note 28).

The changes in impairment losses for investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**182 184**	**146 281**
Charges	48 388	36 040
Utilizations	(22 480)	(38)
Reversals	(7 103)	-
Foreign exchange differences	(1 346)	(99)
Balance at the end of the exercise	**199 643**	**182 184**

NOTE 24 – Tangible fixed assets

This caption as at 31 December 2020 and 2019 is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Real estate properties		
For own use	220 386	202 485
Improvements in leasehold properties	132 844	136 307
Assets under right-of-use	69 375	77 574
	422 605	**416 366**
Equipment		
Computer equipment	101 230	105 322
Fixtures	54 828	56 208
Furniture	48 803	67 528
Security equipment	23 697	24 284
Office equipment	7 488	7 739
Transport equipment	562	586
Assets under right-of-use	8 889	5 076
Other	160	167
	245 657	**266 910**
Work in progress		
Improvements in leasehold properties	-	22
Real estate properties	1	65
Others	1 417	-
	1 418	**87**
	669 680	**683 363**
Accumulated impairment	(13 385)	(10 609)
Accumulated depreciation	(467 327)	(478 001)
	188 968	**194 753**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Work in progress	Total
Acquisition cost				
Balance at 31 December 2018	**339 664**	**273 008**	**1 889**	**614 561**
Acquisitions	6 076	10 704	350	17 130
Disposals / write-offs	(20 089)	(21 511)	-	(41 600)
Transfers **(a)**	438	950	(2 152)	(764)
IFRS 16 transition impact	90 280	3 755	-	94 035
Exchange variation and other movements	(3)	4	-	1
Balance at 31 December 2019	**416 366**	**266 910**	**87**	**683 363**
Acquisitions	27 192	14 759	1 446	43 398
Disposals / write-offs	(10 195)	(9 509)	-	(19 704)
Transfers **(b)**	(1 665)	(153)	(115)	(1 934)
Foreign exchange differences and other **(c)**	(9 093)	(26 350)	-	(35 443)
Balance at 31 December 2020	**422 605**	**245 657**	**1 418**	**669 680**
Depreciation				
Balance at 31 December 2018	**222 994**	**245 227**	**-**	**468 221**
Depreciation	24 434	11 076	-	35 510
Disposals / write-offs	(5 927)	(20 176)	-	(26 103)
Transfers **(a)**	(210)	(74)	-	(284)
Foreign exchange differences and other	91	566	-	657
Balance at 31 December 2019	**241 382**	**236 619**	**-**	**478 001**
Depreciation	20 968	11 465	-	32 433
Disposals / write-offs	(8 387)	(9 108)	-	(17 495)
Transfers **(b)**	(903)	(143)	-	(1 046)
Foreign exchange differences and other **(d)**	(316)	(24 250)	-	(24 566)
Balance at 31 December 2020	**252 744**	**214 583**	**-**	**467 327**
Impairment				
Balance at 31 December 2018	**10 609**	**-**	**-**	**10 609**
Balance at 31 December 2019	**10 609**	**-**	**-**	**10 609**
Perdas por imparidade	2 776	-	-	2 776
Balance at 31 December 2020	**13 385**	**-**	**-**	**13 385**
Net book value at 31 December 2020	**156 476**	**31 074**	**1 418**	**188 968**
Net book value at 31 December 2019	**164 375**	**30 291**	**87**	**194 753**

(a) Includes 764 thousand euros of fixed assets (property and equipment) and 284 thousands of euros of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items.

(b) Includes 1,951 thousand euros of fixed assets (property and equipment) and 1,064 thousands of euros of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items

(c) Includes 9,005 and 27,118 thousand euros of property and equipment from the Spanish Branch transferred to discontinued activities during the year 2020

(d) It includes 2,034 and 24,274 thousand euros of depreciation related to the properties and equipment of the Spanish Branch transferred to discontinued activities during the year 2020.

NOTE 25 – Intangible assets

This caption as at 31 December 2020 and 2019 is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Internally developed		
Software - Automatic data processing system	65 373	65 270
Acquired from third parties		
Software - Automatic data processing system	346 389	364 062
	411 762	**429 332**
Work in progress	**21 420**	**17 446**
	433 182	**446 778**
Accumulated amortization	(384 851)	(420 735)
	48 331	**26 043**

The caption Intangible assets developed internally includes costs incurred by the Bank units specialized in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.12).

The changes in this caption were as follows:

(in thousands of Euros)

	Automatic data processing system	Work in progress	Total
Acquisition cost			
Balance as at 31 December 2018	**429 187**	**2 618**	**431 805**
Acquisitions			
Acquired from third parties	3 137	23 000	26 137
Disposals / write-offs	(7 460)	-	(7 460)
Transfers	4 467	(8 172)	(3 705)
Foreign exchange differences and other	1	-	1
Balance as at 31 December 2018	**429 332**	**17 446**	**446 778**
Acquisitions			
Acquired from third parties	2 373	24 134	26 507
Disposals / write-offs	(20)	-	(20)
Transfers	20 161	(20 161)	-
Foreign exchange differences and other **(a)**	(40 084)	1	(40 083)
Balance as at 31 December 2020	**411 762**	**21 420**	**433 182**
Amortizations			
Balance as at 31 December 2018	**427 024**	**-**	**427 024**
Amortization for the period	1 171	-	1 171
Disposals / write-offs	(7 460)	-	(7 460)
Balance as at 31 December 2019	**420 735**	**-**	**420 735**
Amortization for the period	2 600	-	2 600
Disposals / write-offs	(20)	-	(20)
Foreign exchange differences and other **(b)**	(38 464)	-	(38 464)
Balance as at 31 December 2020	**384 851**	**-**	**384 851**
Net balance at 31 December 2020	**26 911**	**21 420**	**48 331**
Net balance at 31 December 2019	**8 597**	**17 446**	**26 043**

(a) It includes 40 083 thousand Euros of investment projects assigned to the Spanish Branch transferred to discontinued operations during the year 2020.

(b) It includes 38 463 thousand euros of investment projects related to the Spanish Branch that were transferred to discontinued operations during the year 2020.

NOTE 26 – Income taxes

NOVO BANCO is subject to taxation in accordance with the Corporate Income Tax (IRC) Code. As a result, deferred taxes are recorded depending on the temporary differences between accounting and tax income relevant for IRC purposes, whenever such temporary differences are to be reverted in the future.

The income taxes correspond to the value of taxable income (if applicable) of the period, using the overall Corporate Income Tax rate in force at the balance sheet date (21%) and autonomous taxation.

Corporate income taxes (current or deferred) are recognized in the income statement for the year, except when the underlying transactions or items to which they are related have been reflected under other equity captions (e.g. revaluation of financial assets at fair value through other comprehensive income). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

Deferred taxes are calculated based on the anticipated tax rates to be effective at the date of reversal of temporary differences, which correspond to rates approved or substantially approved at the balance sheet date.

Thus, at 31 December 2020 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime.

Thus, on 31 December 2020, the Bank continued to apply Regulatory Decree nº 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework resulting from Notice Noº 3/95 of Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the separate financial statements, there will be no additional charges of significant value.

In 31 December 2020 and 2019, NOVO BANCO recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met.

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime has been extended. As at 31 December 2020, NOVO BANCO recognized Banking Levy charges as a cost in the amount of Euro 26,981 thousand (31 December 2019: Euro 26,647 thousand). The cost recognized as at 31 December 2020 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures foreseen in the Economic and Social Stabilization Program (PEES) and following art. 18 of Law No. 27 -A / 2020, of 24 July, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated in Balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates. A transitional regime was established for the financial year 2020 and 2021, the settlement of which was carried out in accordance with the following rules:

- The reserve base is calculated by reference to the half-yearly average of the final balances of each month, which correspond in the accounts for the first half of 2020, in the case of the solidarity surcharge due in 2020, and in the accounts for the second half of 2020 , in the case of the solidarity surcharge due in 2021, published in compliance with the obligation established in Banco de Portugal Notice No. 1/2019;
- Settlement is carried out by the taxable person through the declaration to be sent until 15 December 2020 and 2021, respectively, with payment due on the same dates.

The Solidarity Additional on the Banking Sector is not eligible as a tax cost.

As at 31 December 2020, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,212 thousand. The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

The deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2020 and 2019 may be analyzed as follows:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Ativo	Passivo	Ativo	Passivo
Current tax	**-**	**5 536**	**680**	**9 239**
Corporate tax recoverable	-	5 462	-	5 278
Other	-	74	680	3 961
Deferred tax	**771 854**	**-**	**892 033**	**-**
	771 854	**5 536**	**892 713**	**9 239**

The deferred tax assets and liabilities recognized in the balance sheet in this period are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial instruments	64 012	55 247	(136 845)	(134 654)	(72 833)	(79 407)
Impairment losses on loans and advances to customers	788 341	903 759	-	-	788 341	903 759
Other tangible assets	-	-	(8 203)	(8 377)	(8 203)	(8 377)
Provisions	38 975	48 375	-	-	38 975	48 375
Pensions	31 185	26 938	-	-	31 185	26 938
Debt securities issued	-	-	(5 611)	-	(5 611)	-
Other	-	745	-	-	-	745
Deferred tax asset / (liability)	**922 513**	**1 035 064**	**(150 659)**	**(143 031)**	**771 854**	**892 033**
Asset / liability set-off for deferred tax purposes	(150 659)	(143 031)	150 659	143 031	-	-
Net Deferred tax asset / (liability)	**771 854**	**892 033**	**-**	**-**	**771 854**	**892 033**

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	892 033	1 179 272
Recognised in Results for the exercise	(9 184)	(36 185)
Recognised in Fair value reserves	(2 814)	(105 153)
Conversion of Deferred taxes into Tax credits	(107 705)	(145 899)
Foreign exchange differences and other	(476)	(2)
Balance at the end of the exercise (Assets / (Liabilities))	**771 854**	**892 033**

The current and deferred taxes recognized in the income statement and in reserves, in 2020 and 2019, had the following origins:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	(11 363)	5 057	1 751	105 153
Impairment losses on loans and advances to customers	13 324	-	(136 523)	-
Other tangible assets	(174)	-	(175)	-
Provisions	9 401	-	33 208	-
Pensions	(2 004)	(2 243)	885	-
Other	-	-	(991)	-
Tax losses carried forward	-	-	138 030	-
Deferred taxes	**9 184**	**2 814**	**36 185**	**105 153**
Current taxes	(13 400)	-	2 541	-
Total tax recognised (income) / (expense)	**(4 216)**	**2 814**	**38 726**	**105 153**

The reconciliation of the corporate income tax rate, for the portion recognized in the income statement, may be analyzed as follows:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	%	Valor	%	Valor
Income before tax		**(1 378 462)**		**(1 048 858)**
Tax rate of NOVO BANCO	21,0		21,0	
Income tax calculated based on the tax rate of NOVO BANCO		**(289 477)**		**(220 260)**
Tax-exempt dividends	0,0	(482)	0,2	(1 759)
Impairment on investments in subsidiaries or associated companies not subject to Participation Exemption	(2,9)	40 166	(2,2)	22 788
Branch Tax and Tax Withheld Abroad	(0,2)	2 902	(0,3)	3 391
Rate differential in the generation / reversal of temporary differences	3,4	(46 706)	(3,7)	38 344
Annulment of tax losses carried forward	-	-	(13,2)	138 030
Impairments and provisions for credit	(10,7)	147 255	21,5	(225 299)
Impairments and fair value adjustments of securities	(7,6)	104 665	(0,1)	922
Provisions for other risks and charges and contingencies	(1,6)	21 988	0,6	(6 264)
Deferred tax asset not recognized on tax loss for the year	(1,2)	15 913	(24,2)	254 300
Pension Fund	0,0	(324)	-	-
Extraordinary Contribution and Additional Solidarity over the Banking Sector	(0,5)	6 760	(0,5)	5 689
Others	0,5	(6 876)	(2,8)	28 844
Total tax recognized	**0,3**	**(4 216)**	**(3,7)**	**38 726**

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available allowing for the utilization of the deductible temporary differences. The Bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverable deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

Following the analyses of recoverability of deferred tax assets, the Bank on 31 December 2019 delisted deferred taxes related to tax losses amounting to Euro 251,000 thousand. As of 31 December 2020, NOVO BANCO has not registered deferred tax assets associated with tax losses.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2020, this exercise was made based on the latest business plan ("MTP") for the period 2021-2023, submitted to the European Central Bank in the end of February 2021.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2023, it is assumed, thereafter an increase in pre-tax results at a rate of 2.64% from 2023;
- Financial results moderate growth (average of 4%), with the expected cost of debt issuing to meet MREL requirements offset by the development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous years;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favourable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes; and
- Credit impairment charges in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

Depending on the analysis mentioned above, the amount of deferred taxes not recognized for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	2020	2019
2024-2026	468 903	482 974
2028 and following	1 124 790	1 124 790
	1 593 693	**1 607 764**

In addition, during the financial year 2020, the Bank became aware of the position of the tax authority with regard to adjustments resulting from the application of fair value to units in real estate investment funds and venture capital. These adjustments resulting from the application of the fair value model to units of real estate investment funds and venture capital funds do not contribute to the formation of the taxable profit of the tax period in which they are recognized in the accounting, having only tax relevance at the moment of the respective realization, namely in the onerous transfer of the units of participation or liquidation of the funds. The Bank is investigating the impacts related to temporary differences resulting from this understanding.

Special Regime applicable to Deferred Tax Assets

During 2014, NOVO BANCO adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of 19 August, limited the temporal application of the above mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1 January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Deferred tax assets recorded by NOVO BANCO and considered eligible the special regime at 31 December 2020 and 2019, are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Credit impairment	400 414	516 072
	400 414	**516 072**

Following the determination of a negative net income for the years between 2015 and 2019, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2019	2018	2017	2016	2015
Tax credit	110 922	161 974	127 575	99 474	153 555

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 27 – Other assets

As at 31 December 2020 and 2019, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Collateral deposits placed	806 215	807 810
Derivative products	*655 952*	*631 994*
Collateral CLEARNET and VISA	*33 092*	*33 175*
Collateral deposits relating to reinsurance operations	*117 127*	*141 697*
Other collateral deposits	*45*	*944*
Recoverable government subsidies on mortgage loans	6 527	4 441
Public sector	683 882	437 249
Contingent Capital Agreement	598 312	1 037 013
Other debtors	553 668	730 419
Income receivable	61 212	31 061
Deferred costs	51 569	55 317
Precious metals, numismatics, medal collection and other liquid assets	9 677	9 510
Real estate properties [a)]	500 917	562 532
Equipment [a)]	3 488	3 130
Stock exchange transactions pending settlement	60 917	-
Other assets	54 689	135 150
	3 391 073	**3 813 632**
Impairment losses		
Real estate properties [a)]	(267 438)	(267 656)
Equipment [a)]	(2 285)	(2 404)
Other debtors - Shareholder loans, supplementary capital contributions	(109 538)	(111 051)
Other	(55 802)	(98 935)
	(435 063)	**(480 046)**
	2 956 010	**3 333 586**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Other debtors includes, amongst others:

- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2019: Euro 111.6 million, entirely provisioned),
- Euro 67.0 million receivable in relation to the sale operation of non-performing loans (Project NATA II) (31 December 2019: Euro 126.5 million relating to NATA I and Euro 110.8 million relating to NATA II) (see Note 40);
- Euro 21.8 million receivable in relation to the sale operation of real estate assets in 2019 (denominated "Sertorius Project") (31 December 2019: Euro 21.0 million);

- Euro 37.9 million receivable in relation to the sale operation of real estate assets and non-performing loans in the Spanish Branch in 2019 (denominated "Albatros Project") (31 December 2019: Euro 37.7 million); and
- Euro 27.4 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated "Project Carter").

As at 31 December 2020, the caption Deferred costs includes the amount of Euro 40,800 thousand (31 December 2019: Euro 43,372 thousand) related to the difference between the nominal amount of the loans and advances granted to Bank employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Bank has the objective of immediate sale.

The Bank implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Bank regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Bank has to hold foreclosed assets.

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organized markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

Stock exchange transactions pending settlement refer to transactions of securities, recorded at the trade date and pending settlement, in accordance with the accounting policy described in Note 2.4.

In the financial year of 2020, NOVO BANCO recorded impacts related to the sale of a portfolio of real estate assets (Project Anibal). In the financial year of 2019, the Bank recorded impacts related to the sale of a portfolio of real estate assets (Project Sertorius) and to a sale of a portfolio of non-performing loans and real estate assets (Project Albatros). The details of these operations can be found in Note 40.

During the financial year of 2020, a net impairment amount of Euro 41.3 million was booked (31 December 2019: Euro 198.2 million). Given the uncertainty related to this estimate, the Bank will continue to monitor this area as the impact of the Covid-19 pandemic on the Portuguese economy becomes clearer.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**480 046**	**553 947**
Allocation for the exercise	53 588	263 227
Utilisation during the exercise	(64 754)	(318 985)
Write-back for the exercise	(11 427)	(20 578)
Foreign exchange differences and other	(22 390)	2 435
Balance at the end of the exercise	**435 063**	**480 046**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**562 532**	**974 179**
Additions	25 971	85 678
Sales	(69 901)	(497 263)
Other movements	(17 685)	(62)
Balance at the end of the exercise	**500 917**	**562 532**

As at 31 December 2020 and 2019, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2020				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (a)
Land					
Urban	257	32 033	11 451	20 582	21 613
Rural	192	189 977	142 038	47 939	48 860
	449	222 010	153 489	68 521	70 473
Buildings constructed					
Commercial	813	145 717	71 766	73 951	75 800
Residential	1 408	133 048	35 853	97 195	107 511
Others	-	-	-	-	-
	2 221	278 765	107 619	171 146	183 311
Others	**-**	**142**	**6 330**	**(6 188)**	**(6 188)**
	2 670	**500 917**	**267 438**	**233 479**	**247 596**

(a) Determined in accordance with accounting policy mentioned in Note 2.11

(in thousands of Euros)

	31.12.2019				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (a)
Land					
Urban	315	52 309	24 496	27 813	94 931
Rural	225	190 678	127 859	62 819	63 771
	540	242 987	152 355	90 632	158 702
Buildings under construction					
Commercial	2	36	4	32	59
Residential	2	271	187	84	646
Other	1	1 577	752	825	825
	5	1 884	943	941	1 530
Buildings constructed					
Commercial	335	58 269	23 215	35 054	44 622
Residential	2 081	169 596	47 733	121 863	144 225
Other	227	83 289	36 109	47 180	50 769
	2 643	311 154	107 057	204 097	239 616
Others	**5**	**6 507**	**7 301**	**(794)**	**(794)**
	3 193	**562 532**	**267 656**	**294 876**	**399 054**

(a) Determined in accordance with accounting policy mentioned in Note 2.11

The detail of the real estate properties included in Other assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2020				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	76	2 110	10 565	7 831	20 582
Rural	139	2 730	15 370	29 700	47 939
	215	4 840	25 935	37 531	68 521
Buildings constructed					
Commercial	10 934	19 978	23 163	19 876	73 951
Residential	7 273	15 558	26 024	48 340	97 195
Other	-	-	-	-	-
	18 207	35 536	49 187	68 216	171 146
Others	**(6 188)**	**-**	**-**	**-**	**(6 188)**
	12 234	**40 376**	**75 122**	**105 747**	**233 479**

(in thousands of Euros)

	31.12.2019				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	2 225	3 272	11 890	10 426	27 813
Rural	7 698	13 459	1 977	39 685	62 819
	9 923	16 731	13 867	50 111	90 632
Edifícios em desenvolvimento					
Comerciais	-	-	29	3	32
Habitação	68	-	-	16	84
Outros	-	-	825	-	825
	68	-	854	19	941
Buildings constructed					
Commercial	1 836	5 484	9 659	18 075	35 054
Residential	7 587	31 735	31 132	51 409	121 863
Other	8 887	10 332	10 364	17 597	47 180
	18 310	47 551	51 155	87 081	204 097
Others	**(794)**	**-**	**-**	**-**	**(794)**
	27 507	**64 282**	**65 876**	**137 211**	**294 876**

As at 31 December 2020, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 35,535 thousand (31 December 2019: Euro 16,569 thousand), having the Bank recorded impairment losses for these assets in the total amount of Euro 28,661 thousand (31 December 2018: Euro 8,079 thousand).

NOTE 28 –Non-current assets and disposal groups for sale classified as held for sale and liabilities included in disposal groups classified as held for sale

This caption as at 31 December 2020 and 2019 is analyzed as follows:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Ativo	Passivo	Ativo	Passivo
Assets of discontinued operations				
Banco Well Link (previous NB Ásia)	1 883	-	4 121	-
Banco Delle Tre Venezie	8 926	-	8 926	-
ESEGUR	9 634	-	9 634	-
GNB - Companhia de Seguros, S.A.	-	-	3 749	-
Novo Banco Suc. en España, S.A.	1 725 555	2 007 770	-	-
Others	2 150	-	3 619	-
	1 748 148	**2 007 770**	**30 049**	**-**
Impairment losses				
Banco Delle Tre Venezie	(6 626)	-	(6 626)	-
ESEGUR	(4 460)	-	-	-
Novo Banco Suc. en España, S.A.	(166 000)	-	-	-
Others	(2 150)	-	(2 150)	-
	(179 236)	**-**	**(8 776)**	**-**
	1 568 912	**2 007 770**	**21 273**	**-**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

As at 31 December 2020 and 2019, the results from discontinued operations is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**30 049**	**634 881**
Transfers	(283 684)	15 532
Sales	(5 987)	(620 472)
Other movements	-	108
Balance at the end of the exercise	**(259 622)**	**30 049**

The results of operations discontinued as of 31 December 2020 and 2019 is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019*
Results from discontinued operations		
GNB - Companhia de Seguros, S.A.	11 869	-
Novo Banco Suc. en España, S.A.	(40 623)	(84 147)
	(28 754)	**(84 147)**

* Values restated to reflect the reclassification of the Spanish Branch for discontinued operation, which occurred in the third quarter of 2020

During the 2020 fiscal year, GNB – Companhia de Seguros, S.A. was sold and in 2019 the Bank completed the sale process of Gama Life (GNB Vida) (see Note 40). In 2020 the Spanish branch was also transferred to the non-current assets and disposal groups classified as held for sale.

Gama Life (previous GNB Vida)

As a result of the commitments assumed between the Portuguese State and the European Competition Commission and communicated to the Group at the end of 2017, after the completion of the Bank's sale process, the NOVO BANCO began in 2017 an organized process of selling a 100% stake. of the share capital of Gama Life (previous GNB Vida). In this sense, this company started to be considered as a discontinued operation on 31 December 2017. On 12 September 2018, a company belonging to the Global Bankers Insurance Group, LLC, was entered into with Bankers Insurance Holdings, S.A., a purchase and sale agreement for the entire share capital of Gama Life (previous GNB Vida). The derecognition of this participation occurred in September 2019, after obtaining the necessary regulatory authorizations (see Note 40).

GNB Seguros

Also due to the commitments assumed between the Portuguese State and the European Competition Commission, during financial year 2020 NOVO BANCO concluded the process of divesting its stake in GNB Insurance (25%), having recorded a gain of 11.9 million euros.

Spanish Branch

Following the accounting policy followed by the NOVO BANCO, and in accordance with IFRS5 - Non-current assets held for sale and discontinued operations, during the year 2020 the Bank proceeded to transfer its activity in Spain to the heading of Non-current assets and divestiture groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs to sell, which took into account the amounts received from potential interested in partial sales of this activity, the cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of 166.0 million euros.

The impairment movement for non-current Assets for disposal classified as held for sale is as follow:

(in thousands of Euros)

	31.12.2020	31.12.2019
Balance at the beginning of the exercise	**8 776**	**448 373**
Allocation / (reversals) for the exercise	170 460	55 775
Utilizations	-	(497 472)
Exchange differences and other	-	2 100
Balance at the end of the exercise	**179 236**	**8 776**

NOTE 29 – Financial liabilities measured at amortised cost

This caption as at 31 December 2020 and 2019 is analyzed as follows:

(in tousands of Euros)

	31.12.2020	31.12.2019
Deposits from banks	10 778 468	10 542 549
Due to customers	25 778 507	27 980 577
Debt securities issued, subordinated debt and liabilities associated to transferred assets	974 996	1 044 445
Other financial liabilities	364 013	356 993
	37 895 984	**39 924 564**

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	29 030	36 176
Other funds	7 004 000	6 087 000
	7 033 030	**6 123 176**
Deposits from credit institutions		
Domestic		
Deposits	889 876	681 478
Other funds	4 792	12 674
	894 668	**694 152**
Foreign		
Deposits	624 873	914 414
Loans	596 534	634 557
Operations with repurchase agreements	1 625 724	2 168 488
Other resources	3 639	7 762
	2 850 770	**3 725 221**
	3 745 438	**4 419 373**
	10 778 468	**10 542 549**

As at 31 December 2020, the caption Other funds from the European System of Central Banks includes Euro 7,004 million covered by Bank financial assets pledged as collateral, as part of the third series of longer-term refinancing operations of the European Central Bank (TLTRO III). The bonus introduced by the ECB in the interest rate of these transactions, in accordance with the provisions of IAS 20, is being deducted from financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the eligibility requirements set by the ECB.

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 2.5.

As at 31 December 2020 and 2019, the analysis of Deposits from banks, by maturity, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposits from Central Banks		
Up to 3 months	29 030	1 286 176
From 3 months to 1 year	-	3 210 000
From 1 to 5 years	7 004 000	1 627 000
	7 033 030	**6 123 176**
Deposits from Banks		
Up to 3 months	1 420 031	2 421 436
From 3 months to 1 year	666 868	361 732
From 1 to 5 years	1 087 233	1 091 606
More than 5 years	571 306	544 599
	3 745 438	**4 419 373**
	10 778 468	**10 542 549**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(milhares de euros)	31.12.2020	31.12.2019
Foreign		
Up to 3 months	225 507	1 306 243
From 3 months to 1 year	350 014	199 972
From 1 to 5 years	1 050 203	662 273
	1 625 724	**2 168 488**

Due to customers

The balance of Deposits due to costumers is composed, as follows:

(in thousands of Euros)	31.12.2020	31.12.2019
Repayable on demand		
Demand deposits	11 475 826	11 877 766
Time deposits		
Time deposits	9 187 317	11 228 519
Other	241	253
	9 187 558	**11 228 772**
Savings accounts		
Retirement saving accounts	232 741	243 507
Other	4 673 474	4 439 813
	4 906 215	**4 683 320**
Other funds		
Other	208 908	190 719
	208 908	**190 719**
	25 778 507	**27 980 577**

As at 31 December 2020 and 2019, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)	31.12.2020	31.12.2019
Repayable on demand	**11 475 826**	**11 877 766**
Term deposits		
Up to 3 months	7 124 178	7 204 511
3 months to 1 year	5 561 554	5 866 566
1 to 5 years	1 576 564	2 572 125
More than 5 years	40 385	459 609
	14 302 681	**16 102 811**
	25 778 507	**27 980 577**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption breaks down as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Debt securities issued		
Euro Medium Term Notes (EMTN)	515 311	495 989
Subordinated debt		
Bonds	415 234	415 069
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	133 387
	974 996	**1 044 445**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias*"), which has a maximum amount of Euro 10,000 million, the Bank issued covered bonds which amount to Euro 5,500 million (31 December 2019: Euro 5,500 million), being these covered bonds totally repurchased by the Bank. The main characteristics of the outstanding issues as at 31 December 2020 and 2019 are as follows:

(in thousands of Euros)

31.12.2020

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2019

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in Bank's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6, 7 and 8/2006 and Instruction No. 13/2006 of Bank of Portugal.

As at 31 December 2020, the assets that collateralize these covered debt securities amount to Euro 6,104.8 million (31 December 2019: Euro 6,076.8 million) (see Note 21).

The changes in the financial years of 2020 and 2019 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2019	Issues	Redemptions b)	Net purchases	Other movements a)	Balance as at 31.12.2020
Debt securities issued						
Euro Medium Term Notes (EMTN)	495 989	-	-	(570)	19 892	515 311
Subordinated debt						
Bonds	415 069	-	-	-	165	415 234
Financial liabilities associated to transferred assets						
Asset lending operations	133 387	-	(88 251)	-	(685)	44 451
	1 044 445	**-**	**(88 251)**	**(570)**	**19 372**	**974 996**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.
b) During the year of 2020, the Lusitano SME issue no. 3, on balance in 2019, was fully repaid (Classes D, E and S).

(in thousands of Euros)

	Balance as at 31.12.2018	Issues	Redemptions b)	Net purchases	Other movements a)	Balance as at 31.12.2019
Debt securities issued						
Euro Medium Term Notes (EMTN)	507 236	-	-	-	(11 247)	495 989
Covered bonds c)	-	1 300 000	-	(1 300 000)	-	-
	507 236	1 300 000	-	(1 300 000)	(11 247)	495 989
Subordinated debt						
Bonds	414 903	-	-	-	166	415 069
Financial liabilities associated to transferred assets						
Asset lending operations	242 438	-	(107 660)	-	(1 391)	133 387
	1 164 577	**1 300 000**	**(107 660)**	**(1 300 000)**	**(11 081)**	**1 044 445**

a) Other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.
b) During 2019, all Classes B and C issued by Lusitano SME No. 3 issued 12.6 thousand euros of Class D were repaid in advance.
c) During the financial year of 2019, two mortgage bonds were issued in the amount of 750 million euros and 550 million euros.

As at 31 December 2020 and 2019, the analysis of Debt securities issued and subordinated debt, by maturity, is as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Debt securities issued		
More than 5 years	515 311	495 989
	515 311	**495 989**
Subordinated debt		
1 to 5 years	415 234	415 069
	415 234	**415 069**
Financial liabilities associated to transferred assets		
More than 5 years	-	88 937
Undertimined maturity	44 451	44 450
	44 451	**133 387**
	974 996	**1 044 445**

The main characteristics of these liabilities, as at 31 December 2020 and 2019, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	Moeda	Data de emissão	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
			31.12.2020						
Euro Medium Term Notes									
NB (Luxembourg Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 287	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	97 153	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 183	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 521	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	36 398	2048	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	45 717	2049	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	40 220	2049	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	34 848	2051	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	15 212	2051	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	43 649	2048	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	38 646	2052	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	11 477	2046	Zero cuppon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 234	2023 a)	8,50%	XDUB
						930 545			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	Moeda	Data de emissão	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
			31.12.2019						
Euro Medium Term Notes									
NB (Luxembourg Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	41 798	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	96 270	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	62 461	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 011	2043	Fixed rate 3,5%	XLUX
NB (Luxembourg Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	34 344	2048	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	42 861	2049	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	37 674	2049	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	32 615	2051	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	14 236	2051	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	40 699	2048	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	36 317	2052	Zero cuppon	XLUX
NB (Luxembourg Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	10 703	2046	Zero cuppon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 069	2023 a)	8,50%	XDUB
						911 058			

a) Date of the next call option

The Bank did not present any capital or interest defaults regarding debt issued during the first half of 2020 and 2019.

The securitization operations not derecognized above, implied the registration of financial liabilities associated with transferred assets, which are detailed as follows:

(in thousands Euros)

	31.12.2020	31.12.2019
Lusitano SME No. 3	-	88 937
FLITPTREL [(1)]	44 451	44 450
	44 451	**133 387**

(1) asset transfer operation, with the Bank in the securities portfolio vehicle equity instruments

NOTE 30 – Provisions

As at 31 December 2020 and 2019, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Programme of antecipated repayment of liabilities	Other provisions	Total
Balance as at 31 December 2018	**9 781**	**189 369**	**72 877**	**38 865**	**112 991**	**423 883**
Allocation / (write-backs) for the period	47 291	(60 467)	(1 366)	(1 172)	117 558	101 844
Utilization during the period	(33 052)	-	(29 937)	(37 694)	(21 567)	(122 250)
Foreign exchange differences and other	24	(31 799)	(240)	1	281	(31 733)
Balance as at 31 December 2019	**24 044**	**97 103**	**41 334**	**-**	**209 263**	**371 744**
Allocation / (write-backs) for the period	123 915	21 595	(629)	-	42 958	187 839
Utilization during the period	(42 188)	(2 188)	(29 506)	-	(14 569)	(88 451)
Foreign exchange differences and other **(a)**	(8 798)	(15 026)	-	-	(8 736)	(32 560)
Balance as at 31 December 2020	**96 973**	**101 484**	**11 199**	**-**	**228 916**	**438 572**

(a) Includes 8,798 thousand euros of restructuring provisions and 14,420 thousand euros of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations.

The changes in the caption Provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**26 789**	**16 788**	**143 498**	**187 075**
Increases due to changes in credit risk	307	6 724	37 959	44 990
Decreases due to changes in credit risk	(2 191)	(7 701)	(96 350)	(106 242)
Other movements	(21 330)	(1 750)	(8 720)	(31 800)
Balance as at 31 December 2019	**3 575**	**14 061**	**76 387**	**94 023**
Increases due to changes in credit risk	830	20 441	23 301	44 572
Decreases due to changes in credit risk	(698)	(12 790)	(15 991)	(29 479)
Uses	-	-	(2 188)	(2 188)
Other moviments [(a)]	(2 393)	2 293	(14 923)	(15 023)
Balance as at 31 December 2020	**1 314**	**24 005**	**66 586**	**91 905**

(a) Includes 14,420 thousand euros of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations (2,360 thousand euros on stage 1 and 12,060 thousand euros on stage 3).

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	**1 870**	**424**	**-**	**2 294**
Increases due to changes in credit risk	504	918	210	1 632
Decreases due to changes in credit risk	(468)	(164)	(215)	(847)
Other movements	29	(33)	5	1
Balance as at 31 December 2019	**1 935**	**1 145**	**-**	**3 080**
Increases due to changes in credit risk	6 325	5 488	-	11 813
Decreases due to changes in credit risk	(3 708)	(1 570)	(33)	(5 311)
Other movements	1 071	(1 107)	33	(3)
Balance as at 31 December 2020	**5 623**	**3 956**	**-**	**9 579**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Bank's sale and restructuring process.

During the financial year of 2020, a provision of Euro 127.4 million was set up, and there was also a reversal of the provisions set up in 2016 and 2017 in the amount of Euro 3.4 million. As at 31 December 2020, the amount of restructuring provisions on the balance sheet is 97.0 million euros.

Other provisions amounting to Euro 228.9 million (31 December 2019: Euro 209.3 million) are intended to cover certain identified contingencies related to the Bank's activities, the most relevant being:

• Contingencies associated with ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of Euro 20.4 million (31 December 2019: Euro 27.3 million);

• Contingencies associated with legal proceedings in the amount of Euro 6.6 million (31 December 2019: Euro 5.8 million);

• Contingencies associated with sales processes in the amount of Euro 41.1 million (31 December 2019: Euro 35.5 million);

• Contingencies relating to the undivided part of the Executive Board's Pension Plan, in the amount of Euro 19.2 million, transferred from the net liability items of the value of the assets of the pension fund (see Note 15);

• The remaining amount, of Euro 141.6 million (31 December 2019: Euro 140.7 million), is intended to cover for losses in connection to the Bank's normal activities, such as fraud, theft and robbery, and ongoing legal lawsuits, among others.

NOTE 31 – Other liabilities

As at 31 December 2020 and 2019, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Public sector	32 532	31 047
Creditors for supply of goods	65 586	88 315
Other creditors	62 119	70 197
Career bonuses (see Note 15)	7 465	6 981
Retirement pensions and health-care benefits (see Note 15)	24 692	152 280
Other accrued expenses	67 642	76 989
Deferred income	955	983
Foreign exchange transactions pending settlement	-	6 577
Other transactions pending settlement	53 620	38 257
	314 611	**471 626**

As at 31 December 2020, the caption Creditors for supply of goods includes Euro 47,973 thousand related to creditors of assets for right of use (31 December 2019: Euro 59,565 thousand), whose maturity dates are present the following detail:

(in thousands of Euros)

	31.12.2020
Up to 3 months	78
From 3 months to one year	438
From one to five years	26 118
More than five years	21 339
	47 973

NOTE 32 – Share capital

Ordinary shares

In 2017 and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised. Thus, as at 31 December 2020 and 31 December 2019, the share capital of the Bank amounts to Euro 5 900 000 000, represented by 9,799,999,997 registered shares, with no nominal value, fully subscribed and realised by the following shareholders:

	% Share Capital	
	31.12.2020	31.12.2019
Nani Holdings, SGPS, SA	75,00%	75,00%
Resolution Fund [(1)]	25,00%	25,00%
	100,00%	**100,00%**

[(1)] In view of the commitments assumed by the Portuguese Republic before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

As mentioned in Note 26, NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level.

A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that grant the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015 and 2019 will confer a shareholding of up to approximately 12.82% of the share capital of NOVO BANCO, which will dilute the Resolution Fund, according to the sale contract.

NOTE 33 – Accumulated other comprehensive income, retained earnings, other reserves

As at 31 December 2020 and 2019, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2020	31.12.2019
Other accumulated comprehensive income	**(749 259)**	**(632 033)**
Retained earnings	**(7 202 828)**	**(6 115 245)**
Other reserves	**6 179 422**	**5 580 864**
Originating reserve	1 976 173	2 098 187
Special reserve	728 561	606 547
Other reserves and Retained earnings	3 474 688	2 876 130
	(1 772 665)	**(1 166 414)**

Other accumulated comprehensive income

The movements in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income					Total
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Actuarial deviations (net of taxes)	
Balance as at 31 December 2018	**1 204**	**1 202**	**(3 557)**	**(272 495)**	**(477 370)**	**(751 016)**
Actuarial deviations	-	-	-	-	(106 026)	(106 026)
Fair value changes, net of taxes	-	-	-	228 454	-	228 454
Changes in credit risk of financial liabilities at fair value, net of taxes	-	(2 871)	-	-	-	(2 871)
Impairment reserves of securities at fair value through other comprehensive income	4 301	-	-	-	-	4 301
Reserves of sales of securities at fair value through other comprehensive income	-	-	(4 875)	-	-	(4 875)
Balance as at 31 December 2019	**5 505**	**(1 669)**	**(8 432)**	**(44 041)**	**(583 396)**	**(632 033)**
Actuarial deviations	-	-	-	-	(122 199)	(122 199)
Fair value changes, net of taxes	-	-	-	12 284	-	12 284
Changes in credit risk of financial liabilities at fair value, net of taxes	-	10 883	-	-	-	10 883
Impairment reserves of securities at fair value through other comprehensive income	(1 838)	-	-	-	-	(1 838)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(16 356)	-	-	(16 356)
Balance as at 31 December 2020	**3 667**	**9 214**	**(24 788)**	**(31 757)**	**(705 595)**	**(749 259)**

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive	Deferred tax reserves	Total fair value reserves
Opening balance	**53 179**	**(97 220)**	**(44 041)**	**(280 428)**	**7 933**	**(272 495)**
Changes in fair value	87 060	-	87 060	408 804	-	408 804
Foreign exchange differences	(4 372)	-	(4 372)	(6 678)	-	(6 678)
Sales in the exercise	(66 540)	-	(66 540)	(68 519)	-	(68 519)
Deferred taxes	-	(5 057)	(5 057)	-	(105 153)	(105 153)
Balance at the end of the exercise	**69 327**	**(102 277)**	**(32 950)**	**53 179**	**(97 220)**	**(44 041)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Amortised cost of financial assets at fair value through other comprehensive income	7 744 257	8 704 952
Market value of financial assets at fair value through other comprehensive income	7 813 584	8 758 131
Unrealised gains / (losses) recognized in fair value reserve	69 327	53 179
Fair value reserves for discontinuing activities	1 193	-
Deferred Taxes	(102 277)	(97 220)
Fair value reserve attributable to shareholders of the Bank	**(31 757)**	**(44 041)**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 26, the special reserve was created as a result of the adhesion of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the clearance of a negative net result in the years 2015-2019, with reference to deferred tax assets eligible at the date of closures of those financial years, the application of that special regime applicable to deferred tax assets, NOVO BANCO recorded a special reserve, in the same amount of the tax credit calculated, increased by 10%, which has the following decomposition:

(in thousands of Euros)

	31.12.2020	31.12.2019
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	150 044	150 044
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 014	-
	728 561	**606 547**

Other reserves and retained earnings

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 34 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2020 these assets had a net value of Euro 2.0 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2019: net value of Euro 3.1 billion).

As a result of the losses recorded by NOVO BANCO on 31 December 2019, 2018 and 2017, the conditions determining the payment by Resolution Fund of Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand were meet and the payments occurred in May 2020, 2019 and 2018, respectively. In the financial year of 2020, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 598,312 thousand relating to the Contingent Capital Agreement. The amount is accounted for under Other reserves and it results at each Balance Sheet date of the incurred losses and of the regulatory ratios in force at the moment of its determination.

NOTE 34 – Contingent liabilities and commitments

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2020 and 2019 are the following:

(in thousands of Euros)

	31.12.2020	31.12.2019
Contingent liabilities		
Guarantees and standby letters	2 815 920	3 148 216
Financial assets pledged as collateral	14 194 624	11 930 201
Open documentary credits	410 292	516 162
	17 420 836	**15 594 579**
Commitments		
Revocable commitments	6 419 991	6 897 501
Irrevocable commitments	629 454	409 215
	7 049 445	**7 306 716**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As at 31 December 2020, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.1 billion (31 December 2019: Euro 11.5 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 8.1 million (31 December 2019: Euro 8.1 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 69.5 million (31 December 2019: Euro 71.8 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 769.7 million (31 December 2019: Euro 98.6 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 107.0 million (31 December 2019: Euro 113.0 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Bank (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposit and custody of securities and other items	35 774 785	36 782 430
Amounts received for subsequent collection	233 938	283 674
Securitized loans under management (servicing)	2 118 806	3 660 539
Other responsibilities related with banking services	1 838 050	871 399
	39 965 579	**41 598 042**

Under the resolution measure applied to BES by deliberation of Bank of Portugal of 3 August 2014, (point 1., paragraph b), subparagraph (vii) of Appendix 2), as altered by the deliberation of Bank of Portugal of 11 August 2014, the "Excluded Liabilities" from the transfer to NOVO BANCO include "any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (...)".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include "any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".

On 29 December 2015, Bank of Portugal adopted a new deliberation for the "Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of Bank of Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Bank of Portugal of 11 August 2014 (5 p.m.)". Through this deliberation, Bank of Portugal:

i. Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labour, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of 3 August; and

ii. Clarified that the following liabilities had not been transferred from BES to NOVO BANCO:

    a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;

    b. All liabilities, damages and expenses related to real estate assets that were transferred to NOVO BANCO;

    c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 8 p.m. on 3 August 2014;

    d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;

    e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;

    f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and

    g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

iii. To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to NOVO BANCO which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 8 p.m. of 3 August 2014.

In the preparation of its consolidated financial statements as at 31 December 2020 (as well as in the previous financial statements), NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet items and assets under management of BES, as well as from the deliberation of 29 December 2015 of Bank of Portugal, in particular, with regards to the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by the deliberation of Bank of Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to neutralize, at the Bank level, the effects of decisions that are legally binding, beyond the control of NOVO BANCO and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the perimeter of the transfer to NOVO BANCO as defined by Bank of Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Bank of Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Bank of Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely regarding the various disputes relating to the loan made by Oak Finance to BES and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO. These disputes include the two lawsuits of late January 2016, with the Supreme Court of Justice of Venezuela, Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and NOVO BANCO, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of 37 million dollars and 335 million dollars, respectively, and which requests the reimbursement of the amount invested, plus interest, compensation for the value of inflation and costs (in a total estimated amount by the claimants of 96 and 871 million dollars, respectively). In accordance with resolution measure, these responsibilities were not transferred to NOVO BANCO and the main actions and precautionary seizure procedures are still pending before the Supreme Court of Venezuela.

In the preparation of the individual and consolidated financial statements of the Bank as at 31 December 2020, the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Bank of Portugal, in particular the decisions of 29 December 2015. In this context, the present financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management and liabilities transferred from BES to NOVO BANCO, as determined by Bank of Portugal and taking as reference the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Bank of Portugal, dated 29 December 2015, concerning the neutralisation, at the level of NOVO BANCO, of the effects of unfavourable decisions that are legally binding, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Relevant lawsuits

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely regarding the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Bank of Portugal (and the criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

i. Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective;

ii. Lawsuit brought by NOVO BANCO, challenging the resolution decided in favour of the insolvent estate in respect of the acts of the constitution and subsequent execution of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A., due to considering that there are no grounds for the resolution of these acts, as well as demanding the reimbursement of the amount received by way of price (Euro 25 million, subject to possible positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially the resolution act, with this process running its course attached to the insolvency proceedings of Partran, SGPS, S.A.;

iii. Following the conclusion of the sale agreement of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, related to the conditions of the sale, namely the administrative action brought by Banco Comercial Português, SA (BCP) against the Resolution Fund, of which NOVO BANCO is not a party, and according to the public disclosure of inside information made by BCP on the website of the CMVM on 1 September 2017, it requested the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the CCA;

iv. NOVO BANCO was notified of an order by the Central Court of Criminal Investigation ("TCIC") that determines the provision of a guarantee by the NB in the approximate amount of EUR 51 million due to an alleged failure to comply with an arrest order bank accounts, having used the respective means of reaction to oppose the application of the aforementioned asset guarantee measure due to the absence of a legal basis..

Resolution Fund

Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law No. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Bank of Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal, based, essentially, on the amount of its liabilities. As at 31 December 2020 the periodic contribution made by the Bank amounted to Euro 12,528 thousand (31 December 2019: Euro 11,996 thousand).

As part of its responsibility as the supervisory and resolution authority, Bank of Portugal decided to apply, on 3 August 2014, a resolution measure to BES, under No. 5 of article 145-G of the RGICSF, which consisted on the transfer of most of its activity to NOVO BANCO, created specifically for this purpose and the capital was assured by the Resolution Fund.

To realise the share capital of NOVO BANCO, Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to own funds. A loan was also granted by a banking syndicate to Resolution Fund, amounting to Euro 635 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euro 3,900 million) had its origin in a reimbursable loan granted by the Portuguese State.

In December 2015, national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, S.A. (Santander Totta), for Euro 150 million, also in the scope of the application of a resolution measure. This operation involved an estimated Euro 2,255 million of public funding, aimed at covering future contingencies, financed in Euro 489 million by Resolution Fund and Euro 1,766 million directly by the Portuguese State. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A.. This operation involved public support estimated at Euro 2,255 million, which aimed to cover future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The serious financial imbalance of BES in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving Resolution Fund, which is significant, as well as to the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and by the banks participating in Resolution Fund in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Resolution Fund. To this end, an addendum to the financing agreements with Resolution Fund was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Resolution Fund for special contributions or any other extraordinary contribution.

As announced by the Resolution Fund in 21 March 2017, issued following an earlier statement of 28 September 2016 and the statement of the Ministry of Finance issued on the same date the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, with the basis of a stable, predictable and affordable charge to the banking sector. Based on this review, the assumed Resolution Fund is assured the full payment of their responsibilities, and the respective remuneration, without need for recourse to special contributions or any other type of contributions extraordinary by the banking industry.

Also on 31 March 2017, Bank of Portugal announced that it had selected Lone Star Funds for the acquisition of NOVO BANCO, which was completed on 18 October 2017, through the injection, by the new shareholder, of Euro 750 million, followed by another capital injection of Euro 250 million, made on 21 December 2017. Lone Star Funds came to hold 75% of the share capital of NOVO BANCO and Resolution Fund the remaining 25%. In addition, the approved conditions include:

- A Contingent Capital Agreement, under which the Resolution Fund, whilst shareholder, may be called upon to make payments in the event of certain cumulative conditions related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalization levels. The possible payments needed, in the agreed terms of this Contingent Capital Agreement are of an absolute maximum of Euro 3,890 million;
- A Compensation Mechanism to NOVO BANCO if in the event that some conditions are met, and it is convicted to make payments of any responsibilities, due to a final court judicial decision not recognising or that is opposed to the resolution measure applied by Bank of Portugal, or to NOVO BANCO's perimeter of assets and liabilities.

Notwithstanding the possibility under the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Resolution Fund by the Portuguese State and by a syndicate of banks, and of the public press releases made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTE 35 – Related parties transactions

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of NOVO BANCO); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of NOVO BANCO; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which NOVO BANCO has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of NOVO BANCO (joint ventures).

During 2020, the following transactions with Related Parties (credit and other types) were carried out:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euro)
ACH Brito S.A.	Associate	Credit Limit - NB Express Bill	75 000
AGA - Alcool e Géneros Alimentares S.A.	Director / Manager / Family	Credit Card Limits	10 000
		Medium / Long Term Financing	400 000
		Credit Limit - NB Express Bill	650 000
APB - Associação Portuguesa Bancos	Director / Manager / Family	Loan Account Checking Account	1 100 000
AVIZMED Unipessoal Lda	Director / Manager / Family	Medium / Long Term Financing	500 000
Carlos Jorge Ferreira Brandão	Director / Manager / Family	Individual Loan	31 615
Cristalmax - Indústria Vidros S.A.	Associate	Credit Limit - NB Express Bill	100 000
EDENRED - Portugal S.A.	Associate	Direct Debit Limits	410 000
Enkroot - Gestão e Tratamento de Águas S.A.	Associate	Import Documentary Credit	17 901
		Bank Guarantee - System Installation	66 210
		Bank Guarantee - Advance	66 210
		Authorized Discovery	500 000
		Medium / Long Term Financing	500 000
		Limits for Bank Guarantees	500 000
		Factoring	650 000
Entidades GNB (BEST, NB dos Açores, NBSE, NB Lux e NB Finance)	Subsidiary	Interbank Limits (Markets Room Operations) Commercial Limits	1 420 990 000
EPEDAL Indústria de Componentes Metálicos S.A.	Associate	Credit Card Limits	10 000
		Credit Limit - NB Express Bill	1 250 000
GERMEN - Moagens Cereais SA	Director / Manager / Family	Self- Confirming	5 000 000
GNB Companhia de Seguros S.A.	Associate	Direct Debit Limits	80 600 000
Greendraive - Gestão e Exporação de Campos de Golf e Complexos Turísticos S.A.	Subsidiary	Medium / Long Term Financing	125 000
		Supplies	700 000
Grupo Esegur (Esegur - Soluções de Segurança S.A.)	Associate	Credit Card Limits	200 000
		Leasing	200 000
		Limits for Bank Guarantees	1 000 000
Grupo Multipessoal (Multipessoal - Recursos Humanos SGPS S.A.)	Associate	Credit Card Limits	112 500
		Credit Limit - NB Express Bill	500 000
		Grouped Line Guarantees	1 750 000
		Medium / Long Term Financing	3 000 000
		Authorized Discovery	6 500 000
		Factoring	9 200 000
Jorge Cabrañes Azcona	Director / Manager / Family	Individual Loan	35 000
Locarent- Coompanhia Portuguesa Aluguer Viaturas S.A.	Associate	Credit Card Limits	10 000
		Loan Account Checking Account	2 500 000
		Market Room Operations (RCE)	3 000 000
		Direct Debit Limits	4 000 000
		Credit ceiling - Leasing	32 150 000
		Credit ceiling - Leasing	45 000 000
		Commercial Paper Program	50 000 000
Logi C Logística Integrada S.A.	Associate	Credit Card Limits	10 000
		Loan Account Checking Account	200 000
M N Ramos Ferreira Engenharia S.A.	Associate	Credit Card Limits	3 750
		Credit Limit - NB Express Bill	100 000
		Credit Limit - NB Express Bill Exclusive	200 000
		Medium / Long Term Financing	250 000
Nacional Conta – Contabilidade, Consultadoria e Administração, Lda.	Director / Manager / Family	Credit Card Limits	1 000
		Loan Account Checking Account	100 000
		Medium / Long Term Financing	200 000
Nexxpro - Fábrica de Capacetes S.A.	Associate	Promissory Discount - Treasury Support	200 000
		Factoring	750 000
		Medium / Long Term Financing	1 000 000
Novo Banco Servicios Corporativos SL	Subsidiary	Supplies	4 750 000
		Loan Account Checking Account	25 000 000
Righthour S.A.	Subsidiary	Issuance of Distrate	181 237
SIBS SGPS S.A.	Director / Manager / Family	Loan Account Checking Account	50 000 000
Sofia Moraes Sarmento	Director / Manager / Family	Authorized Discovery	1 496
TRADISA Logicauto S.L.	Director / Manager / Family	Medium / Long Term Financing	300 000
TRADISA Operador Turístico S.A.	Director / Manager / Family	Loan Account Checking Account	400 000
Unicre - Cartão Internacional de Crédito S.A.	Associate	Medium / Long Term Financing	10 000 000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation
BEST - Banco Electrónico de Serviço Total S.A.	Subsidiary	Intra Group Service Delivery Agreement
EDENRED - Portugal S.A.	Associate	Alteration of the Distribution Agreement
ENKROOT - Gestão e Tratamento de Águas S.A.	Associate	Exemption from filing requirements for debtors Factoring
GNB Companhia de Seguros S.A.	Associate	• 4th Addendum to the Contract New Product: Personal Accidents
		• 5th Addendum to the Contract New Product: Health Insurance
		• Internal Campaigns: Business Protection Insurance
GNB-GP Gestão de Patrimónios S.A.	Subsidiary	Amendment to the Discretionary Management Agreement
GNB REAL ESTATE – Soc. Gestora de Organismo de Investimento Coletivo S.A.	Subsidiary	• Harmonization of the calculation base of the Management Fee of 4 Funds under Company Management
		• Management Committee Review 2 Funds [FUNGEPI and FUNGEPI II]
LINEAS - Concessões de Transportes SGPS S.A.	Associate	Consent to sell 50% of the concessionaire: Rodovias do Tietê S.A.
NANI Holdings SGPS SA / LSF NANI Investments Sarl	Associate	Amendment and Restatement Agreement to the Intragroup Financial Reporting and Information Sharing Agreement
NANI Holdings SGPS SA / HUDSON Advisors Portugal Unipessoal Lda	Associate	Change to the Services Agreement and to the Real Estate Services Agreement - 3rd Amendment
Novo Banco Pensiones EGFP S.A.	Subsidiary	Amendment to the Asset Management Contract
Pharol SGPS S.A.	Associate	Account Escrow
SIBS (Grupo)	Director / Manager / Family	• Contract for services (3D Secure implementation: Version 2.1 and 2.2)
		• SWIFT GPI Project (Global Payments Innovation)
		• MBWay Interbank Solution (Scheme Marketing Fee)
		• Project Consolidation - Target 2 (Follow Up)
		• Acquisition of POS's / 2020 (Laptops, Desktop and others)

The Bank Balance Sheet balances with related parties as at 31 December 2020 and 2019, as well as the respective profit and losses, can be summarized as follows:

(in thousands of Euros)

	31.12.2020					31.12.2019				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	153	-	332	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	761 938	-	-	-	12 528	1 037 013	-	-	-	11 996
Subsidiary companies										
GNB RECUPERAÇÃO DE CRÉDITO	-	257	-	13	1 761	-	156	-	-	2 319
GNB CONCESSÕES	83 473	39 339	-	-	-	83 473	39 382	-	-	-
GNB ACE	-	-	-	-	1 479	-	309	-	-	1 728
GNB GA	1 723	73 536	6	5 977	-	2 698	44 507	6	6 009	1
NOVO BANCO SERVICIOS	18 511	23	-	496	12	4 777	2	-	438	1 316
BESIL	-	-	-	-	-	-	-	-	128	551
ES Plc	-	-	-	-	-	-	-	-	41 043	52 409
ES TECH VENTURES	48 738	69 809	-	-	-	46 732	64 791	-	-	10
BEST	973	577 185	37	1 892	4 368	1 858	432 110	37	1 855	5 895
NB AÇORES	139 435	159 509	102 458	960	1 873	139 165	145 384	1 295	857	1 860
FCR PME	-	1 007	-	-	-	-	121	-	-	-
GNB SISTEMAS DE INFORMAÇÃO	-	-	-	-	-	-	-	-	-	-
SPE-LM6	286 687	2 902	-	397	-	322 437	2 902	-	439	-
SPE-LM7	869 975	5 490	-	1 068	-	827 787	5 414	-	1 177	-
FCR NB GROWTH	15 414	3 562	-	-	-	15 414	3 147	-	-	-
NB ÁFRICA	-	7 185	-	-	-	-	7 229	-	-	-
NOVO VANGUARDA	-	162	-	-	261	-	158	-	-	627
FUNGEPI	-	60 942	-	29	7	-	58 666	-	29	15
FUNGEPI_II	-	81 394	-	34	7	-	62 244	-	27	13
FUNGERE	-	41 699	-	31	4	-	41 422	-	32	7
IMOINVESTIMENTO	-	922	-	39	-	-	1 393	-	47	-
PREDILOC	-	2 649	-	-	-	-	2 162	-	-	-
IMOGESTÃO	-	36 427	-	-	6	-	36 925	409	42	6
ARRABIDA	-	3 633	-	-	1	-	1 308	-	-	-
INVESFUNDO VII	-	1 216	-	4	-	-	1 180	-	-	-
NB LOGÍSTICA	-	28 707	-	-	1	-	4 415	-	-	-
NB PATRIMÓNIO	-	35 911	-	-	4 447	-	31 071	-	-	4 791
FUNDES	-	12 625	-	-	1	-	14 598	-	-	3
AMOREIRAS	-	31 824	-	-	-	-	36 100	-	-	-
FIMES ORIENTE	18	13 753	-	-	2	-	14 766	-	-	43
NB ARRENDAMENTO	-	1 025	-	-	-	-	3 193	-	-	-
NB FINANCE	-	8 770	3 566	43	4 625	-	72 911	168 578	268	4 323
ASAS INVEST	-	571	-	-	-	-	660	-	-	-
FEBAGRI	-	925	-	-	-	-	-	-	-	-
AUTODRIL	-	89	-	-	-	-	13	-	-	-
JCN	-	-	-	-	-	-	-	-	-	-
PORTUCALE	-	-	-	-	-	-	66	-	-	-
GREENWOODS	-	1 761	-	-	-	-	132	-	-	-
QUINTA D. MANUEL I	-	-	-	-	-	-	1	-	-	-
QUINTA DA AREIA	-	-	-	-	-	-	79	-	-	-
VÁRZEA DA LAGOA	-	-	-	-	-	-	-	-	-	-
PROMOTUR	-	-	-	-	-	-	745	-	-	-
HERDADE DA BOINA	-	5	-	-	-	-	21	-	-	-
RIBAGOLFE	-	10	-	-	-	-	-	-	-	-
BENAGIL	-	312	-	-	-	-	6	-	-	-
IMOASCAY	-	624	-	-	-	-	631	-	-	-
HERDADE PINHEIRINHO	-	-	-	-	-	24 713	-	-	-	-
HERDADE PINHEIRINHO II	-	-	-	-	-	73 734	33	-	-	-
QUINTA DA RIBEIRA	-	187	-	-	-	-	-	-	-	-
PROMOFUNDO	-	230	-	-	-	-	531	-	-	-
OREY REABILITAÇÃO URBANA	-	-	-	-	-	-	-	-	-	1
R INVEST	-	-	-	-	-	-	1 709	-	-	-
GREENDRAIVE	4 923	58	106	-	-	4 165	20	106	1	-
	2 231 808	**1 306 388**	**106 173**	**11 315**	**31 383**	**2 583 966**	**1 132 766**	**170 431**	**52 724**	**87 914**
Associated Companies										
LINEAS	64 933	6 505	-	2 871	-	97 656	29 556	-	2 609	-
LOCARENT	115 832	633	-	1 081	3 800	122 802	376	-	1 176	4 215
GNB SEGUROS	-	-	-	-	-	-	14 390	-	2	1
ESEGUR	2 955	1 650	915	-	-	4 157	1 510	69	-	-
UNICRE	22 597	49	-	289	-	28 360	2 500	-	180	-
MULTIPESSOAL	2 030	31	273	31	-	3 520	35	273	22	-
OUTRAS	2	64 816	-	1 982	291	1 336	57 312	53	2 102	1 499
	208 349	**73 684**	**1 188**	**6 254**	**4 091**	**257 831**	**105 679**	**395**	**6 091**	**5 715**
Other related entities										
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 685	-	-	-	-	3 912
NACIONAL CONTA LDA	295	52	-	-	-	117	8	-	-	-
INFRAMOURA	114	16	-	-	-	-	-	-	-	-
ESMALGLASS	-	107	2	-	-	-	-	-	-	-
MARINA VILAMOURA	-	1	-	-	-	-	-	-	-	-
Other	**409**	**176**	**2**	**-**	**4 685**	**117**	**8**	**-**	**-**	**3 912**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the financial years 2020 and 2019. The amount indicated in 2019 was adjusted to Euro 1,035,016 thousand during the financial year 2020, having been paid in full by the Resolution Fund.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.a.r.l. and NOVO BANCO, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted or debt securities acquired in the scope of the Bank's activity. The liabilities relate mainly to bank deposits taken.

The guarantees relating to associated undertakings included in the table above mainly refer to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 8,00% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of NOVO BANCO in 2020 and 2019, are as follows:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	2 676	993	3 669	2 812	980	3 792
Post-employment benefits	3	-	3	3	-	3
Other long-term benefits	33	8	41	43	21	64
	2 712	**1 001**	**3 713**	**2 858**	**1 001**	**3 859**

Additionally, in financial year 2020, costs of Euro 320 thousand were recorded as a sign-on bonus resulting from the entry into office of a new Executive Director, and compensation for the termination of the mandate of three Executive Directors was recorded in the amount of Euro 206 thousand. In 2020, the amount with variable remuneration in relation to the Board of Directors amounted to Euro 1,860 thousand, which respects the remuneration that does not constitute acquired rights of the respective members until after the end of the restructuring period (currently, 31 December 2021), and its payment is subject to approval and verification of certain conditions (31 December 2019: Euro 1,997 thousand).

As at 31 December 2020, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 331 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

As at 31 December 2019, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 447 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

NOTE 36 – Securitisation of assets

As at 31 December 2020 e 2019, the outstanding securitization transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2020	31.12.2019	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	280 051	312 836	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	417 854	463 413	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	396 083	434 463	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 003 303	1 090 124	Mortgage loans (general scheme)
Lusitano SME No.3	November 2016	630 385	-	88 937	Loans to small and medium-sized enterprises

The loans and advances to customers covered by the securitization operation Lusitano SME No. 3 were not derecognized from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitized assets. During the year of 2020, the Lusitano SME securitization operation No. 3 was settled. The remaining securitization operations were derecognized as the Bank substantially transferred all the risks and rewards of ownership. During 2019 the Bank repurchased securitization operations credits Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc.

The main characteristics of these operations, as at 31 December 2020 and 2019, may be analyzed as follows:

(in thousands of Euros)

31.12.2020

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	214 891	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	14 224	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BB+	-
	Class C	19 200	11 978	-	-	December 2048	A+	A1	A+	-	BB	Ba3	B+	-
	Class D	24 000	14 973	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	311 465	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	A	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	B	B3	BBB	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	235 906	188 337	180 754	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	52 775	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 562	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	8 458	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	528 003	528 003	488 778	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 146	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	116 051	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2019

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	241 493	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	15 985	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BBB-	-
	Class C	19 200	13 461	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	16 827	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	355 021	-	-	December 2059	AAA	Aaa	AAA	-	AAA	Aaa	AAA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	AA	Aa2	AA	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	A	A1	A	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	BBB+	Baa2	BBB	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	264 905	220 548	210 489	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	57 981	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 227	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	9 371	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	616 503	616 503	563 186	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	264 601	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	154 463	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	-	-	-	December 2037	-	A3	-	AA	-	WR	-	-
	Class B	62 700	-	-	-	December 2037	-	Baa3	-	BBB	-	WR	-	-
	Class C	62 700	-	-	-	December 2037	-	B1	-	B	-	A3	-	AAA
	Class D	116 000	103 316	103 316	100 534	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	3 135	3 135	2 776	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	5 214	5 214	3 218	December 2037	-	-	-	-	-	-	-	-

NOTE 37 – Fair value of financial assets and liabilities

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of a quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of recent transaction prices, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in the fair value hierarchy 3, whose quotation is provided by a third party using parameters that are not observable in the market, the Bank proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply a additional adjustment to its fair value, as well as as a result of additional internal or external valuations.

In accordance with the fair value valuation methodology of assets and liabilities followed, these are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding valuation method:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favour of a specific price.

This category includes, amongst others, the following financial instruments:

i. Derivatives traded on an organized market;
ii. Shares quoted on a stock exchange;
iii. Open investment funds quoted on a stock exchange;
iv. Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
v. Bonds with observable market quotes;
vi. Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:

i. Bonds without observable market valuations valued using observable market inputs; and

ii. Derivatives (OTC) over-the-counter valued using observable market inputs; and

iii. Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

i. Debt securities valued using non-observable market inputs;

ii. Unquoted shares;

iii. Closed real estate funds;

iv. Hedge funds;

v. Private equities;

vi. Restructuring funds; and

vii. Over the counter (OTC) derivatives with prices provided by third parties.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analyzed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realized. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

In the specific case of the Restructuring Funds ("Assessed Assets"), their assessment was carried out by an independent external international entity ("Appraiser"), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the "Underlying Assets"); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of Novo Banco's investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1,000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

Derivative instruments: if these are traded on organized markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;

- Futures and Options: the Bank trades these products on an organized market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organized market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

The fair value of the financial assets and liabilities of the Bank measured at fair value is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Stage 1)	**Valuation models based on observable market parameters (Stage 2)**	**Valuation models based on unobservable market parameters (Stage 3)**	**Total Fair Value**
31 December 2020				
Financial assets held for trading	**267 016**	**388 311**	**-**	**655 327**
Securities held for trading	267 016	-	-	267 016
Bonds issued by public entities	*267 016*	-	-	*267 016*
Derivatives held for trading	-	388 311	-	388 311
Exchange rate contracts	-	*57 273*	-	*57 273*
Interest rate contracts	-	*319 662*	-	*319 662*
Other	-	*11 376*	-	*11 376*
Financial assets mandatorily at fair value through profit or loss	**212 392**	**44 694**	**2 188 519**	**2 445 605**
Bonds issued by other entities	*82 203*	*50*	*564 829*	*647 082*
Shares	*130 189*	-	*273 563*	*403 752*
Other variable income securities	-	*44 644*	*1 350 127*	*1 394 771*
Financial assets at fair value through other comprehensive income	**7 770 720**	**7 131**	**35 733**	**7 813 584**
Bonds issued by public entities	*6 406 465*	-	-	*6 406 465*
Bonds issued by other entities	*1 352 759*	-	-	*1 352 759*
Shares	*11 496*	*7 131*	*35 733*	*54 360*
Derivatives - Hedge Accounting	**-**	**13 606**	**-**	**13 606**
Interest rate contracts	-	*13 606*	-	*13 606*
Assets at fair value	**8 250 128**	**453 742**	**2 224 252**	**10 928 122**
Financial liabilities held for trading	**-**	**552 185**	**2 158**	**554 343**
Derivatives held for trading	-	552 185	2 158	554 343
Exchange rate contracts	-	*45 450*	-	*45 450*
Interest rate contracts	-	*501 419*	*2 158*	*503 577*
Credit default contracts	-	*16*	-	*16*
Other	-	*5 300*	-	*5 300*
Derivatives - Hedge Accounting	**-**	**72 543**	**-**	**72 543**
Interest rate contracts	-	*72 543*	-	*72 543*
Liabilities at fair value	**-**	**624 728**	**2 158**	**626 886**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total Fair Value
31 December 2019				
Financial assets held for trading	**254 848**	**419 704**	**74 284**	**748 836**
Securities held for trading	254 848	-	-	254 848
Bonds issued by public entities	*254 848*	-	-	*254 848*
Derivatives held for trading	-	419 704	191	419 895
Exchange rate contracts	-	*34 652*		*34 652*
Interest rate contracts	-	*352 748*	*191*	*352 939*
Credit default contracts	-	*1*		*1*
Other	-	*32 303*		*32 303*
Economic hedging derivatives	-	-	74 093	74 093
Interest rate contracts	-	-	*74 093*	*74 093*
Financial assets mandatorily at fair value through profit or loss	**169 606**	**48**	**2 875 070**	**3 044 724**
Bonds issued by other entities	*57 535*	*48*	*637 084*	*694 667*
Shares	*112 071*	-	*489 542*	*601 613*
Other variable income securities	-	-	*1 748 444*	*1 748 444*
Financial assets at fair value through other comprehensive income	**8 703 046**	**20 485**	**34 600**	**8 758 131**
Bonds issued by public entities	*7 027 343*	-	-	*7 027 343*
Bonds issued by other entities	*1 661 538*	-	-	*1 661 538*
Shares	*14 165*	*20 485*	*34 598*	*69 248*
Other variable income securities	-	-	*2*	*2*
Derivatives - Hedge Accounting	**-**	**7 992**	**-**	**7 992**
Interest rate contracts	-	*7 992*	-	*7 992*
Assets at fair value	**9 127 500**	**448 229**	**2 983 954**	**12 559 683**
Financial liabilities held for trading	**-**	**542 563**	**1 837**	**544 400**
Derivatives held for trading	-	542 563	1 837	544 400
Exchange rate contracts	-	*33 820*	-	*33 820*
Interest rate contracts	-	*499 795*	*1 837*	*501 632*
Credit default contracts	-	*42*	-	*42*
Other	-	*8 906*	-	*8 906*
Derivatives - Hedge Accounting	**-**	**58 854**	**-**	**58 854**
Interest rate contracts	-	*58 854*	-	58 854
Liabilities at fair value	**-**	**601 417**	**1 837**	**603 254**

The changes occurred in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the financial years of 2020 and 2019, may be analyzed as follows:

(in thousands of Euros)

	31.12.2020							
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total assets	Financial liabilities held for trading	Total liabilities
	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2019	**191**	**74 093**	**2 875 070**	**-**	**34 600**	**2 983 954**	**1 837**	**1 837**
Acquisitions	-	-	31 393	-	5 048	36 441	-	-
Attainment of maturity	-	-	(162 380)	-	-	(162 380)	-	-
Liquidation	-	(80 489)	(1 583)	-	(21 317)	(103 389)	-	-
Transfers in	-	-	-	-	9 738	9 738	-	-
Transfers out	-	-	(35 386)	-	(1 250)	(36 636)	-	-
Changes in value	(191)	6 396	(518 595)	-	8 914	(503 476)	321	321
Balance as at 31 December 2020	**-**	**-**	**2 188 519**	**-**	**35 733**	**2 224 252**	**2 158**	**2 158**

(in thousands of Euros)

	31.12.2019							
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	**Total assets**	Financial liabilities held for trading	**Total liabilities**
	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2018	**396**	**148 139**	**2 862 796**	**-**	**42 176**	**3 053 507**	**2 724**	**2 724**
Acquisitions	-	-	831 491	100	14 140	845 731	-	-
Attainment of maturity	-	-	(317 114)	-	-	(317 114)	-	-
Liquidation	(396)	(77 963)	(93 656)	-	(14 569)	(186 584)	(347)	(347)
Transfers in	-	-	16	-	-	16	-	-
Transfers out	-	-	-	(16)	-	(16)	-	-
Changes in value	191	3 917	(408 463)	(84)	(7 147)	(411 586)	(540)	(540)
Balance as at 31 December 2019	**191**	**74 093**	**2 875 070**	**-**	**34 600**	**2 983 954**	**1 837**	**1 837**

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated at 31 December 2020 and 2019 were as follows:

(in thousands of Euros)

	31.12.2020			**31.12.2019**		
	Recognised in reserves	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**
Derivatives held for trading	-	23 605	23 605	-	682	682
Securities held for trading	-	(68 722)	(68 722)	-	(71 759)	(71 759)
Financial assets mandatorily at fair value through profit or loss	-	(514 186)	(514 186)	-	(405 766)	(405 766)
Financial assets at fair value through other comprehensive income	9 632	-	9 632	1 015	-	1 015
	9 632	**(559 303)**	**(549 671)**	**1 015**	**(476 843)**	**(475 828)**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

	31.12.2020						
Assets classified under level 3	**Valuation Model**	**Variable analysed**	**Carrying book value**	**Unfavorable scenario**		**Favorable scenario**	
				Change	**Impact**	**Change**	**Impact**
Financial assets mandatorily at fair value through profit or loss			**2 188,5**				
Obligations of other issuers			564,8				
	Discounted cash flow model	Specific Impairment	*77,9*	*-50%*	*(22,2)*	*+50%*	*12,2*
	Discounted cash flow model	Discount rate	*486,9*	*(-) 100 bps*	*(34,3)*	*(+) 100 bps*	*56,7*
Shares							
	Valuation of the management company (adjuste	*(b)*	273,6		-		-
Other variable income securities			*1 350,1*				
	Valuation of the management company (adjusted)	*(b)*	*225,3*		-		-
	Valuation of the management company	*(c)*	*1 124,9*				
Financial assets at fair value through other comprehensive income							
Shares			*35,7*				
	Discounted cash flows	*Tarifa de energia renovável*	*9,6*		*(1,7)*		*0,1*
	Other	*(a)*	*26,1*		-		-
Total			**2 224,2**		**-**		**-**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2019						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets held for trading			**74,3**		**-**		**-**
Derivatives held for trading	Other	*(a)*	0,2		-		-
Economic hedging derivatives	*c)*	*c)*	74,1		-		-
Financial assets mandatorily at fair value through profit or loss			**2 875,1**		**(77,7)**		**96,3**
Obligations of other issuers	Discounted cash flow model	Discount rate	*637,1*	*(-) 100 bps*	*(48,3)*	*(+) 100 bps*	*65,3*
Shares			489,5		(29,3)		31,0
	Discounted cash flow model	Specific Impairment	*74,7*	*-50%*	*(29,3)*	*+50%*	*31,0*
	Other	*(a)*	*2,8*		-		-
	Valuation of the management company	*Net assets value (b)*	*412,1*		-		-
Other variable income securities			1 748,4		-		-
	Other	*(a)*	*0,2*		-		-
	Valuation of the management company	Specific Impairment	*1 748,2*		-		-
Financial assets at fair value through other comprehensive income			**34,6**		**-**		**-**
Shares			34,6		-		-
	Other	*(a)*	*0,3*		-		-
	Other	Specific Impairment	*34,3*		-		-
Total			**2 983,9**		**(77,7)**		**96,3**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value

(b) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 30 December 2020 and 2019, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	31.12.2020			31.12.2019		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0,5780	0,0776	0,1000	-0,4560	1,6000	0,7500
1 month	-0,5540	0,1439	0,0900	-0,4380	1,7900	0,7650
3 months	-0,5450	0,2384	0,0900	-0,3830	1,9200	0,8650
6 months	-0,5260	0,2576	0,1450	-0,3240	1,9300	0,9000
9 months	-0,5125	0,2995	0,1950	-0,3174	1,9100	0,9450
1 year	-0,4990	0,3419	-0,0125	-0,3161	1,7490	0,7419
3 years	-0,5080	0,2370	0,0913	-0,2380	1,6556	0,8243
5 years	-0,4575	0,4275	0,1926	-0,1205	1,6990	0,8844
7 years	-0,3845	0,6478	0,2799	0,0160	1,7630	0,9406
10 years	-0,2650	0,9170	0,3966	0,2110	1,8470	1,0172
15 years	-0,0720	1,1835	0,5200	0,4670	1,9650	1,0968
20 years	0,0090	1,3033	0,5730	0,5990	2,0160	1,1206
25 years	0,0090	1,3680	0,5805	0,6370	2,0350	1,1130
30 years	-0,0250	1,3998	0,5741	0,6310	2,0420	1,1082

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2020						
CDX USD Main	**35**	18,95	30,35	49,98	70,70	90,52
iTraxx Eur Main	**34**	0,00	27,66	47,95	66,24	86,37
iTraxx Eur Senior Financial	**34**	0,00	0,00	59,06	0,00	89,30
31 December 2019						
CDX USD Main	**33**	9,09	23,31	45,30	67,47	90,08
iTraxx Eur Main	**32**	-	23,32	44,22	64,99	85,26
iTraxx Eur Senior Financial	**32**	-	-	51,59	-	83,45

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2020			31.12.2019		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	15,39	118,44	-	12,71	18,87	48,83
3 years	21,33	91,12	-	22,74	39,23	57,73
5 years	28,38	84,06	-	33,51	36,57	64,04
7 years	34,60	65,41	-	40,12	39,25	67,79
10 years	41,18	62,77	-	46,46	34,71	70,87
15 years	46,54	-	-	51,03	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	**31.12.2020**	**31.12.2019**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,2271	1,1234	6,81	6,59	6,45	6,43	6,37
EUR/GBP	0,8990	0,8508	7,96	7,63	7,24	7,10	6,98
EUR/CHF	1,0802	1,0854	4,41	4,68	4,85	5,00	5,16
EUR/NOK	10,4703	9,8638	8,99	8,91	8,78	8,63	8,48
EUR/PLN	4,5597	4,2568	7,85	6,98	6,38	6,05	5,75
EUR/RUB	91,4671	69,9563	7,51	8,07	8,71	9,29	9,58
USD/BRL [a)]	5,1940	4,0197	20,76	19,24	18,30	17,93	17,56
USD/TRY [b)]	7,4265	5,9501	18,31	18,18	17,83	17,80	17,75

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	31.12.2020	31.12.2019	% Change	1 month	3 months	
DJ Euro Stoxx 50	3 553	3 745	5,42%	13,27	21,62	-
PSI 20	4 898	5 214	6,45%	17,03	20,33	-
IBEX 35	8 074	9 549	18,28%	18,26	24,88	-
FTSE 100	6 461	7 542	16,75%	14,68	19,00	20,72
DAX	13 719	13 249	-3,42%	14,97	22,50	20,88
S&P 500	3 756	3 231	-13,99%	9,45	18,74	17,34
BOVESPA	119 017	115 645	-2,83%	16,43	22,72	25,72

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total fair value
31 December 2020					
Cash, cash balances at central bank and other demand deposits	2 524 868	-	2 524 868	-	2 524 868
Financial assets at amortised cost					
Debt securities	2 873 753	839 673	378 588	1 887 104	3 105 365
Loans and advances to banks	245 472	-	245 472	-	245 472
Loans and advances to customers	21 685 258	-	-	21 930 569	21 930 569
Financial assets	**27 329 351**	**839 673**	**3 148 928**	**23 817 673**	**27 806 274**
Financial liabilities measured at amortised cost					
Deposits from banks	10 778 468	-	10 819 077	-	10 819 077
Due to customers	25 778 507	-	-	25 778 507	25 778 507
Debt securities issued, subordinated debt and liabilities associated to transferred assets	974 996	1 143 995	-	44 451	1 188 446
Other financial liabilities	364 013	-	-	364 013	364 013
Financial liabilities	**37 895 984**	**1 143 995**	**10 819 077**	**26 186 971**	**38 150 043**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total fair value
31 December 2019					
Cash, cash balances at central bank and other demand deposits	1 674 826	-	1 674 826	-	1 674 826
Financial assets at amortised cost					
Debt securities	2 392 843	84 535	636 336	1 859 016	2 579 887
Loans and advances to banks	495 252	-	495 252	-	495 252
Loans and advances to customers	23 154 148	-	-	23 482 498	23 482 498
Financial assets	**27 717 069**	**84 535**	**2 806 414**	**25 341 514**	**28 232 463**
Financial liabilities measured at amortised cost					
Deposits from banks	10 542 549	-	10 568 776	-	10 568 776
Due to customers	27 980 577	-	-	27 980 577	27 980 577
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 044 445	1 271 541	-	106 529	1 378 070
Other financial liabilities	356 993	-	-	356 993	356 993
Financial liabilities	**39 924 564**	**1 271 541**	**10 568 776**	**28 444 099**	**40 284 416**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions

The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Other financial liabilities

These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 38 – Risk management

NOVO BANCO, S.A., (www.novobanco.pt) "institutional" area in the website presents the information directed to investors which complements the available information presented in this document, namely, NOVO BANCO, S.A., Market Discipline Report 2020 which addresses the public disclosure obligations as defined in Part VIII of the Regulation n.º 575/2013 of the European Parliament and the Council at 26 of July, 2013 (CRR) and EBA guidelines transposed to the Portuguese legislation through the Instruction n.º 5/2018 the Bank of Portugal.

In the case where the information of the present annual report supports the information in the Market Discipline report it is identified through references to this report as systematized in the Annex VI of the Market Discipline Report. Additionally, by the nature of the information presented in the Market Discipline report, it complements the information related with some risks management, namely, those related with the policies and procedures adopted and the quantitative information related with risk exposures.

The Group is exposed to the following risks arising from the use of financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

Credit Risk

Credit risk results from the possibility of financial losses arising from the default of the client or counterparty in relation to the contractual obligations established with the Group within the scope of its credit activity. Credit risk is essentially present in traditional banking products - loans, guarantees and other contingent liabilities and derivatives. In credit default swaps (CDS), the net exposure between protection seller and buyer positions on each entity underlying the transactions, constitutes credit risk for NOVO BANCO. CDS are recorded at their fair value in accordance with the accounting policy described in Note 2.4.

A permanent management of the credit portfolios is carried out, which favors interaction between the various teams involved in risk management throughout the successive stages of the life of the credit process. This approach is complemented by the introduction of continuous improvements both in terms of methodologies and tools for risk assessment and control, as well as in terms of procedures and decision circuits.

The monitoring of the Group's credit risk profile, namely the evolution of credit exposures and monitoring of credit losses, is carried out regularly by the Risk Committee. The compliance with approved credit limits and the correct functioning of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas are also subject to regular analysis.

NOVO BANCO maximum credit risk exposure is analyzed as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Deposits with and loans and advances to banks	335 218	587 014
Derivatives for trading and fair value option derivatives	388 311	493 988
Securities held for trading	267 016	254 848
Securities at fair value through profit/loss - mandatory	647 082	694 667
Securities at fair value through other comprehensive income	7 755 564	8 683 376
Securities at amortised co m a ines	2 874 882	2 392 843
Loans and advances to customers	21 745 105	23 204 032
Derivatives - hedge accounting	13 606	7 992
Other assets	456 067	555 935
Guarantees and standby letters provided	2 714 436	3 054 193
Documentary credits	410 292	516 162
Revocable and irrevocable commitments	7 039 866	7 303 636
Credit risk associated with the credit derivatives' reference entities	4 798	2 883
	44 652 243	**47 751 569**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the accounting net book value. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Group would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Bank calculates impairment, on a collective or individual basis in accordance with the accounting policy described in Note 2.4. Whenever the value of the collateral, net of haircuts (taking into account the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, NOVO BANCO Bank does not have any overdue financial assets for which it has not performed a review regarding their recoverability and the subsequent impairment recognition, when necessary.

The exercise of build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is minimized).

The forecasts for prices (consume and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered appropriate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (cost and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with respect to the components of expenditure, prices, unemployment, etc. and estimates.

Thus, when revising / updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for later consideration in the scope of the Impairment calculation. The final impairment calculated will thus result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case and an upside case.

The base case scenario envisages a trend recovery in the form of a "swoosh". After the abrupt decline in activity in the 1st and 2nd quarters of 2020, there was an initially rapid recovery with the first reopen, followed by a recovery that tended to be more gradual. The recovery in this scenario leaves economic activity at a lower level than pre-Covid for a relatively prolonged period, until 2022. Thus, it is assumed some loss of productive potential in the economy.

This scenario assumes negative impacts of a second and third waves of Covid-19 in the 4th quarter of 2020 and between the 1st and 2nd quarters of 2021, in line with pandemic projection scenarios.

These waves restrict economic activity, but in a progressively less pronounced way than in the first wave. Even so, relatively moderate quarterly GDP declines are admitted in the 4th quarter of 2020 and in the 2nd quarter of 2021. This scenario assumes the gradual distribution of anti-Covid-19 vaccines throughout 2021 and in 2022, allowing for a more visible normalization of economic activity as of the 3rd quarter of 2021.

The base case scenario, to which a 60% probability is attributed, points to an annual drop in GDP of around 8.3% in 2020, followed by an annual growth of around 5.2% in 2021, which benefits from a favourable base effect. The following years assume a gradual evolution towards trend / potential growth, with annual growth of 3.4% in 2022 and 2% in 2023. For the construction of the scenario, the information available on the initial economic impacts of the Covid-19 crisis was used. In the base case scenario, the increase in unemployment is strongly mitigated by measures to protect income and employment, which are assumed to be prolonged until 2021. House prices prevent a fall, due to stabilization measures, such as default and credit guarantees. The gradual withdrawal of these measures, however, causes a sharp deceleration in these prices in 2021. The base case scenario is marked by disinflationary pressures and the maintenance of strong monetary incentives.

The downside case scenario, with a probability of 30%, predicts more severe impacts on the economy of a second and third wave of Covid-19, which force intermittent lockdowns, leading to stronger QoQ contractions in GDP in the 4th quarter of 2020 and in the 2nd quarter of 2021. The recovery of activity takes place more slowly than in the base case scenario, which translates into more persistent negative economic effects and a severe loss of productive capacity. Activity is still significantly below pre-Covid levels in 2023, which translates into a significant rise in unemployment and a more depressed evolution of prices. GDP declines 9.6% in 2020 and grows 0.9% in 2021, which is explained, in this case, by a favourable base effect. GDP grows 2.8% in 2022, still benefiting from a favourable base effect, assuming a trend towards tendential / potential growth in 2023. The normalization of activity with the introduction of vaccines is assumed in a more time-consuming and gradual way.

The upside case scenario, with a 10% probability, foresees a "V" shaped recovery. The second wave of the pandemic has a less pronounced and shorter impact on economic activity and the absence of any third wave is assumed. This allows for a normalization of activity and a faster recovery of growth. Above all, this allows the recovery of pre-Covid activity levels as early as 2021, which translates into a more benign trend in unemployment. Without a significant or persistent loss of capacity, prices have grown more noticeably. In this scenario, a rise in market interest rates is assumed, albeit at historically low levels.

Four macroeconomic models are used for the segments of Corporate (excluding Real Estate), Real Estate Companies, Mortgage Loans and Other Loans to Individuals.

The Corporate segment (excluding Real Estate) is particularly sensitive to the rate of GDP growth and the unemployment rate. In all scenarios, there is a drop in GDP, followed by a recovery in the following years, reaching in 2021 the levels verified before the pandemic, with the exception of the downside case scenario, in which the pre-pandemic levels are not reached in the horizon of 3 years. Unemployment registers a significant increase in the year 2020, followed by a recovery that is not enough to reach the levels of unemployment before the pandemic, with the exception of the upside case scenario that in the year 2022 is slightly lower than that registered before the pandemic.

The Real Estate Companies segment is particularly sensitive to changes in real estate prices and to the GDP growth rate. It is the segment most affected in the time horizon in question.

The price of real estate registered a significant fall in the year 2020 in all scenarios, followed by a more or less rapid recovery, depending on the scenario in question.

The Mortgage Loans segment is mainly affected by the reduction in GDP and the fall in real estate prices, across all scenarios in the year 2020.

The Other Loans to Individuals segment is substantially affected by the increase in Unemployment and the reduction in GDP, verified in 2020 in any of the scenarios.

Collective analysis adjustments to the automatic result of the model

After processing the automatic impairment calculation and validating the consistency of the results obtained, all situations that may need an adjustment to the calculated impairment value are assessed. These adjustments are reflected, whenever possible, directly in the exposures.

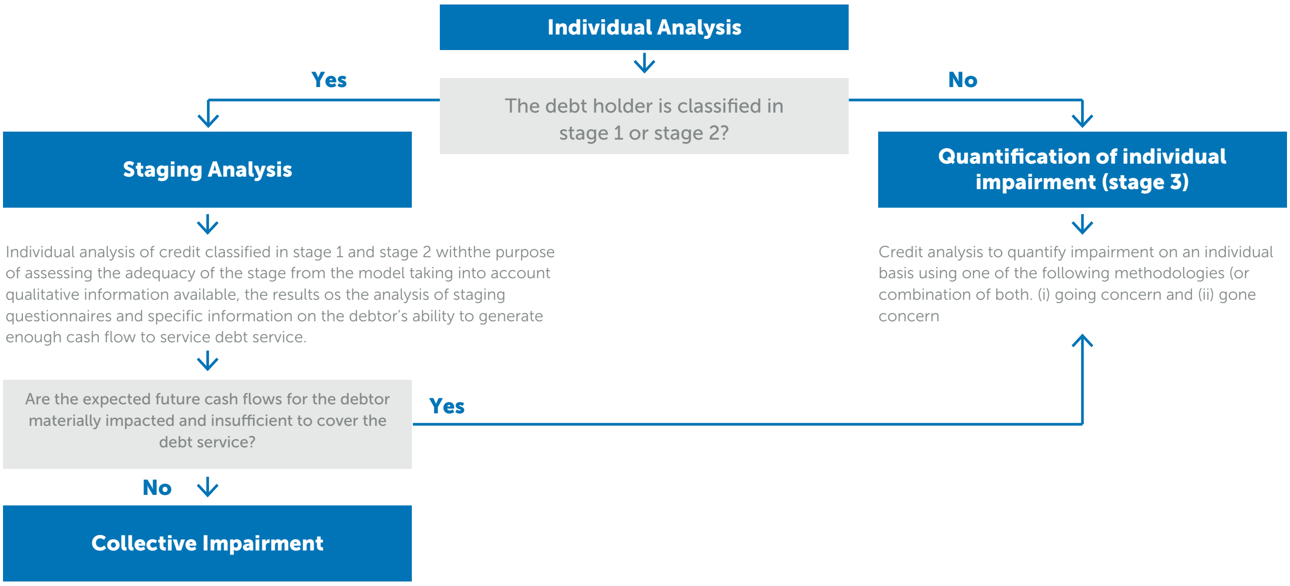
When this is not possible, the calculated impairment value is recorded without being allocated to specific exposures and, for that purpose, the stage and the type of credit to which it refers are associated. Having the prerogative to ensure that all impairment is allocated to specific exposures, these impairment amounts initially constituted in the unallocated form will, once conditions exist, be fully distributed over the exposures in which their allocation is determined.

In terms of the governance model, both adjustments to specific exposures and impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

Individual impairment analysis process

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral.

The scheme below is illustrative of the individual credit analysis to be carried out for the purpose of concluding on the classification in terms of staging of debtors.



Selection Criteria

Individual Analysis (staging analysis and, when applicable, quantification of individual impairment) should be carried out for the borrowers who:

- Register Stage 3 exposure equal to or greater than € 1,000,000;
- Register Stage 2 exposure equal to or greater than € 5,000,000;
- Register Stage 2 exposure equal to or greater than 1,000,000 € and have no rating assigned;
- Register Stage 1 exposure equal to or greater than 5,000,000 € and have no rating assigned;
- Register Stage 1 exposure equal or greater than € 25,000,000 (individually significant exposure);
- Fit into the Financial Holding risk segment and register exposure equal to or greater than € 5,000,000;
- Fit into the Real Estate risk segment and register exposure equal to or greater than € 5,000,000;
- Are identified by the Committee itself based on other criteria that justify (e.g.; sector of activity);
- In the past, specific impairment has been attributed to them;
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

The identification of the target customers for Individual Analysis will be updated monthly, in order to contemplate any changes that may occur throughout the year. The Committee analysis of the customers identified in the previous paragraph will be carried out in the month in which:

- The client registers, for the first time, one of the selection criteria for Individual Impairment Analysis, mentioned in the previous paragraph;
- Expiry of the Analysis expiration date;
- Its analysis is requested by one of the participants of the Impairment Committee or by another Body.

The Individual Impairment Analysis can be carried out for individual customers but should whenever be possible consider the Economic Group view of the selected customers.

Decision Chain

The Board of Directors is the highest body for determining the amount of impairment to be attributed to each client. Due to its determination, the execution of this function is delegated to the structures mentioned below: the commercial area and, above all, the Rating Department and the Impairment Committee.

The individual Impairment Analysis decision chain is made up of three progressive levels of competence:

The approval of the final values of Impairment is carried out by the EBD in the approval of accounts.

Scope and Stakeholder Impairment Committee

The Impairment Committee has permanent members:

- DRT - Rating Department;
- DRG - Global Risk Department;
- DC - Credit Department;
- DCCF - Accounting, Consolidation and Tax Department;
- DRCE - Corporate Credit Recovery Department;
- DRCR ¬ Retail Credit Recovery Department;
- DAI - Internal Audit Department.

Also participating are the Commercial Units, clients' managers, who will be assessed at these meetings, and other specialized Entities or Departments whose presence is necessary for a better assessment of the impairment to be constituted. The Commercial Units vote exclusively in the cases related to the customers they accompany. The invited Entities or Departments do not have the right to vote.

Decisions resulting from the intervention of the Impairment Committee are taken by majority, with the DRT having the veto power. They are considered binding, unless otherwise determined by the Executive Board of Directors. Extended Impairment Committee, meets with the presence of the Directors responsible for the areas involved. Proposals are deemed to have been approved by obtaining the agreement of all Directors present.

Rules of Operation

The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Units regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral. For the analysis of the impairment quantification on an individual basis, a scenario is established that is expected to recover credit: through the continuity of the client's business or through the execution of the collateral. If this analysis results in no impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model (except for cases with objective evidence of loss / Default, in which the final rate will have to be defined).

The Individual Impairment quantification analysis determines, for each period, the best recovery scenario, aligning the commercial strategies defined for the client, with the different recovery possibilities. When, due to lack of information, it is not possible to identify or update the recovery scenario, the previous rate is maintained, and a new date is set for the client's review.

Main events that took place in 2020

The most relevant events of 2020 and with an impact on credit risk management policies and procedures consisted of:

1. implementation of the new Default definition;
2. incorporation into the collective unevenness model of the impact of the pandemic;
3. definition and development of specific risk mitigation initiatives emerging from the current context.

1. Implementation of the new Default definition

The internal and regulatory framework for the definition of Default is described in internal regulations and is implemented in accordance with article 178 of EU Regulation No. 575/2013, CRR.

The concept of Default was first determined by the criteria defined in section 2.1. of Part 4 of Annex IV of Notice no. 5/2007 and the additional clarifications agreed with Bank of Portugal at the meeting held on 17 March 2008 on this topic. In this sense, a default situation was considered with respect to a given borrower or contract, when one or more of the following events occurred: a) the borrower has delayed by more than 90 days, regarding any significant credit obligation to the banking group; or b) the Bank considers that there is a reduced probability that the borrower will fully comply with its obligations to the Bank, without resorting to specific mitigation actions, such as the activation of any guarantees held.

Since then, the definition of Default has been subject to adaptations in accordance with the new regulatory requirements provided for by the CRR and also by subsequent guidelines issued by EBA and included in this regulation. In 2016, with the publication of the final guidelines on the application of the definition of default under the terms of article 178 of the CRR (EBA/GL/2016/07 and EBA/RTS/2016/06), EBA established the objective of harmonizing the application the definition of Default in all entities covered by the SSM, leading to consistency and comparability in the calculation of capital requirements, both in Standard (SA) and IRB approaches. These issued guidelines introduce changes in the entire scope of the definition in force at the Bank until 2020, namely in the frequency of the process, in the criteria of days in arrears, materiality of the default and also in the indicators of reduced probability of payment.

This new definition of Default (nDoD) is in effect at the Bank through a daily process created specifically for this purpose since 31 May 2020[4]. In addition to the daily process, an effort has been made to recover historical information since 2009 (on a monthly basis), to apply these rules for marking and deselecting Default, on which the ongoing process of reviewing the risk parameters is based. The output of the recovery process of the historical default markings served as input to the daily rules engine, in order to reduce the gap between the default dates.

The close relationship between the definition of Default and other regulatory definitions, such as Non Performing Loans (NPL) and/or Non Performing Exposures (NPE), Credit Impaired Stage 3 and even Credit Forborne, led to the determination of an alignment of the concepts. In practical terms, the criteria for marking and deselecting Default will be as demanding as the applicability, not only of its specific regulatory requirements, but also of the requirements of these other regulatory definitions.

The definition of Default in effect since May 2020 considers a set of concepts that were not evaluated by the previous definition, namely the concepts of debtor and joint materiality in the default trigger. However, and in general lines, in view of the guidelines EBA / GL / 2016/07 and the alignment with other regulatory definitions, the definition of Default is based on the following pillars, determined on a daily basis, summarized in the following figure:

- Days in Default;
- Unlikely to pay deterministic situations;
- Pulling effect;
- Probation period;
- Default exit condition;

Considering the measure of specific triggers of Default or the Stage 3 determination indicators, the result will be the determination of Default and Stage 3 accordingly, taking as a starting point the default setting.

The Default setting for a given credit position is made automatically in cases where at least one of the specific triggers for the purpose is positive, encompassing the following situations, described in a non-exhaustive manner:

- Existence of credit amounts in default with more than 90 calendar days above the materiality threshold; this threshold is checked daily and it consists of an absolute and a relative component; material non-compliance is

4. Definition in force according to JST approval.

considered to exist when it cumulatively exceeds the absolute and relative thresholds; the amounts of overdue credit and exposure considered are determined at the level of the credit position typology (i.e. at the level of the credit facility or at the level of the debtor);

- Application of insolvency measures and / or other special protection measures;
- Sale of loan portfolios with material economic losses;
- Recognition of credit losses;
- Application of restructuring measures due to the existence of indicators of financial difficulties.

This definition of Default incorporates competing procedures (automatic and manual), for the evaluation and determination of the objective improvement of the quality of a debtor. This assessment will be automatic, during any probation period, through the application of a criteria that automatically cancels and resets those probative periods (restart of probation period). The probation period is a period of time during which the default marking of the contract, the client or the debtor remains active, even when the situation that originated the marking is regularized. Depending on the trigger and disregarding restarts, the minimum probation periods can range from 3 to 12 months. Only after the full and uninterrupted counting of the probation period can the trigger to which the period is applied be deselected. Although these automatic criteria guarantees an extensive evaluation of all exposures and debtors, the improvement in the quality of the debtor will be supplemented in all processes of deactivating manual triggers (when active) and in the process of assigning credit ratings (when applicable).

In the context of the application of the International Financial Reporting Standard 9 (IFRS 9), exposures of customers and impaired credits (in Credit Impaired Stage 3) will be identified. These situations may arise within the scope of the individual impairment analysis process, which, determining the existence of specific impairment, will promote the classification as Default. The determination of specific impairment through individual analysis includes the evaluation of the following indicators of possible occurrences of unlikely-to-pay (UTP):

a. A borrower's sources of recurring income are no longer available to meet the payment of installments;
b. There are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
c. The institution has executed collateral, including a guarantee;
d. The level of indebtedness of the debtor has increased significantly or there are reasons to believe that it will increase in the near future;
e. Absence of an active market for the debtor's financial instruments;
f. When there is a default of a company wholly owned by a single person, who has provided the institution with a personal guarantee for all the obligations of a company;
g. Fraud;
h. Postponement or extension of loans beyond the economic life duration;
i. Borrower's license is withdrawn;
j. The debtor used the contractual possibility to unilaterally change the payment plan established.

This process also considers the customer's assessment and exposures at the level of the interconnected client group, when applicable, namely if some of the relevant exposures or players in that group are in a default situation.

2) Incorporation into the covid impact collective impairment model

Given the general guidance received from supervisors throughout 2020 for the measurement and incorporation of impacts arising from the Covid-19 pandemic and given the level of uncertainty surrounding the extent of this impact, Novo Banco adopted by the end of the 3rd quarter of 2020 a strategy for the constitution of unevenness by accounting for an additional amount to the original result of the current model.

In any case, this additional amount accounted for – and updated – for the financial statements for the 3rd quarter was calculated through simulations of alternative conditions on the current model. Being certain that an additional amount of oddages not allocated to specific portfolios or exhibitions was recorded, this amount was calculated using the rules of the current model, but with alternative conditions. That is, this additional amount of parsing was calculated based on parallel simulations where, only for the purposes of these simulations, the risk and/or stage levels of some portfolios were deteriorated in a generalized way, in order to reflect the expected impact resulting from the pandemic.

During the 4th quarter and for the purposes of the December 2020 financial statements, this additional amount of parity was reversed since the impacts arising from the COVID pandemic were directly reflected in the result of the unevenness of the collective model in force.

So after:

i. definition and updating of the macroeconomic scenarios underlying the calculation of collective impairment in line with different expectations of the extent of the pandemic's impact;

ii. update of the IFRS 9 risk parameters - probability of default (PD) and severity (LGD) - in line with the new definition of default, either through the starting points or through the incorporation of forward-looking information;

iii. cross-sectional review of corporate ratings, particularly in sectors identified as severely affected and / or affected by the COVID pandemic.

The result of calculating collective impairment began to directly reflect the expected impact of this pandemic, and it is not necessary to resort to additional adjustments or, consequently, to the accounting of additional amounts of parity, not allocated to specific exposures.

Consequently, the estimated credit risk deterioration resulting from the pandemic is thus directly reflected in the exposures / portfolios where there was a downgrade of the associated rating and/or worsening in the applicable risk parameters (forward looking effect).

3) Definition and development of specific risk mitigation initiatives emerging from the current context

The Covid-19 pandemic event significantly impacted the normal development of economic activity, both due to limitations in the exercise and in the pattern of consumption and investment, as well as by significant restrictions on the way of operating of almost all sectors and agents of the economy, as a result of movement restrictions, increasing demands for social distancing, as well as the gradual deterioration of the confidence indices of individuals and companies.

This context has changed the risk profile of debtors and their prospect of future developments, and the Bank has timely adopted a set of joint initiatives to ensure adequate credit risk management:

- Quarterly review of risk appetite rules – from March, and quarterly, risk appetite rules applicable to different customer segments for the following quarter were evaluated, discussed and decided on the Executive Board. This review has led to different policy adjustments, initially focusing the Bank's credit activity on its customer base and placing greater restrictions on the risk to be taken on new customers, and at the same time created levels of risk appetite differentiation based on the impacts of the pandemic:
    i. In individual customers, the historical level of probability of default (PD's) observed and the expected level of PD's in the face of a macroeconomic deterioration suggested an adjustment in the cut-off points for the admission credit scoring and consumer credit for both new and existing customers;

    ii. For customers in the corporate segments, in view of the different impacts of the pandemic restrictions on economic activity, the Bank decided to group the sectors of activity into three risk appetite clusters. The first called "Covid sectors" is composed of the activities directly most affected by the pandemic and mobility restrictions and for this it defined a very limited risk appetite, recommending to operate only with well-known clients, in very low risk operations and with special care in the knowledge of the destination of the funds in new clients. The second cluster "Macro affected sectors" is composed of the sectors of economic activity that are impacted by a macroeconomic deterioration due to changes in consumption and investment patterns, having defined a limited risk appetite for the worst rating levels at which it is recommended to operate with low risk profile exposures. The third cluster "Other sectors" is composed of companies from other sectors of activities not materially impacted by the Covid-19 pandemic, or that are assessed as more resilient to this impact.

These risk appetite rules continue to be monitored and reviewed on a permanent basis to ensure that at every moment the Bank maintains up-to-date policies appropriate to each client's context and risk profile.

- Monitoring of the credit contracting profile under the new risk appetite rules – to ensure enough knowledge of new production within or outside risk appetite, weekly and monthly management information has been created for periodic sharing with the bank's different management bodies.
- Periodic follow-up of rating review activity and rating migration flows – to allow timely knowledge and identification of rating upgrade or downgrade movements in each segment of corporate, a new weekly and monthly management information was created with pre- and post-event Covid migration matrices for sharing with management bodies, which allow an identification of individual cases that have been reassessed by the Rating Department , as well as changes justified by changes in sectoral industry anchors.
- Portfolio limits review - the use of this internal risk appetite measurement and monitoring instrument that has been widely used by the Bank in recent years has intensified, as well as its metrics in relation to the new post-Covid context have been updated. The definition of annual objectives and the monthly monitoring of the most relevant business lines allow defining mandates in the company segments for the worst levels of ratings, for the weight of exposures without assigned rating, and for default exposures. In the case of private portfolios, these metrics are not defined according to the portfolio, but rather the new hire, and are among the worst rating levels, the highest debt repayment ratios and the highest LTV bands. In the new context of revised risk appetite rules, this monitoring process has proved to be topical and useful and continues to be shared periodically with the Bank's management bodies.
- Delegation of credit powers - at the same time as the quarterly risk appetite review, adjustments were included in the form of delegation of credit powers with the dual objective of limiting risk admission in out-of-appetite segments while maintaining agility in the admission process to ensure good support to the economy with borrowers in the best segments and best guaranteed exposures (e.g. Covid credit lines with SGM guarantee).
- Covid credit lines with SGM guarantee – given Novo Banco's natural market share and the strong government and banking sector's commitment to support the economy, ensuring the absence of interruption in access to credit by small and medium-sized enterprises, specific credit lines with SGM guarantee with coverage between 80% to 90% were created. This type of credit facility had a continuous growth throughout the year, reaching a total portfolio volume of approximately 1,000 million euros. This growing materiality justified the preparation of a set of management information that allowed the monitoring by the different management bodies of the Bank which the risk approved, the volume of new contracted production, and to know the profile of business customers in which these lines were granted;
- Operationalization and monitoring of legal and private initiative moratorium regimes: After an initial phase in which the priority was to create an operational context of great agility in the way the Bank confirmed the borrowers' eligibility and ensured the registration of the moratorium conditions in each contract covered, the dimension reached of the portfolios of corporate and individuals that remained under this regime has justified the immediate creation of management information that characterizes the evolution of this component of the portfolio and allowed to deepen the knowledge about its profile, which has been permanently monitored by the Bank's management bodies.

In addition to this global monitoring of the portfolio, in the following months Novo Banco undertook different initiatives in order to monitor the profile of customers who adhered to these regimes, and their standard of compliance and solvency, in order to identify in advance those who have not capacity to comply with future debt service after the end of the moratorium period, they may need other forms of support or restructuring, preventing their entry into default, notably:

i. Creation of a company evaluation questionnaire - initially having only historical economic and financial elements and in view of the need to reassess the companies' rating based on updated information that reflected the impact of the pandemic, Novo Banco created a questionnaire for evaluating companies with a significant set of questions that will allow them to collect information on the impact that the pandemic has had to date on these debtors, on the level of impact estimated by them in the full year 2020, as well as an estimate of impact on the activity in 2021. From its launch, the information in this questionnaire is now integrated into the recurring credit risk admission and follow-up process, so that all new decisions and policies marked are already informed with these data. Additionally, using the results obtained with this questionnaire, and after relying on the responses collected, Novo Banco has information that allows it to individualize the impacts of the pandemic at the level of each debtor, and simulate the effects on a change in the rating level and on an eventual migration of the Stage in which it is integrated;

ii. Indicators of financial deterioration of individuals - for individual customers, in addition to the current procedures for the prevention of default (PARI) and the management of default (PERSI), NOVO BANCO explored new sources of behavioral and transactional information for its customers, that allow it to identify internal or external signs of financial degradation. This set of enriched information will allow its customer base to be segmented by different levels of propensity to enter into default, and to implement a screening action and different support strategies adapted to the situation of each customer, preventing early entry in delinquency in view of the end date of the moratorium.

With priority for debtors under moratorium regime, for whom the Bank failed to observe data of compliance of debt service, but in which it is crucial to avoid the "cliff effect" that could originate with the end of the moratoriums through an identification and offering support in advance to those who are in financial difficulties, a wide range of variables from the behavioural scoring models, the Default model, the PARI regime, transactional data and different sources of internal and external information were analysed. The exercise carried out based on analytical support and a multidisciplinary expert judgment, allowed to choose the variables understood as the most predictive for the situation of financial difficulty and to define the materiality triggers that will better identify those debtors.

The choice of these indicators will allow the Bank to segment its portfolio of individuals into homogeneous groups of customers with a similar probability of future entry into default, in order to prioritize its performance: with immediate priority for the group of debtors who already exhibit financial difficulties, with a secondary priority for those who have a high propensity to default, and with low priority for those who do not register warning signs or have indicators of resilience.

In order to reinforce the set of operational measures now initiated to deal with the impacts of the pandemic on credit risk management, by the end of 2020 and in the course of 2021, Novo Banco will continue to develop different initiatives to ensure correct identification and early offer of support to debtors who may be experiencing difficulties at the end of the moratorium period.

Internal rating models for tCorporates, Institutions and stocks portfolios

Regarding the rating models for corporate portfolios, different approaches are adopted depending on the size and sector of activity of the clients. Specific models are also used, adapted to loan operations of project finance, acquisition finance, object finance, commodity finance and real estate development finance.

Below is a summary table on the types of risk models adopted in the internal assignment of credit ratings:

	Segmentation criteria	Model Type	Description
Expert Judgement ↑	**Sector, Size, Product** • Large entreprises • Finantial institutions • Municipalities • Institutional • Local and regional administrations • Realestate (Investment/Promotion) • Acquisition Finance • Project Finance • Object Finance • Commodity Finance	Template	Ratings atributed by teams of analyst, using specific models by sector (templates) and financial and qualitative information.
	Medium entreprises	Semi-automatic	Rating model based in financial, qualitative and behavioral information, validated by analysts.
↓ Statistical	Small entreprises Start-Up's and individual entrepreneurs	Automatic	Rating model based in financial, qualitative and behavioral information. Rating model based in qualitative and behavioral information.

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating models are not available are:

- Insurance and Pension Funds;
- Churches, political parties and non-profit associations with a turnover of less than Euro 500 thousand.

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and Specialized Loans - namely Project Finance, Object Finance, Commodity Finance and Acquisition Finance - the credit ratings are assigned by the Bank's Rating representation. This structure is made up of 7 multisectoral teams that comprise a team leader and several specialized technical analysts. The attribution of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of "expert-based" rating models (templates) that are based on qualitative and quantitative variables, strongly correlated with the sector or sectors of activity in which the clients under analysis operate. With the exception of assigning a rating to specialized loans, the methodology used by the Rating representation is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company in the respective economic group. The internal credit ratings are validated daily in a Rating Committee composed of members of the Rating Department's Management and the various specialized teams.

For the medium-sized corporate segment, statistical rating models are used, which combine financial data with qualitative and behavioral information. However, the publication of credit ratings requires the execution of a previous validation process that is carried out by a technical team of risk analysts, who also take into account behavioral variables. In addition to rating, these teams also monitor the customers' loan portfolio of the Bank through the preparation of risk analysis reports, as provided for in internal regulations, in accordance with the current responsibilities / customer rating binomial, which may include specific recommendations on the credit relationship with a given customer, as well as technical advice on investment support operations, restructuring, or other operations subject to credit risk.

For the business segment, statistical scoring models are also used which have, in addition to financial and qualitative information, the behavioral variables of the companies and the partner(s) in the calculation of credit ratings.

There are also implemented scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and individual entrepreneurs (ENI). These customers together with the small companies, depending on the exposure value, are included in the regulatory retail portfolios.

Finally, for companies in the real estate sector (companies dedicated to the activity of real estate promotion and investment, especially small and medium-sized companies), taking into account their specificities, the respective ratings are assigned by a specialized central team, based on use of specific models that combine the use of quantitative and technical variables (real estate appraisals carried out by specialized offices), as well as qualitative and behavioral variables.

With regard to exposures equated to shares held by the Bank, directly or indirectly through the holding of investment funds, as well as shareholders loans and supplementary capital contributions, all included in the risk class of shares for the purposes of calculating credit risk weighted assets, they are classified in the various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented above. These segmentation criteria determine the type of rating model to be applied to the issuers of the shares (or borrowers of the shareholders loans / supplementary capital contributions) and, therefore, to them.

Relationships between internal and external ratings

The assignment of an internal rating to entities with an external rating is made through the Markets Template available in the Rating Calculation application. The Markets Template gathers the external ratings that were assigned to a specific entity by the rating agencies Standard & Poor's (S&P), Moody's and Fitch.

Specifically, the functionality of providing external ratings from S&P - XpressFeed feeds the application of External Ratings on a daily basis, which allows the external ratings published by these agencies for a given entity to be filled in the Markets Template. The external ratings assigned by Moody's and Fitch are not obtained automatically, having to be entered manually in the Markets Template, after consulting the websites www.moodys.com and www.fitchratings.com.

The internal rating results, in the majority of situations, from the S&P equivalent external rating and, in exceptional situations, from the S&P equivalent external rating plus an internal adjustment, which must always be accompanied by justifying comments prepared by the analyst.

It should be noted that the S&P equivalent external rating is obtained by making a correspondence between the available external ratings and the rating scale of the referred financial rating agencies. The internal ratings produced by the Markets Template and which have had adjustments must be mandatorily approved and validated by the Rating Committee.

The table below shows the correspondence between the external ratings S&P, Moody's and Fitch and the equivalent external rating S&P:

S&P	Moody's	Fitch	Equivalent external rating S&P
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	Lower than CCC
CC	Ca	CC	
SD	C	C	
D		RD/D	

Internal scoring models for Individual portfolios

With regard to scoring models for individual portfolios, NB has origination / concession and behavioral scoring models (applied to operations older than 6 months).

These models are automatic, based on statistical models developed with internal information, considering socio-demographic information, loan characteristics, behavioral information and automatic penalties (if there are warning signs). In the case of behavioral models, information on the remaining loans of the contract holders is also considered.

NB is authorized by Bank of Portugal to use internal models in the calculation of regulatory capital requirements for the main portfolios of individuals: Mortgage Loans and Individual Loans. In addition, it has origination and behavioral scorings for the Credit Card, Overdraft and Loan Accounts products, which it uses for the purposes of designing and monitoring credit quality, however, not being IRB portfolios.

The table below displays the assets impaired, or overdue by not impaired:

(in thousands of Euros)

	31.12.2020					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	271 233	-	314 138	585 371	(250 153)	335 218
Securities held for trading	267 016	-	-	267 016	-	267 016
Bonds issued by government and other public entities	*267 016*	-	-	*267 016*	-	*267 016*
Securities at fair value through profit/loss - mandatory	647 082	-	-	647 082	-	647 082
Bonds issued by other entities	*647 082*	-	-	*647 082*	-	*647 082*
Securities at fair value through other comprehensive income	7 736 454	-	22 770	7 759 224	(3 660)	7 755 564
Bonds issued by government and other public entities	*6 406 465*	-	-	*6 406 465*	*(3 095)*	*6 403 370*
Bonds issued by other entities	*1 329 989*	-	*22 770*	*1 352 759*	*(565)*	*1 352 194*
Securities at amortised cost	2 957 737	-	119 605	3 077 342	(202 460)	2 874 882
Bonds issued by government and other public entities	*415 192*	-	-	*415 192*	*(576)*	*414 616*
Bonds issued by other entities	*2 542 545*	-	*119 605*	*2 662 150*	*(201 884)*	*2 460 266*
Loans and advances to customers	21 195 090	6 364	2 130 652	23 332 108	(1 587 003)	21 745 105

(in thousands of Euros)

	31.12.2019					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	282 647	-	381 501	664 148	(77 134)	587 014
Securities held for trading	254 848	-	-	254 848	-	254 848
Bonds issued by government and other public entities	*254 848*	-	-	*254 848*	-	*254 848*
Securities at fair value through profit/loss - mandatory	694 667	-	-	694 667	-	694 667
Bonds issued by other entities	*694 667*	-	-	*694 667*	-	*694 667*
Securities at fair value through other comprehensive income	8 643 361	-	45 520	8 688 881	(5 505)	8 683 376
Bonds issued by government and other public entities	*7 027 343*	-	-	*7 027 343*	*(4 476)*	*7 022 867*
Bonds issued by other entities	*1 616 018*	-	*45 520*	*1 661 538*	*(1 029)*	*1 660 509*
Securities at amortised cost	2 448 522	-	104 475	2 552 997	(160 154)	2 392 843
Bonds issued by government and other public entities	*459 260*	-	-	*459 260*	*(704)*	*458 556*
Bonds issued by other entities	*1 989 262*	-	*104 475*	*2 093 737*	*(159 450)*	*1 934 287*
Loans and advances to customers	22 115 138	15 390	2 914 987	25 045 515	(1 841 483)	23 204 032

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - which corresponds to Stage 3); and (ii) exposures classified as having specific impairment after individual impairment assessment.

The exposures classified as not having impairment relate to (i) all exposures that do not show signs of significant deterioration in credit risk - exposures classified in Stage 1; (ii) exposures that, showing signs of significant deterioration in credit risk, have no objective evidence of loss or specific impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(in thousands of Euros)

	31.12.2020					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	34 726	5 148	15 179
3 months to 1 year	-	15 126	-	-	912	56 905
1 to 3 years	-	10 330	-	-	153	91 301
3 to 5 years	-	34 444	-	-	23	231 222
More than 5 years	-	82 475	-	-	130	215 280
	-	**142 375**	**-**	**34 726**	**6 366**	**609 887**
Due						
Up to 3 months	-	-	-	-	-	37 231
3 months to 1 year	-	-	-	-	-	312 428
1 to 3 years	-	-	-	-	-	266 246
3 to 5 years	-	-	-	-	-	146 644
More than 5 years	-	-	-	279 412	-	758 216
	-	**-**	**-**	**279 412**	**-**	**1 520 765**
	-	**142 375**	**-**	**314 138**	**6 366**	**2 130 652**

(in thousands of Euros)

	31.12.2019					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	-	12 938	21 436
3 months to 1 year	-	6 770	-	-	629	67 617
1 to 3 years	-	56 070	-	-	999	312 133
3 to 5 years	-	87 155	-	-	740	348 588
More than 5 years	-	-	-	-	84	332 081
	-	**149 995**	**-**	**-**	**15 390**	**1 081 855**
Due						
Up to 3 months	-	-	-	-	-	117 387
3 months to 1 year	-	-	-	-	-	320 262
1 to 3 years	-	-	-	-	-	495 393
3 to 5 years	-	-	-	-	-	161 206
More than 5 years	-	-	-	381 501	-	738 884
	-	**-**	**-**	**381 501**	**-**	**1 833 132**
	-	**149 995**	**-**	**381 501**	**15 390**	**2 914 987**

The following table shows the assets that are impaired or overdue but not impaired, broken down by the respective impairment stage:

(in thousands of Euros)

	31.12.2020				31.12.2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	314 138	-	314 138	-	381 501	-	381 501
Securities at fair value through other comprehensive income	-	-	22 770	22 770	-	-	45 520	45 520
Securities at amortised cost	-	-	119 605	119 605	-	-	104 475	104 475
Loans and advances to customers	1 671	4 691	2 130 656	2 137 018	934	14 456	2 914 987	2 930 377
	1 671	**318 829**	**2 273 031**	**2 593 531**	**934**	**395 957**	**3 064 982**	**3 461 873**

Regarding assets that are neither past due nor impaired, the distribution by rating level is presented below. For the debt instruments, the rating assigned by the Rating Agencies is taken into account, for the credit to clients and cash and deposits with credit institutions, the internal rating and scoring models are used, that assign a risk rating, which is periodically reviewed. For the purposes of presenting the information, the ratings have been aggregated into five major risk groups, with the last group including the unrated exposures.

(in thousands of Euros)

	31.12.2020					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	-	4 997	9 153	29 657	227 426	271 233
Securities held for trading	-	-	267 016	-	-	267 016
Bonds issued by government and other public entities	*-*	*-*	*267 016*	*-*	*-*	*267 016*
Securities at fair value through profit/loss - mandatory	-	32 670	-	-	614 412	647 082
Bonds issued by other entities	*-*	*32 670*	*-*	*-*	*614 412*	*647 082*
Securities at fair value through other comprehensive income	1 415 572	2 335 007	3 247 135	-	738 740	7 736 454
Bonds issued by government and other public entities	*966 035*	*2 322 904*	*2 863 559*	*-*	*253 967*	*6 406 465*
Bonds issued by other entities	*449 537*	*12 103*	*383 576*	*-*	*484 773*	*1 329 989*
Securities at amortised cost	-	51 608	140 510	37 958	2 727 661	2 957 737
Bonds issued by government and other public entities	*-*	*-*	*-*	*-*	*415 192*	*415 192*
Bonds issued by other entities	*-*	*51 608*	*140 510*	*37 958*	*2 312 469*	*2 542 545*
Loans and advances to customers	3 312 685	7 689 385	2 375 213	6 757 902	1 059 906	21 195 090

(in thousands of Euros)

	31.12.2019					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	45	5 004	13 411	33 961	230 226	282 647
Securities held for trading	-	5 070	249 778	-	-	254 848
Bonds issued by government and other public entities	*-*	*5 070*	*249 778*	*-*	*-*	*254 848*
Securities at fair value through profit/loss - mandatory	-	47 340	-	-	647 327	694 667
Bonds issued by other entities	*-*	*47 340*	*-*	*-*	*647 327*	*694 667*
Securities at fair value through other comprehensive income	1 615 203	2 407 116	3 854 798	-	766 244	8 643 361
Bonds issued by government and other public entities	*1 169 578*	*2 400 889*	*3 456 876*	*-*	*-*	*7 027 343*
Bonds issued by other entities	*445 625*	*6 227*	*397 922*	*-*	*766 244*	*1 616 018*
Securities at amortised cost	-	-	101 711	35 479	2 311 332	2 448 522
Bonds issued by government and other public entities	*-*	*-*	*-*	*-*	*459 260*	*459 260*
Bonds issued by other entities	*-*	*-*	*101 711*	*35 479*	*1 852 072*	*1 989 262*
Loans and advances to customers	2 742 396	7 937 525	2 541 376	7 373 023	1 520 819	22 115 138

As of 31 December 2020 and 2019, the breakdown of gross credit exposure and impairment by segment was as follows:

(in thousands of Euros)

Segment	31.12.2020													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	11 964 412	326 906	7 196	645	11 971 608	327 551	942 985	478 871	808 614	541 270	1 751 599	1 020 141	13 723 207	1 347 692
Mortgage loans	8 164 517	13 813	51 700	1 408	8 216 217	15 221	89 546	13 967	88 783	23 673	178 329	37 640	8 394 546	52 861
Consumer and other loans	1 001 602	21 940	12 026	2 374	1 013 628	24 314	147 553	122 358	53 174	39 778	200 727	162 136	1 214 355	186 450
Total	**21 130 531**	**362 659**	**70 922**	**4 427**	**21 201 453**	**367 086**	**1 180 084**	**615 196**	**950 571**	**604 721**	**2 130 655**	**1 219 917**	**23 332 108**	**1 587 003**

(in thousands of Euros)

Segment	31.12.2019													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	12 470 938	153 664	59 316	3 144	12 530 254	156 808	1 150 070	522 725	1 425 941	966 163	2 576 011	1 488 888	15 106 265	1 645 696
Mortgage loans	8 341 812	13 667	32 833	504	8 374 645	14 171	55 171	18 616	94 242	25 543	149 413	44 159	8 524 058	58 330
Consumer and other loans	1 143 292	3 738	7 160	387	1 150 452	4 125	149 401	54 750	115 339	78 582	264 740	133 332	1 415 192	137 457
Total	**21 956 042**	**171 069**	**99 309**	**4 035**	**22 055 351**	**175 104**	**1 354 642**	**596 091**	**1 635 522**	**1 070 288**	**2 990 164**	**1 666 379**	**25 045 515**	**1 841 483**

As of 31 December 2020 and 2019, the details of the loan portfolio by segment and by reference year were as follows:

(in thousands of Euros)

Year of production	31.12.2020											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and earlier	4 416	252 369	29 047	63 963	1 297 344	12 791	686 895	53 142	-	755 274	1 602 855	41 838
2005	790	66 092	6 232	5 189	201 280	2 323	10 356	7 100	405	16 335	274 472	8 960
2006	1 024	227 895	52 135	7 592	319 853	2 651	17 328	8 929	1 016	25 944	556 677	55 802
2007	1 266	307 258	46 033	11 598	486 328	5 232	24 909	11 885	1 485	37 773	805 471	52 750
2008	1 243	504 523	29 945	11 071	521 485	4 318	19 736	10 131	749	32 050	1 036 139	35 012
2009	958	281 183	40 351	8 830	450 829	4 066	11 761	17 890	8 860	21 549	749 902	53 277
2010	1 179	311 365	88 463	8 374	474 219	3 934	18 110	26 777	1 211	27 663	812 361	93 608
2011	1 178	214 435	48 528	4 671	216 298	2 138	20 701	16 279	1 099	26 550	447 012	51 765
2012	1 451	376 177	133 141	2 562	94 255	1 409	27 270	15 358	2 008	31 283	485 790	136 558
2013	1 980	504 129	116 773	2 969	147 105	1 513	24 607	21 864	9 555	29 556	673 098	127 841
2014	2 008	450 375	192 967	1 880	105 331	739	24 178	15 969	944	28 066	571 675	194 650
2015	3 301	717 339	134 254	2 888	180 326	786	29 146	115 587	90 414	35 335	1 013 252	225 454
2016	4 756	798 567	60 273	5 990	415 630	1 624	48 507	80 968	24 397	59 253	1 295 165	86 294
2017	7 737	1 104 321	64 773	9 280	748 225	3 022	55 051	113 733	10 949	100 343	1 966 279	78 744
2018	8 758	1 897 622	113 881	10 539	988 329	2 700	65 830	187 836	10 847	85 127	3 073 787	127 428
2019	10 234	2 737 975	135 476	10 483	1 021 066	2 348	73 340	287 740	14 862	94 057	4 046 781	152 686
2020	17 021	2 971 582	55 420	7 136	726 643	1 267	46 926	223 167	7 649	71 083	3 921 392	64 336
Total	**69 300**	**13 723 207**	**1 347 692**	**175 015**	**8 394 546**	**52 861**	**1 204 651**	**1 214 355**	**186 450**	**1 477 241**	**23 332 108**	**1 587 003**

(in thousands of Euros)

	31.12.2019											
Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and earlier	5 944	323 531	50 349	69 815	1 498 793	35 252	738 795	91 401	-	814 554	1 913 725	85 601
2005	1 191	106 870	11 686	5 827	240 418	1 396	15 293	11 597	311	22 311	358 885	13 393
2006	1 418	278 837	36 363	8 204	374 449	1 552	19 804	17 362	1 078	29 426	670 648	38 993
2007	1 688	416 957	43 036	12 417	554 961	3 225	28 209	22 104	1 346	42 314	994 022	47 607
2008	1 658	663 195	27 284	11 751	584 123	2 361	22 463	22 534	976	35 872	1 269 852	30 621
2009	1 355	366 741	40 680	9 375	498 041	2 059	13 686	26 484	5 137	24 416	891 266	47 876
2010	1 806	414 791	95 760	9 080	529 007	2 583	24 196	38 142	1 851	35 082	981 940	100 194
2011	1 599	348 886	54 549	5 017	244 291	1 150	24 077	21 520	1 225	30 693	614 697	56 924
2012	2 006	641 597	300 890	2 813	110 965	762	33 038	26 048	4 271	37 857	778 610	305 923
2013	2 889	727 339	198 367	3 243	169 289	861	28 930	42 707	15 564	35 062	939 335	214 792
2014	3 545	660 642	198 803	2 102	127 272	415	29 000	26 631	2 147	34 647	814 545	201 365
2015	5 061	952 786	129 660	3 165	207 902	599	36 827	129 491	43 687	45 053	1 290 179	173 946
2016	7 046	1 147 180	100 319	6 481	464 941	953	59 469	120 473	35 678	72 996	1 732 594	136 950
2017	10 094	1 720 989	159 221	9 964	826 096	2 776	67 303	172 043	12 722	100 343	2 719 128	174 719
2018	10 784	2 632 707	101 621	11 152	1 059 847	1 178	78 299	257 016	6 473	100 235	3 949 570	109 272
2019	21 379	3 703 217	97 108	10 355	1 033 663	1 208	76 142	389 639	4 991	107 876	5 126 519	103 307
Total	**79 463**	**15 106 265**	**1 645 696**	**180 761**	**8 524 058**	**58 330**	**1 295 531**	**1 415 192**	**137 457**	**1 568 737**	**25 045 515**	**1 841 483**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of NOVO BANCO.

As at 31 December 2020 and 2019, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by segment, is presented as follows:

(in thousands of Euros)

	31.12.2020					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 666 138	958 934	12 057 069	388 758	13 723 207	1 347 692
Mortgage loans	4 368	212	8 390 178	52 649	8 394 546	52 861
Consumer and other loans	155 734	136 305	1 058 621	50 145	1 214 355	186 450
Total	**1 826 240**	**1 095 451**	**21 505 868**	**491 552**	**23 332 108**	**1 587 003**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee

(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2019					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	2 416 692	1 407 752	12 689 573	237 944	15 106 265	1 645 696
Mortgage loans	10 883	2 386	8 513 175	55 944	8 524 058	58 330
Consumer and other loans	200 414	115 384	1 214 778	22 073	1 415 192	137 457
Total	**2 627 989**	**1 525 522**	**22 417 526**	**315 961**	**25 045 515**	**1 841 483**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee

(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

In the case of credits analyzed by the Impairment Committee for which the impairment determined automatically by the Impairment Model has not been changed, they are included and presented in the "Collective assessment".

In order to mitigate credit risk, credit operations have associated guarantees, namely mortgages or pledges. The fair value of these guarantees is determined at the date of granting the credit and is periodically reassessed. Below is the gross value of the credits and the respective fair value of the collateral, limited to the value of the associated credit:

(in thousands of Euros)

	31.12.2020		31.12.2019	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	8 202 521	8 189 574	8 361 300	8 347 345
Pledges	108 122	107 653	77 307	76 667
Not collateralized	83 903	-	85 451	-
	8 394 546	**8 297 227**	**8 524 058**	**8 424 012**
Individuals - Other				
Mortgages	212 611	210 025	261 974	256 489
Pledges	224 402	108 797	295 965	165 438
Not collateralized	777 344	-	857 253	-
	1 214 357	**318 822**	**1 415 192**	**421 927**
Corporate				
Mortgages	3 574 775	3 093 988	2 868 316	2 535 429
Pledges	2 189 282	816 102	5 002 788	2 568 332
Not collateralized	7 959 148	-	7 235 161	-
	13 723 205	**3 910 090**	**15 106 265**	**5 103 761**
Total	**23 332 108**	**12 526 139**	**25 045 515**	**13 949 700**

The difference between the value of the credit and the fair value of the collateral represents the total credit exposure that exceeds the value of the collateral, this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The details of the collateral – mortgages are presented as follows:

(in thousands of Euros)

	31.12.2020							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5€mn	169 495	7 996 840	4 920	194 590	8 919	481 531	183 334	8 672 961
>= 0,5€mn e <1,0€mn	248	146 377	26	8 552	2 173	259 748	2 447	414 677
>= 1,0€mn e <5,0€mn	36	46 357	3	6 883	7 509	830 667	7 548	883 907
>= 5,0€mn e <10,0€mn	-	-	-	-	5 979	401 084	5 979	401 084
>= 10,0€mn e <20,0€mn	-	-	-	-	4 014	477 539	4 014	477 539
>= 20,0€mn e <50,0€mn	-	-	-	-	170	471 926	170	471 926
>=50€mn	-	-	-	-	1 566	171 493	1 566	171 493
	169 779	**8 189 574**	**4 949**	**210 025**	**30 330**	**3 093 988**	**205 058**	**11 493 587**

(in thousands of Euros)

	31.12.2019							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5€mn	175 277	8 160 435	5 205	221 517	5 299	384 020	185 781	8 765 972
>= 0,5€mn e <1,0€mn	234	138 221	44	16 666	2 100	238 306	2 378	393 193
>= 1,0€mn e <5,0€mn	46	48 689	18	18 306	6 365	697 100	6 429	764 095
>= 5,0€mn e <10,0€mn	-	-	-	-	651	323 305	651	323 305
>= 10,0€mn e <20,0€mn	-	-	-	-	3 267	303 602	3 267	303 602
>= 20,0€mn e <50,0€mn	-	-	-	-	222	518 961	222	518 961
>=50€mn	-	-	-	-	1	70 135	1	70 135
	175 557	**8 347 345**	**5 267**	**256 489**	**17 905**	**2 535 429**	**198 729**	**11 139 263**

The values of collateral - mortgages, presented above, represent the maximum coverage value of the covered assets, that is, that compete up to the gross value of the individual credits covered.

In assessing the risk of an operation or set of operations, the elements of credit risk mitigation associated with them are taken into account, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:

i. Real estate, where the value considered is the correspondent to the last available valuation;

ii. Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of being a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collateral as a guarantee for credit operations refers to the need to define and implement risk mitigation techniques to which these collaterals are exposed. Thus, and as an approach to this matter, the Group stipulated a set of procedures applicable to collateral (namely financial and real estate), which cover, among others, the volatility of the collateral value, its liquidity and also an indication as to the recovery rates associated with each type of collateral.

The internal rules on credit powers thus have a specific chapter on this point, "Acceptance of collateral - techniques for mitigating the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process for real estate is performed by independent valuation experts registered in CMVM, following the methodologies as described in Note 2.10.

The analysis of risk exposure by sector of activity, as at 31 December 2020 and 2019, is presented as follows:

(in thousands of Euros)

	31.12.2020											
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss -mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	312 351	(10 816)	-	690	-	-	29 227	(13)	19 196	(26)	12 375	(517)
Mining	74 466	(18 596)	-	-	-	-	-	-	18 380	(4)	7 878	(101)
Food, Beverages and Tobacco	529 565	(16 540)	-	10 113	-	-	-	-	73 076	(2 277)	50 423	(413)
Textiles and Clothing	355 642	(15 805)	-	255	-	-	-	-	1 197	-	9 336	(4 545)
Leather and Shoes	72 598	(3 184)	-	-	-	-	-	-	-	-	2 074	(107)
Wood and Cork	116 210	(3 847)	-	236	-	-	-	-	12 512	(49)	6 546	(32)
Paper and Printing Industry	203 317	(18 887)	-	27	-	-	-	-	31 483	(48)	3 542	(30)
Refining of Petroleum	9 867	(14)	-	-	-	-	-	-	40 135	(20)	1 804	-
Chemicals and Rubber	322 420	(5 174)	-	1 576	-	-	19 597	(13)	131 643	(67)	18 684	(176)
Non-metallic Minerals	125 466	(7 753)	-	-	-	-	16 483	(14)	3 441	(4)	18 441	(365)
Metallurgical Industries and Metallic Products	359 607	(12 454)	-	281	-	-	16 533	(10)	1 498	(21)	42 634	(326)
Production of Machinery, Equipment and Electrical De.	140 719	(9 055)	-	349	-	-	42 692	(26)	45 059	(22)	64 734	(1 126)
Production of Transport Material	118 807	(2 996)	-	78	-	-	-	-	15 039	(8)	12 254	(106)
Other Transforming Industries	140 305	(11 021)	-	-	-	-	-	-	4 987	(35)	18 390	(767)
Electricity, Gas and Water	335 699	(19 027)	-	22 809	-	-	33 978	(25)	138 950	(418)	100 480	(69)
Construction and Public Works	1 385 292	(165 139)	-	97 763	-	-	-	-	182 619	(60 754)	884 307	(41 058)
Wholesale and Retail Trade	1 351 020	(53 925)	-	3 741	-	-	41 174	(27)	43 686	(43)	199 766	(3 933)
Tourism	958 614	(80 109)	-	362	-	-	182	-	-	-	61 959	(6 338)
Transport and Communication	866 433	(53 225)	-	67 527	-	-	99 577	(63)	11 639	(16)	376 299	(9 104)
Financial Activities	485 232	(61 084)	-	163 852	2 261 955	13 606	745 465	(249)	1 039 119	(2 204)	133 904	(1 231)
Real Estate Activities	1 767 550	(220 722)	-	8 147	-	-	867	-	100 777	(26 181)	213 583	(15 437)
Services Provided to Companies	2 315 390	(319 495)	-	9 034	181 272	-	95 545	(53)	705 450	(109 627)	386 470	(4 216)
Public Administration and Services	582 452	(26 260)	267 016	-	-	-	6 406 747	(3 095)	415 192	(576)	23 746	(279)
Other activities of collective services	675 917	(142 699)	-	1 471	2 378	-	99 878	(58)	42 264	(60)	142 323	(1 109)
Mortgage Loans	8 394 546	(52 861)	-	-	-	-	-	-	-	-	35	-
Consumers Loans	1 214 355	(186 450)	-	-	-	-	-	-	-	-	6 584	(345)
Others	118 268	(69 865)	-	-	-	-	165 639	(14)	-	-	17 349	(175)
TOTAL	**23 332 108**	**(1 587 003)**	**267 016**	**388 311**	**2 445 605**	**13 606**	**7 813 584**	**(3 660)**	**3 077 342**	**(202 460)**	**2 815 920**	**(91 905)**

(in thousands of Euros)

	31.12.2019													
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss -mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	359 216	(16 846)	-	511	-	-	31 712	(15)	5 968	(15)	12 960	(517)
Mining	83 884	(12 644)	-	-	-	-	109	-	-	-	8 082	(101)
Food, Beverages and Tobacco	505 630	(19 921)	-	10 863	-	-	-	-	22 640	(2 218)	56 162	(413)
Textiles and Clothing	301 433	(13 746)	-	199	-	-	9 988	(9)	3 596	(3)	9 964	(4 545)
Leather and Shoes	57 665	(4 321)	-	51	-	-	-	-	1 999	(1)	1 660	(107)
Wood and Cork	91 188	(3 307)	-	178	-	-	-	-	996	(2)	6 347	(32)
Paper and Printing Industry	200 165	(34 492)	-	-	-	-	-	-	2 498	(5)	4 344	(30)
Refining of Petroleum	9 337	(56)	-	-	-	-	-	-	-	-	5 210	-
Chemicals and Rubber	326 185	(7 887)	-	958	-	-	19 305	(16)	2 985	(6)	25 461	(176)
Non-metallic Minerals	125 689	(16 239)	-	-	-	-	16 664	(16)	3 648	(3)	17 083	(365)
Metallurgical Industries and Metallic Products	405 106	(10 418)	-	750	-	-	21 142	(18)	6 706	(17)	40 531	(326)
Production of Machinery, Equipment and Electrical De.	130 167	(6 998)	-	788	-	-	20 643	(12)	492	(1)	60 622	(1 126)
Production of Transport Material	98 499	(2 951)	-	87	-	-	-	-	-	-	10 370	(106)
Other Transforming Industries	140 900	(8 094)	-	1	-	-	-	-	4 987	(17)	26 357	(767)
Electricity, Gas and Water	433 935	(22 594)	-	31 996	-	-	54 410	(42)	195 061	(1 002)	78 669	(69)
Construction and Public Works	1 403 603	(233 728)	-	94 989	-	-	-	-	183 129	(34 604)	891 976	(43 175)
Wholesale and Retail Trade	1 344 491	(76 997)	-	1 435	-	-	40 450	(29)	13 834	(9)	243 430	(3 933)
Tourism	892 265	(36 761)	-	520	-	-	144	-	-	-	70 066	(6 338)
Transport and Communication	1 069 908	(72 748)	-	105 644	-	-	134 815	(89)	10 227	(11)	386 904	(9 104)
Financial Activities	569 697	(66 966)	-	217 584	2 853 130	7 992	695 745	(220)	852 758	(1 833)	310 877	(1 231)
Real Estate Activities	2 090 730	(214 247)	-	7 898	2 751	-	35 355	(19)	115 989	(18 081)	233 628	(15 437)
Services Provided to Companies	2 901 234	(424 259)	-	15 910	176 565	-	314 227	(77)	656 224	(101 424)	464 190	(4 216)
Public Administration and Services	654 481	(26 264)	254 848	1 391	-	-	7 027 687	(4 476)	459 260	(704)	24 920	(279)
Other activities of collective services	793 487	(273 696)	-	2 235	12 278	-	172 519	(447)	10 000	(198)	130 625	(1 110)
Mortgage Loans	8 524 058	(58 330)	-	-	-	-	-	-	-	-	33	-
Consumers Loans	1 415 192	(137 457)	-	-	-	-	-	-	-	-	12 490	(345)
Others	117 370	(39 516)	-	-	-	-	163 216	(20)	-	-	15 255	(175)
TOTAL	**25 045 515**	**(1 841 483)**	**254 848**	**493 988**	**3 044 724**	**7 992**	**8 758 131**	**(5 505)**	**2 552 997**	**(160 154)**	**3 148 216**	**(94 023)**

The Bank proceeds to the identification and register of restructured credit contracts due to the client's financial difficulties whenever there are changes to the terms and conditions of a contract in which the client has defaulted, that is, it is foreseeable that it will default, with a financial obligation. It is considered that there is a change to the terms and conditions of the contract when (i) there are contractual changes to the benefit of the customer, such as extending the term, introducing grace periods, reducing the rate or partial debt forgiveness; (ii) there is a contracting of a new credit operation to settle the existing debt (total or partial); or (iii) the new terms of the contract are more favourable than those applied to other customers with the same risk profile.

The cancellation of a restructured credit due to the client's financial difficulties can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively fulfilled: (i) regular payment of capital and interest; (ii) the customer has no capital or interest due; and (iii) there were no debt restructuring mechanisms by the client in that period.

The amounts of the restructured loans due to financial difficulties of the customer as at 31 December 2020 and 2019, are as follows:

(in thousands of Euros)

	31.12.2020	31.12.2019
Corporate	1 778 103	2 380 724
Mortgage loans	129 041	110 173
Consumer and other loans	146 359	203 163
Total	**2 053 503**	**2 694 060**

The details of the restructuring measures applied to restructured loans up to 31 December 2020 and 2019 are shown below:

(in thousands of Euros)

Solution	31.12.2020								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	43	57 740	3 922	147	171 857	103 632	190	229 597	107 554
Assets received in partial settlement of loan	20	1 104	159	21	2 043	1 893	41	3 147	2 052
Capitalization of interest	43	12 951	995	181	123 462	74 085	224	136 413	75 080
New loan in total or partial payment of existing loan	1 453	87 691	10 024	549	228 736	145 098	2 002	316 427	155 122
Extension of repayment period	2 052	513 686	81 688	908	585 153	379 784	2 960	1 098 839	461 472
Introduction of grace period of principal or interest	332	33 497	1 504	106	60 007	28 009	438	93 504	29 513
Decrease in the interest rates	100	13 795	466	30	65 171	23 549	130	78 966	24 015
Changes of the lease payment plan	118	9 574	783	71	39 596	21 771	189	49 170	22 554
Changes in the interest paymen	4	15	1	2	2 769	2 380	6	2 784	2 381
Other	1 381	25 256	1 108	640	19 400	13 865	2 021	44 656	14 973
Total	**5 546**	**755 309**	**100 650**	**2 655**	**1 298 194**	**794 066**	**8 201**	**2 053 503**	**894 716**

(in thousands of Euros)

Solution	31.12.2019								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	20	48 655	5 293	188	227 103	130 871	208	275 758	136 164
Assets received in partial settlement of loan	10	144	3	24	3 308	2 449	34	3 452	2 452
Capitalization of interest	26	49 312	454	213	153 804	76 982	239	203 116	77 436
New loan in total or partial payment of existing loan	1 596	141 014	6 228	802	419 195	291 095	2 398	560 209	297 323
Extension of repayment period	964	414 509	26 658	892	635 876	375 121	1 856	1 050 385	401 779
Introduction of grace period of principal or interest	585	61 338	1 413	219	174 544	88 264	804	235 882	89 677
Decrease in the interest rates	122	57 174	1 706	53	99 222	33 640	175	156 396	35 346
Changes of the lease payment plan	52	16 473	861	45	36 631	10 535	97	53 104	11 396
Changes in the interest paymen	6	3 142	60	6	13 954	12 548	12	17 096	12 608
Other	2 232	76 314	1 431	1 188	62 348	30 353	3 420	138 662	31 784
Total	**5 613**	**868 075**	**44 107**	**3 630**	**1 825 985**	**1 051 858**	**9 243**	**2 694 060**	**1 095 965**

Market risk

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

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2020				31.12.2019			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	896	2 138	6 154	735	3 688	2 173	2 315	1 141
Interest rate risk	14 433	35 495	70 332	14 433	42 292	29 133	50 203	11 305
Shares and commodities	183	192	378	80	295	285	207	209
Volatility	37	139	523	37	314	470	78	189
Credit spread	2 652	5 051	12 960	1 640	1 771	3 537	3 401	3 705
Diversification effect	(2 420)	(5 290)	(14 746)	(1 144)	(4 257)	(5 436)	(4 136)	(3 138)
Total	**15 781**	**37 725**	**75 601**	**15 781**	**44 103**	**30 162**	**52 068**	**13 411**

NOVO BANCO has a value at risk (VaR) of approximately Euro 15,781 thousand (31 December 2019: Euro 44,103 thousand) for its trading positions. The decrease is mainly explained by the lower position in derivatives to hedge interest rate risk in the banking portfolio.

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2018/02, NOVO BANCO calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2020						
	Eligible amounts	**Not sensitive**	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**
Loans to and deposits with banks	2 693 914	-	2 538 219	104 150	12 089	39 456	-
Loans and advances to customers	23 657 850	-	7 953 658	3 260 488	3 081 189	6 809 586	2 552 929
Securities	10 866 377	-	1 682 592	313 277	708 929	4 464 016	3 697 564
Other assets	1 254 599	-	656 287	598 312	-	-	-
Total			**12 830 756**	**4 276 227**	**3 802 207**	**11 313 058**	**6 250 493**
Deposits from banks	10 776 491	-	5 852 971	4 004 466	475 822	217 151	226 081
Due to customers	27 658 208	-	14 420 502	2 663 097	4 343 730	6 190 846	40 032
Debt securities issued	2 529 491	-	-	-	-	-	2 529 491
Other liabilities	236 632	-	114 681	25 299	47 614	49 037	1
Total			**20 388 154**	**6 692 862**	**4 867 166**	**6 457 034**	**2 795 605**
Balance sheet GAP (Assets - Liabilities)	(2 728 081)		(7 557 399)	(2 416 634)	(1 064 960)	4 856 024	3 454 888
Off-Balance sheet	17 178		2 581 791	1 543 874	(118 153)	(1 800 054)	(2 190 279)
Structural GAP	**(2 710 903)**		**(4 975 608)**	**(872 760)**	**(1 183 113)**	**3 055 969**	**1 264 608**
Accumulated GAP			**(4 975 608)**	**(5 848 368)**	**(7 031 481)**	**(3 975 512)**	**(2 710 903)**

(in thousands of Euros)

	31.12.2019						
	Eligible amounts	**Not sensitive**	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**
Loans to and deposits with banks	2 167 174	225 071	1 501 085	128 348	5 968	306 702	-
Loans and advances to customers	23 335 801	-	13 553 087	4 276 069	2 627 939	1 740 037	1 138 669
Securities	13 971 377	2 905 580	2 677 412	831 792	197 390	3 665 492	3 693 711
Total			**17 731 584**	**5 236 209**	**2 831 297**	**5 712 231**	**4 832 380**
Deposits from banks	10 537 319	-	4 563 027	3 574 498	257 221	2 085 803	56 771
Due to customers	27 340 955	-	13 590 830	2 944 059	4 873 671	5 833 381	99 014
Debt securities issued	853 987	-	-	-	-	-	853 987
Total			**18 153 857**	**6 518 557**	**5 130 892**	**7 919 184**	**1 009 772**
Balance sheet GAP (Assets - Liabilities)	(2 388 561)		(422 273)	(1 282 348)	(2 299 595)	(2 206 953)	3 822 609
Off-Balance sheet	871		2 091 755	2 558 318	(18 154)	(1 772 813)	(2 858 234)
Structural GAP	**(2 387 690)**		**1 669 482**	**1 275 970**	**(2 317 749)**	**(3 979 767)**	**964 375**
Accumulated GAP			**1 669 482**	**2 945 451**	**627 702**	**(3 352 064)**	**(2 387 690)**

Sensitivity analyzes are carried out for the interest rate risk of the banking portfolio based on the current difference in the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of displacement of the parallel yield curves (displacements of +/- 200 bp) and non-parallel (short rate shock up / down, steepener / flattener shocks), according to the outliers tests defined by the EBA.

(in thousands of Euros)

	31.12.2020					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	(119 060)	58 714	(79 332)	51 919	(5 075)	19 167
Exercise average	101 005	(14 077)	112 856	(17 148)	(86 325)	110 212
Exercise maximum	222 085	58 714	237 860	51 919	(5 075)	183 559
Exercise minimum	(119 060)	(61 170)	(79 332)	(87 651)	(177 904)	19 167

(in thousands of Euros)

	31.12.2019					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	(38 150)	28 195	79 168	(43 701)	(174 784)	103 919
Exercise average	(78 271)	51 999	97 337	(105 932)	(237 513)	124 597
Exercise maximum	12 378	87 906	148 907	(18 861)	(174 784)	157 128
Exercise minimum	(154 349)	28 195	71 900	(320 758)	(303 674)	103 919

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Group proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Bank did not record significant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were subject to the same change (hedged and hedged items).

The following table presents the average interest rates for the Bank major financial asset and liability categories, as at 31 December 2020 and 2019, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2020			31.12.2019		
	Average balance of the period	**Interest of the period**	**Average interest rate**	**Average balance of the period**	**Interest of the period**	**Average interest rate**
Monetary assets	2 964 259	17 085	0,57%	856 696	16 385	1,89%
Loans and advances to customers	23 007 206	517 579	2,22%	26 425 189	567 688	2,12%
Securities and other	11 859 535	168 766	1,40%	11 701 853	155 270	1,31%
Financial assets and differentials	**37 831 000**	**703 430**	**1,83%**	**38 983 738**	**739 343**	**1,87%**
Monetary Liabilities	10 739 033	(12 781)	-0,12%	9 839 928	33 056	0,33%
Due to customers	25 233 793	69 990	0,27%	28 489 942	160 138	0,55%
Differential liabilities	965 587	9 851	1,01%	653 868	-	-
Financial liabilities and differentials	**37 831 000**	**135 431**	**0,35%**	**38 983 738**	**193 194**	**0,49%**
Net interest income	-	**567 999**	**1,48%**	-	**546 149**	**1,38%**

With regard to exchange rate risk, the breakdown of assets and liabilities, as of 31 December 2020 and 2019, by currency, is analyzed as follows:

(in thousands of Euros)

		31.12.2020				31.12.2019			
		Spot Positions	Term positions	Other elements	Net Position	Spot Positions	Term positions	Other elements	Net Position
USD	UNITED STATES DOLLAR	(752 913)	779 774	99	26 960	(969 129)	1 007 152	(16 381)	21 642
GBP	GREAT BRITISH POUND	(67 061)	69 964	(2 067)	836	3 111	3 076	6 878	13 065
BRL	BRAZILIAN REAL	73 444	(72 362)	-	1 082	103 672	(52 218)	-	51 454
DKK	DANISH KRONE	(9 612)	9 804	-	192	(1 324)	1 407	-	83
JPY	JAPANESE YEN	(148)	-	2 067	1 919	(167)	311	-	144
CHF	SWISS FRANC	(8 657)	10 903	-	2 246	(8 182)	12 981	(208)	4 591
SEK	SWEDISH KRONE	19 523	(19 334)	-	189	47 022	(47 019)	-	3
NOK	NORWEGIAN KRONE	46 723	(46 086)	-	637	48 444	(47 344)	976	2 076
CAD	CANADIAN DOLLAR	(1 285)	3 518	-	2 233	(21 734)	44 657	-	22 923
ZAR	SOUTH AFRICAN RAND	(40)	(230)	-	(270)	544	(491)	-	53
AUD	AUSTRALIAN DOLLAR	5 002	(4 615)	-	387	3 326	10 753	-	14 079
VEB	VENEZUELAN BOLIVAR	1	-	-	1	1	-	-	1
MOP	MACAO PATACA	2 124	-	-	2 124	4 413	-	-	4 413
MAD	MOROCCAN DIRHAN	(3 081)	2 984	-	(97)	(2 748)	2 708	-	(40)
MXN	MEXICAN PESO	(198)	373	-	175	(319)	608	-	289
AOA	ANGOLAN KWANZA	8 781	-	-	8 781	13 053	-	-	13 053
PLN	POLISH ZLOTY	28 270	(29 125)	-	(855)	36 782	(5 988)	-	30 794
CZK	CZECH KORUNA	9 573	(9 979)	-	(406)	9 218	960	-	10 178
DZD	ALGERIAN DINAR	4 447	-	-	4 447	7 338	-	-	7 338
CNY	YUAN REN-MIN-BI	9 419	(9 487)	-	(68)	9 204	946	-	10 150
	OTHERS	(8 216)	(19 344)	-	(27 560)	1 305	1 616	-	2 921
		(643 904)	**666 758**	**99**	**22 953**	**(716 170)**	**934 115**	**(8 735)**	**209 210**

Note: assets / (liabilities)

Exposure to public debt in peripheral Eurozone countries

As of 31 December 2020 and 2019, the Bank's exposure to the public debt of "peripheral" countries in the Eurozone is as follows:

(in thousands of Euros)

	31.12.2020					
	Loans to customers	Securities held for trading	Derivative Instruments (1)	Securities at fair value through other comprehensive income	Securities at amortized cost	Total
Portugal	582 452	267 016	(16)	2 696 862	458 556	4 004 870
Spain	-	-	-	2 039 075	-	2 039 075
Ireland	-	-	-	237 844	-	237 844
Italy	-	-	-	52 044	-	52 044
	582 452	**267 016**	**(16)**	**5 025 825**	**458 556**	**6 333 833**

(1) Amounts presented by net: receivable / (payable)

(in thousands of Euros)

	31.12.2019					
	Loans to customers	Securities held for trading	Derivative Instruments (1)	Securities at fair value through other comprehensive income	Securities at amortized cost	Total
Portugal	618 374	249 778	(41)	3 282 077	458 556	4 608 744
Spain	35 924	5 070	-	2 181 282	-	2 222 276
Ireland	-	-	-	227 581	-	227 581
Italy	-	-	-	118 828	-	118 828
	654 298	**254 848**	**(41)**	**5 809 768**	**458 556**	**7 177 429**

(1) Amounts presented by net: receivable / (payable)

Except for Loans and advances to customers, all the exposures presented above, except those relating to loans and advances to customers, are recorded in the Bank balance sheet at fair value, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The detail on the exposure to securities is as follows:

(in thousands of Euros)

31.12.2020	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Securities at fair value through other comprehensive income						
Portugal	**2 346 882**	**2 671 267**	**25 595**	**2 696 862**	**-**	**125 602**
Maturity up to 1 year	196 679	199 933	913	200 846	-	600
Maturity over 1 year	2 150 203	2 471 334	24 682	2 496 016	-	125 002
Spain	**1 894 750**	**2 012 871**	**26 204**	**2 039 075**	**-**	**75 509**
Maturity over 1 year	1 514 750	1 630 359	25 144	1 655 503	-	74 029
Ireland	**193 600**	**236 205**	**1 639**	**237 844**	**-**	**39 340**
Maturity over 1 year	193 600	236 205	1 639	237 844	-	39 340
Italy	**49 821**	**51 854**	**190**	**52 044**	**-**	**2 561**
Maturity over 1 year	49 821	51 854	190	52 044	-	2 561
	4 485 053	**4 972 197**	**53 628**	**5 025 825**	**-**	**243 012**
Securities at amortized cost						
Portugal	**413 438**	**472 552**	**1 754**	**458 556**	**576**	**-**
Maturity over 1 year	413 438	472 552	1 754	458 556	576	-
	413 438	**472 552**	**1 754**	**458 556**	**576**	**-**
Securities held for trading						
Portugal	213 500	264 033	2 983	267 016	-	-
	213 500	**264 033**	**2 983**	**267 016**	**-**	**-**

(in thousands of Euros)

31.12.2019	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Securities at fair value through other comprehensive income						
Portugal	**2 762 168**	**3 246 711**	**35 366**	**3 282 077**	**-**	**156 907**
Maturity up to 1 year	369	377	10	387	-	1
Maturity over 1 year	2 761 799	3 246 334	35 356	3 281 690	-	156 906
Spain	**1 894 750**	**2 012 871**	**26 204**	**2 039 075**	**-**	**75 509**
Maturidade até 1 ano	380 000	382 512	1 060	383 572	-	1 480
Maturity over 1 year	1 514 750	1 630 359	25 144	1 655 503	-	74 029
Ireland	**200 000**	**225 855**	**1 726**	**227 581**	**-**	**22 419**
Maturity over 1 year	200 000	225 855	1 726	227 581	-	22 419
Italy	**115 606**	**118 261**	**567**	**118 828**	**-**	**2 816**
Maturity over 1 year	115 606	118 261	567	118 828	-	2 816
	4 972 524	**5 603 698**	**63 863**	**5 667 561**	**-**	**257 651**
Securities at amortized cost						
Portugal	**457 230**	**526 916**	**2 030**	**458 556**	**704**	**-**
Maturity over 1 year	457 230	526 916	2 030	458 556	704	-
	457 230	**526 916**	**2 030**	**458 556**	**704**	**-**
Securities held for trading						
Portugal	202 280	245 105	4 673	249 778	-	-
Spain	5 000	5 065	5	5 070	-	-
	207 280	**250 170**	**4 678**	**254 848**	**-**	**-**

Liquidity risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its liabilities as they mature, without incurring substantial losses.

Liquidity risk can be divided into two types:

- Liquidity of assets (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to the lack of liquidity in the market, which translates into the widening of the bid / offer spread or the application of a haircut to the market value;
- Financing (funding liquidity risk) - consists of the impossibility of financing the assets in the market and / or refinancing the debt that is maturing, in the terms and in the desired currency. This impossibility can be reflected through a strong increase in the cost of financing or the requirement for collateral to obtain funds. The difficulty of (re) financing can lead to the sale of assets, even if incurring significant losses. The risk of (re) financing must be minimized through an adequate diversification of funding sources and maturity terms.

Banks are subject to liquidity risk due to their maturity transformation business (long-term lenders and short-term depositors), so prudent liquidity risk management is therefore crucial.

As at 31 December 2020, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 16.6 billion (31 December 2019: Euro 15.2 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 2.4 billion.

During 2020, gross financing from the ECB increased by 910 million euros to a total of 7.0 billion euros.

The liquidity of NOVO BANCO is managed in a centralized manner, in the Headquarters, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. As at 31 December 2020 and 2019, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2020						
	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	105 505	-	-	-	-	-	105 505
Liabilities arising from secured loan operations and capital market operations	9 161 995	68 874	106 104	53 504	150 000	264 458	8 519 055
Behavioral exits resulting from deposits	30 099 947	417 595	353 268	311 225	236 880	583 946	28 197 033
Foreign exchange swaps and derivatives	581 986	110 144	144 781	240 424	32 623	34 865	19 149
Other outputs	550 075	-	-	140 000	11 515	-	398 560
Total Exits	**40 499 508**	**596 613**	**604 153**	**745 153**	**431 018**	**883 269**	**37 239 302**
Entries							
Guaranteed loan operations and operations associated with the capital market	203 306	60 917	-	-	-	-	142 389
Behavioral inflows resulting from loans and advances	26 224 556	73 798	54 002	190 749	320 731	438 685	25 146 591
Foreign exchange swaps and derivatives	854 599	103 393	145 076	243 899	48 523	71 288	242 420
Own portfolio securities to mature and Other entries	13 514 774	103 580	154 527	376 513	966 521	898 664	11 014 969
Total Entries	**40 797 235**	**341 688**	**353 605**	**811 161**	**1 335 775**	**1 408 637**	**36 546 369**
Net contractual deficit	297 727	(254 925)	(250 548)	66 009	904 756	525 368	(692 933)
Accumulated net contractual deficit	**-**	**(254 925)**	**(505 473)**	**(439 464)**	**465 292**	**990 660**	**297 727**
REBALANCE CAPACITY	Initial stock	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
Coins and banknotes	142 325						
Central bank mobilisable reserves	2 030 915	(2 030 915)					
Marketable and non-marketable assets eligible for central banks	7 945 203	67 249	106 994	(123 762)	(60 112)	(587 185)	(7 208 003)
Authorized and unused facilities received	-	(29 275)	(55 212)	(199 759)	(350 461)	(288 680)	923 388
Net change in rebalancing capacity	-	(1 992 941)	51 782	(323 521)	(410 573)	(875 865)	(6 284 615)
Accumulated rebalancing capacity	**10 118 443**	**8 125 502**	**8 177 284**	**7 853 763**	**7 443 190**	**6 567 325**	**282 710**

(in thousands of Euros)

	31.12.2019						
	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	105 205	2 247	4 593	-	-	-	98 365
Liabilities arising from secured loan operations and capital market operations	8 572 412	182 428	1 064 096	1 334 720	3 210 000	-	2 781 168
Behavioral exits resulting from deposits	30 111 569	428 386	270 729	400 119	537 653	757 841	27 716 841
Foreign exchange swaps and derivatives	543 939	9 073	52 238	360 513	46 635	43 769	31 711
Other outputs	409 894	-	-	-	11 515	-	398 379
Total Exits	**39 743 019**	**622 134**	**1 391 656**	**2 095 352**	**3 805 803**	**801 610**	**31 026 464**
Entries							
Guaranteed loan operations and operations associated with the capital market	-	-	-	-	-	-	-
Behavioral inflows resulting from loans and advances	24 623 962	63 027	19 154	60 921	137 110	81 718	24 262 032
Foreign exchange swaps and derivatives	830 346	8 506	48 384	364 078	79 998	62 890	266 490
Own portfolio securities to mature and Other entries	13 171 465	70 687	73 279	43 601	1 254 462	203 771	11 525 665
Total Entries	**38 625 773**	**142 220**	**140 817**	**468 600**	**1 471 570**	**348 379**	**36 054 187**
Net contractual deficit	(1 117 245)	(479 914)	(1 250 839)	(1 626 752)	(2 334 233)	(453 231)	5 027 724
Accumulated net contractual deficit	**-**	**(479 914)**	**(1 730 753)**	**(3 357 505)**	**(5 691 738)**	**(6 144 969)**	**(1 117 245)**
REBALANCE CAPACITY	Initial stock	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
Coins and banknotes	174 156						
Central bank mobilisable reserves	1 141 351	(1 141 351)					
Marketable and non-marketable assets eligible for central banks	7 670 900	182 063	1 117 471	78 479	(22 239)	(201 402)	(8 704 695)
Authorized and unused facilities received	-	(39 646)	(79 970)	(227 545)	1 655 230	(167 165)	(1 140 903)
Net change in rebalancing capacity	-	(998 934)	1 037 501	(149 066)	1 632 991	(368 567)	(9 845 598)
Accumulated rebalancing capacity	**8 986 407**	**7 987 473**	**9 024 974**	**8 875 908**	**10 508 899**	**10 140 332**	**294 734**

In order to anticipate possible negative impacts, internal liquidity stress scenarios representative of the types of crisis that may occur are carried out, based on idiosyncratic scenarios (characterized by a loss of confidence in the Bank), and market scenarios.

In addition, and given the importance of liquidity risk management, the regulatory legislation includes a liquidity coverage ratio (Liquidity Coverage Ratio - LCR) and a stable financing ratio (Net Stable Funding Ratio - NSFR). The LCR aims to promote banks' resilience to short-term liquidity risk, ensuring that they hold high-quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable financing for their assets and off-balance sheet operations, for a period of one year.

In accordance with current regulatory legislation, the Bank is obliged to comply with a minimum limit of 100% in the LCR. The Bank continues to follow regulatory changes in order to comply with all obligations, namely the implementation of the NSFR and the respective limit.

Operational risk

Operational risk generally translates into the probability of the occurrence of events with negative impacts, in the results or in the capital, resulting from the inadequacy or deficiency of procedures and information systems, the behavior of people or motivated by external events, including legal risks. Thus, operational risk is understood as the calculation of the following risks: operational, information systems, compliance and reputation.

For the management of operational risk, a system was developed and implemented to ensure the uniformity, systematization and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organizational structure, integrated in the Global Risk Department exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the departments, branches and subsidiaries considered relevant, which are responsible for complying with the procedures. and the day-to-day management of this Risk in its areas of competence.

Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) – the entity directly responsible for the supervision of the Bank - and by the Bank of Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the Bank objectives.

The capital ratios of NOVO BANCO are calculated based on the rules defined in Directive 2013/36/EU and Regulation (EU) no. 575/2013 (CRR) that define the criteria for the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities, in particular to the calculation of the ratios mentioned above.

The Bank is authorised to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of NOVO BANCO. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of the Bank entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (common equity Tier I or CET I), additional own funds of level 1 (additional Tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or Tier II) which added to the Tier I represent the total own funds.

The total own funds of NOVO BANCO are composed by elements of CET I and Tier II.

The following table presents a summary of NOVO BANCO's own funds, risk-weighted assets and capital ratios for 31 December 2020 and 2019:

(million euros)

		31.12.2020 [1]	31.12.2019
Realised ordinary share capital, issue premiums and own shares		5 900	5 900
Reserves and Retained earnings		(1 773)	(1 166)
Net income for the year attributable to shareholders of the Bank		(1 374)	(1 088)
A - Equity (prudential perspective)		**2 753**	**3 646**
Adjustments of additional valuation		(12)	(13)
Transitional period to IFRS9		349	220
Goodwill and other intangibles		(48)	(26)
Insufficiency of provisions given the expected losses		(60)	(88)
Deferred tax assets and shareholdings in financial companies		(87)	(12)
Others		(279)	(67)
B - Regulatory adjustments to equity		**(138)**	**13**
C - Own principal funds level 1 - CET I (A+B)		**2 616**	**3 659**
D - Additional own funds Level 1 - Additional Tier 1		**-**	**-**
E - Level 1 own funds - Tier I (C+D)		**2 616**	**3 659**
Subordinated liabilities elegeible for Tier II		399	398
Other elements elegible for Tier II		115	127
Regulatory adjustments for Tier II		-	(70)
F - Level 2 own funds - Tier II		**514**	**455**
G - Eligible own funds (E+F)		**3 129**	**4 115**
Credit risk		24 246	26 738
Market risk		1 277	1 851
Operational risk		1 539	1 341
H - Risk Weighted Assets		**27 063**	**29 930**
Solvability ratio			
CET I ratio	**(C/H)**	**9,7%**	**12,2%**
Tier I ratio	**(E/H)**	**9,7%**	**12,2%**
Solvability ratio	**(G/H)**	**11,6%**	**13,7%**
Leverage ratio [2]		**5,6%**	**7,7%**

[1] Preliminary. The accounts contain an aggregate provision of 166 million euros in relation to the discontinuation of Spanish operations. As there is a potential for dispute between the parties and therefore potential barrier to immediate access of this amount, the Bank, as a matter of prudence, has deducted this amount from regulatory capital calculation.

[2] The leverage ratio results from dividing Tier 1 for the exposure measure in accordance to the terms of the CRR

NOTE 39 – Rendering of insurance and re-insurance brokering services

At 31 December 2020 and 2019, services provided with insurance and re-insurance brokerage have the following composition:

(thousands of euros)

	31.12.2020	31.12.2019
Life Branch		
Unit Link and other life commissions	1 832	707
Credit protection insurance (life insurance)	655	1 241
Traditional products	15 176	17 936
	17 663	**19 884**
Non-Life Branch		
Private insurance	6 677	7 459
Corporate Insurance	193	(38)
Credit protection insurance (non-life part)	905	1 639
	7 775	**9 060**
	25 438	**28 944**

Note: the yields shown are net of periodization

The Bank does not collect insurance premiums on behalf of the Insurance companies, nor does it undertake the movement of funds relating to insurance contracts. In this manner, there are no other assets, liabilities, income or expenses to report, relating to the insurance brokering activity carried out by the Bank, other than those already disclosed.

NOTE 40 – Relevant transactions occurred in the financial years of 2020 and 2019

Financial year 2020

Sale of a portfolio of non-performing loans (called the Carter Project)

On 23 December 2020, NOVO BANCO entered into a purchase and sale agreement for a portfolio of non-performing loans (non-performing loans) and related assets (together, the Carter Project), with a net book value of 37.0 million euros (gross amount of 82.8 million euros), to a company owned by affiliated companies and advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The impact of this operation on the net income for the year 2020 was reflected in a gain of 2.3 million euros.

(in thousands of Euros)

Impact on Income Statement	**31.12.2020**
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	3 310
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-983
Impact on Net Income	**2 327**

Financial year 2019

Sale of Non-Performing Loans portfolio (Project Nata II)

In the last quarter of 2019, NOVO BANCO and Fundo Arrábida signed a Purchase and Sale Agreement with Burlington Loan Management DAC, a company affiliated and advised by Davidson Kempner European Partners, Llp, for the sale of a portfolio of overdue loans and exposures related (NATA II Project). The impact of this operation on the net profit resulted in a loss of -84.0 million euros.

(in thousands of Euros)

Impact on Income Statement	**31.12.2019**
Net interest income	69
Other operational income	-3 734
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	1 720
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-82 374
Provisions or reversal of provisions	611
Impact on Net Income	**-83 950**

Sale of a portfolio of real estate assets (called Project Sertorius)

In August 2019, the Bank signed a promissory purchase and sale agreement with entities indirectly held by funds managed by Cerberus Capital Management, LP, a New York-based company, for the sale of a portfolio of real estate assets called Project Sertorius. The impact of this operation on the net profit for the financial year 2019 resulted in a loss of Euro -137.4 million.

(milhares de euros)

Impacto na Demonstração dos resultados	31.12.2019
Imparidades ou reversão de imparidades de ativos não financeiros	-137 434
Impacto no Resultado líquido	**-137 434**

Sale of a portfolio of non-performing loans and real estate assets (referred to as Project Albatros):

In August 2019, the Bank, through its Spanish Branch and Novo Banco Servicios Corporativos, S.L entered into a purchase and sale agreement with Waterfall Asset Management LLC, an asset management company based in New York, for the sale of a portfolio of real estate assets and non-performing loans, designated Project Albatros. The impact of this operation on the income statement resulted in a loss of -33.3 million euros.

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	-7 443
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-53 544
Impairment on other assets net of reversals	-7 543
Provisions or reversal of provisions	35 200
Impact on Net Income	**-33 330**

Sale of GNB Vida

Following the contract for the purchase and sale of the entire share capital of GNB Vida, entered into with Bankers Insurance Holdings, SA, a company of the Global Bankers Insurance Group, LLC, on September 12, 2018, the Bank proceeded to derecognize this investment in September 2019, after obtaining the necessary regulatory authorizations. The impact of this operation on the income statement resulted in a reduction of net income of -52.0 million euros.

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Impairment on other assets net of reversals	-52 000
Impact on Net Income	**-52 000**

NOTE 41 – Recently issued accounting standards and interpretations

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

In June 2020, the IASB issued amendments to IFRS 17. These amendments follow from the Exposure Draft (ED) on proposed Amendments to IFRS 17 Insurance Contracts.

As a result of its re-deliberations, the IASB has made changes to the following main areas of IFRS 17:

- Deferral of the effective date of IFRS 17 and IFRS 9 for qualifying insurance entities by two years to annual reporting periods beginning on or after 1 January 2023)
- Scope of the standard
- Expected recovery of insurance acquisition cash flows from insurance contract renewals
- CSM relating to investment activities
- Applicability of the risk mitigation option for contracts with direct participation features
- Reinsurance contracts held - expected recovery of losses on underlying onerous contracts
- Simplified presentation of insurance contracts in the statement of financial position
- Additional transition reliefs

In addition to the above changes, the amendments also include several other minor and editorial changes to IFRS 17.

No material impacts are expected on the Bank's financial statements.

Definition of business activity - Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove

the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to developor convert acquired inputs into outputs; and (b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis.

The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)).

No material impacts are expected on the Bank's financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to IFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss
- The assessment of the economic relationship between the hedged item and the hedging instrument

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.

Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied.

The amendments to IAS 39

The corresponding amendments are consistent with those for IFRS 9, but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.
- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

Transition

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated

cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

No material impacts are expected on the Group's financial statements.

Reform of interest rate reference indices - Phase 2 - changes to IFRS 9, IAS 39 and IFRS 7

On 27 August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognized. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognized in profit or loss.

The practical expedient is required for entities applying IFRS 4 that are using the exemption from IFRS 9 (and, therefore, apply IAS 39) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the endof the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 and IAS 39 to measure and recognise hedge ineffectiveness.

Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR. The cash flow hedge reserve is released to profit or loss in the same period or periods in which the hedged cash flows based on the RFR affect profit or loss. For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero. This relief applies when the exception to the retrospective assessment ends.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, they will be transferred to sub-groups of instruments that reference RFRs as the hedged risk. As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform. The phase two reliefs cease to apply once all changes have been made to financial instruments and hedging relationships, as required by IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

Changes are mandatory for annual periods beginning on or after 1 January 2021, with earlier application permitted. Hedging relationships must be re-established if the hedging relationship was discontinued only due to changes required by the IBOR reform and would not have been discontinued if the changes in phase two had been applied at that time. Although the application is retrospective, an entity is not required to restate previous periods.

Definition of Material - Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to 'users' but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term 'users' may be interpreted too widely.

This amendment is effective for annual reporting periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

No material impacts are expected on the Bank's financial statements.

Covid-19-Related Rent Concessions - Amendments to IFRS 16

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment does not apply to lessors.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if specific conditions are met.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020.

No material impacts are expected on the Bank's financial statements.

Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively.

No material impacts are expected on the Bank's financial statements.

Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively.

No material impacts are expected on the Bank's financial statements.

Onerous contracts: costs of fulfilling the contract - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'.

The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

No material impacts are expected on the Bank's financial statements.

The amendments clarify that a gain or loss is fully recognized when a transfer to an associate or joint venture involves a business activity as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that do not constitute a company, is only recognized to the extent of the interests of unrelated investors in the associate or joint venture.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor to its associate or joint ventures

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

No material impacts are expected on the Bank's financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It establishes a comprehensive set of concepts for financial reporting, standards, guidance for preparers in the development of consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and criteria for recognizing assets and liabilities and clarifies some important concepts. It is organized into eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The amended conceptual framework for the financial reporting is not a standard and none of its concepts prevails on the concepts set out in other standards or requirements of any standard. It is applicable to entities that develop their accounting principles based on the conceptual framework applicable to annual reporting periods beginning on or after 1 January 2020.

No material impacts are expected on the Bank's financial statements.

Classification of Liabilities as current and non-current - Amendments to IAS 1

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

Right to defer settlement

The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception.

In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

This amendment is effective for annual reporting periods beginning on or after 1 January 2023.

Improvement to IFRS - 2018-2020 cycle (issued in May 2020)

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

IFRS 9 - Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

IFRS 16 - Leases

The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

IAS 41 - Agriculture

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

NOTE 42 - Subsequent events

On March 5, 2021, NOVO BANCO reported that, after completing a competitive sale process, it entered into with BURLINGTON LOAN MANAGEMENT DAC, a company affiliated and advised by DAVIDSON KEMPNER EUROPEAN PARTNERS, LLP, a Purchase and Sale Agreement of a portfolio of non-performing loans (non-performing loans) and related assets (together, Wilkinson Project) with a gross balance sheet value of 216.3 million euros, still subject to usual perimeter adjustments in operations of this nature . The sale value of the portfolio amounts to 67.5 million euros, and the completion of the operation, under the terms agreed, should have a marginally positive direct impact on capital and in the 2021 income statement.

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*(Translation from the original document in the Portuguese language.
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Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Novo Banco S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2020 (showing a total of 44,395,586 thousand euros and a total equity of 3,146,635 thousand euros, including a net loss for the year of 1,329,317 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Novo Banco, S.A. as at 31 December 2020, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption Loans and advances to customers includes an accumulated impairment amount of 1,599,775 thousand of euros ("K€"), with a negative impact of 524,442 K€ recorded in the period on Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. The details of the impairment for loans and advances to customers, the related accounting policies, methodologies, definitions and assumptions are disclosed in the notes to the	Our approach to audit the impairment for loans and advances to customers included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding, evaluating the design and testing the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers;

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
consolidated financial statements (Note 2.5, note 3.1, note 22 and note 42). The Impairment for Loans and advances to customers represents management best estimate for the expected loss on the loan portfolio to customers. For this estimate, management made judgments such as the business model assessment, the evaluation of significant increase in credit risk, the classification as default, the definition of groups of financial assets with similar credit risk characteristics and the use of models and assumptions. For relevant exposures on an individual approach, the impairment is determined based on the judgment from Group specialists on the evaluation of credit risk. In addition to the complexity of the models described, there is a significant volume of data that is not always available, such as the credit risk information at the time of origination, date and loan value at the first default and the amount of historical recoveries since the default. To overcome those limitations, management resorts to practical expedients which increase the judgements applied. As a response to the Covid-19 pandemic, the Decree Law 10-J/2020 of 26 march, complemented by the Associação Portuguesa de Bancos (Portuguese Banking Association) Protocol and amended by the Decree Law 26/2020 of 16 June, introduced a wide range of moratoria on mortgage and non-mortgage retail and corporate loans, which enabled the debtors to postpone the payment of capital and interest without being considered defaulted. The moratoria inhibit the counting of days past due, which increase the judgements inherent to the identification of loans with significant increase in credit risk. Additionally, the pandemic decreased the predictability on the evolution of the economy. Therefore, the determination of the scenarios and weights used to measure the forward-looking credit loss is more uncertain. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment, which together with the materiality of its value, makes we consider this topic as key auditing matter.	► performing analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, comparing it with last year and with the expectations, which include the understanding of changes in the loan portfolio and changes in the assumptions and methodologies for impairment; ► selecting a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included the information containing business models, the financial situation of the debtors and the collateral appraisal reports. Inquiring of Group experts in order to obtain an understanding of the recovery strategy defined and the assumptions used. ► assessing the impacts estimated by the Group to reflect the Covid-19 pandemic at individual and portfolio level; ► analyzing the documents formalizing the relevant sale operations of loans and advances to customers and assessed the impact in the financial statements; ► obtaining the understanding and evaluating the design of the model used to calculate the expected loss, testing the calculation, comparing the information used in the model with the source information, through the reconciliations prepared by the Group staff, evaluating the assumptions used to fill gaps in data, comparing the parameters used with the results of the estimation models and comparing the results with the values in the financial statements; ► evaluating the reasonableness of the parameters used in the calculation of impairment by: i) understanding the methodology formalized and adopted by management and comparing with the one effectively used; ii) evaluating the changes to models to determine the parameters to reflect the expected loss; iii) analysis of changes made during the financial year 2020 to risk parameters (PD, LGD, EAD, CCF, PFR and BM); iv) on a sample basis, comparing the data used in the calculation of the risk parameters with source information; v) inquiries to management's experts responsible for models and inspection of reports from internal audit and regulators; and vi) inspection of the reports with the results of the operational assessment of the model (back-testing); ► assessing the reasonableness of the overlays, in particular the ones to respond to the additional judgmental areas resulting from the moratoria and assessing the governance associated with these overlays;

Statutory and Auditor's Report
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31 December 2020

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
	► reading the minutes of the Credit Impairment Committees and of the correspondence with the Resolution Fund; and ► analyzing the disclosures included in the explanatory notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

2. Financial instruments measured at fair value and classified as level 3 under IFRS 13

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the Note 22 to the consolidated financial statements, on 31 December 2020, the Group held financial assets mandatorily at fair value through profit or loss in the amount of 960,962 K€, of which €406,104 K€ and 394,674 K€ refer to, respectively, to shares and other securities with variable income. Part of these financial assets, in the amount of 709,231 K€, is measured at fair value using measurement methodologies that include parameters not observable in the market (level 3) and includes the participation of the Group in restructuring funds (note 40). The valuation of these financial instruments classified as level 3 in accordance with IFRS 13 is a matter of judgement of the management, given that these financial instruments are valued under an estimation process which is based on internal models that include parameters not observable in the market, for which assumptions have to be made. During 2020, the management, with the assistance of external experts, performed a bottom-up valuation of these financial instruments, which included the definition of assumptions to value the assets held by the funds, a fund level discount and and assessment of the potential evolution of the fund value. As a result of this exercise, the Group determined a fair value of 498,800K € for these assets and a loss amount of 300,200 K€ was recorded in the caption "Gains or losses on financial assets mandatorily at fair value through profit or loss". Management considers that this valuation corresponds to the best estimate of fair value at 31 December 2020. The consideration of this issue as a key audit matter was based on its materiality for the financial statements and the fact that the use of different	Our approach to audit the measurement of financial instruments included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding of the existing internal control procedures on the valuation of financial instruments process; ► performing analytical procedures on the evolution of the value of these financial instruments, comparing the values with last year and with the expectations formed, which included understanding the variations occurred. Comparing with the valuation of other market participants as disclosed in public available information. Assessing the reasons for the change in valuation method by the Group; ► examination of the engagement letter with the specialists in order to obtain the understanding of the nature and scope of the work performed, as well as to evaluate the competency, capacity and objectivity of the specialists; ► examination of the valuation report prepared by the management expert and the appraisal reports for a representative sample of individual assets included in the bottom-up valuation. With the assistance of EY experts, identification of the assumptions used and assessment of their reasonableness, or comparison with market data, when available. Comparison of the assumptions with the ones from previous years and inquiries to the managers of the Group and the management experts on the reasons for the difference; ► testing the mathematical accuracy of the calculations performed; ► testing the discount used to reflect the lack of liquidity and control, and compared the information used with the data available in the market; ► developing a range of values and compared with the amounts booked in the financial statements, taking into consideration the adjustments estimated by management to reflect the evolution from the reference date to the date

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
valuation techniques or assumptions could lead to different estimates of fair value.	of the financial statements, including the estimated effects of the Covid-19 pandemic in the assets included in fund's portfolio; ► inquiries to the auditors of the Funds held by the Group and included in the valuation exercise; ► assessing the existence of events after the date of the financial statements that may provide additional information on the value of the funds; and ► analyzing the disclosures included in the explanatory notes to the consolidated financial statements based on the requirements of international financial reporting standards and in the accounting records.

3. Restructuring Provisions

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
During 2020, the Group registered an amount of 186,423 K€ in the profit and loss caption 'Provisions or reversals of provisions' of which 123,915 K€ refer to restructuring provisions, as disclosed in the notes to the consolidated financial statements (note 32). As disclosed in the accounting policies in note 2.17, restructuring provisions are recognized when the Group has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced. The determination of whether an organizational reorganization is fundamental, material or just part of a process of continuous improvement is a subjective judgement. It is also a matter of judgement the consideration if the actions taken before December 31, 2020 were enough to have raised a valid expectation in those affected that the reorganization will be carried out. Additionally, the amount recognized as a provision is an estimate by management that includes the expected direct expenditures arising from the restructuring but should not include future operating losses. The consideration this issue as a key audit issue was based on its materiality for the consolidated financial statements and the judgement exercised by Management on the necessary conditions to recognize a restructuring provision.	Our approach to audit the recognition of the restructuring provisions included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding of the existing internal control procedures in the process of recognition and quantification of provisions; ► reading the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► inquiring managers of the Group with the responsibility to implement the restructuring plan and obtaining evidence of meetings held with worker´s representatives; ► analyzing the documentation that supports the recognition of the restructuring provision, in particular, minutes of the meetings of the executive board, restructuring plans and the updated to the medium term plan of the Group, which was shared with the joint supervisory team of European Central Bank; ► testing the quantification of the restructuring provision; and ► analyzing the disclosures contained in the consolidated financial statements, based on the requirements of international financial reporting standards and in the accounting records.

4. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The captions Investment properties and Other assets, include real estate assets of 592,605 K€ and 288,696 K€, respectively. The detail of these assets and the accounting policies are disclosed in the notes to the financial statements (note 2.11, note 2.23 and note 3.6). As disclosed in note 2.11 to the consolidated financial statements, the Other assets include real estate for which management implemented a plan pursuant to its sale that were essentially obtained by credit foreclosure. These real estate assets are valued at the lower of net book value and the fair value less cost to sell. The fair value is based on appraisals prepared by management experts. The notes to the consolidated financial statements (note 26) disclose the detail and the movement of investment properties, which are held by real estate companies or investment funds which are rented to third parties for obtaining income or held to generate capital gains. The real estate assets in this category are valued at fair value which is calculated by experts registered at CMVM contracted by the management. The fair value results from an estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted independent experts. The assumptions considered include the best use that can be given to the asset, what could be considered as a comparable transaction or the potential yield that can be obtained. Due to the Covid-19 pandemic, the uncertainty on the estimate of fair value increased due to variables such as (i) the reference transactions of similar and comparable assets, (ii) the timings to conclude the real estate assets under construction, (iii) the cash flows arising from rented assets, (iv) the discount rates considered, (v) the capacity to rent vacant assets and (vi) the risk premium required by potential investors. The consideration of this topic as a key audit matter is based on its materiality to the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	Our approach to audit the measurement of the real estate obtained through credit foreclosure included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding of the existing internal control procedures in the process of valuation of the real estate assets received by credit recovery; ► performing analytical procedures on the value of the assets included in the Investment properties and Other assets, compared with last year and with the expectation formed, which include the understanding of the variations that have occurred and identification of changes in the assumptions and methodologies; ► assessing the reasonableness of the assumptions and of the methodologies used in a sample of the appraisals carried out by management's external experts registered in CMVM. For these assets, inspection of the eventual promissory sale contracts and the certificate of land register; ► inspecting the real estate sale contracts and assessing the derecognition requirements and the calculation of gains and losses recorded; ► analyzing the counterparties of the most significant sales in order to assess eventual constraints to an arm's length transaction; ► obtaining the Resolution Fund approvals to the most significant transactions with real estate assets in the scope of the contingent capital agreement; ► discussing with the management experts the assumptions used for a sample of assets and read the minutes of the executive board. ► Inquiring the management about potential sale operations and, when applicable, examining the offers received on the assets and comparing with the fair value calculated by the management; and ► analyzing the disclosures included in the explanatory notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

5. Disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The notes to the consolidated financial statements disclose the contingent liabilities (Note 36) that may represent a possible obligation to the Group resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Group. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 2.17 and the main estimates and assumptions in note 3.5. The main contingent liabilities arise from various situations, most notably: ► notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Group; ► the existence of litigation resulting from the resolution measure applied to BES, which, in spite of existing guarantees, may lead to effects or impacts in the Group which not possible to determine or quantify; ► existing lawsuits following the closing of the sale and purchase agreement of the Group and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Sta; ► the Group includes participating institutions in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Group will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. In spite of the management consideration that it is not likely that the situations described above materialize in impact on the Group's financial statements, the magnitude of these impacts would be quite significant. The risk assessment and the assumptions are matters of judgement by the management which requires complex analysis using internal and external legal experts by the Group. Given the relevance of these contingencies for the Group, we consider this topic as a key audit matter.	Our approach to audit the disclosure of contingent liabilities included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining an understanding of the existing internal control procedures in the process of disclosure of contingent liabilities; ► reading the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► analyzing the responses to external confirmations from external legal experts of the Group and inquiries to the managers of the legal department and in-house lawyers of the Group; ► inspecting the documentation of the Resolution Fund, in particular the annual report of 2019 and the public communications from the Resolution Fund; and ► analyzing the disclosures contained in the consolidated financial statements, based on the requirements of international financial reporting standards and in the accounting records.

6. Classification and measurement of the Spanish Branch as a non-current asset held for sale

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
During 2020, the Group classified the assets and liabilities of its Branch in Spain in the captions non-current assets and disposal groups classified as held for sale and liabilities included in disposal groups classified as held for sale, respectively, as it is expected that the value of this branch will be realized on a sale transaction, being its assets available for immediate sale, which is highly probable and expected to occur within one year. Thus, the notes to the consolidated financial statements (note 30 and note 44) disclose the balances of the non-current assets held for sale, including assets of 1,696,245 K€ and liabilities of 1,993,851 K€. The accounting policies to classify non-current assets held for sale are disclosed in Note 2.11 and the assumptions and estimates in Note 3.7. The assessment of the fair value less cost to sell of the Branch in Spain is a management estimate with the support of an independent expert which considered the offers of potential acquirers on the whole branch or for some of its assets. From this assessment, the Group booked an impairment of 166,000 K€. As this is a management estimate on a matter requiring judgment and because different valuation methods or assumptions could lead to different estimates of fair value, we consider this topic as a key audit matter.	Our approach to audit the classification and measurement of the Spanish Branch included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining an understanding of the existing internal control procedures in the process of measurement of non-current assets held for sale; ► reading the minutes of Novo Banco's management bodies, including the presentations of this topic during those meetings, the correspondence with regulators and with the Resolution Fund; ► analyzing the reports prepared by external entities evolved in the sale process, including their assessment of the potential sale value; ► reading the offers received and analyzing the documentation supporting the determination of the fair value less cost to sell; and ► analyzing the disclosures contained in the consolidated financial statements, based on the requirements of international financial reporting standards and in the accounting records.

7. Contingent capital mechanism

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In line with the conditions agreed in the sale process of the majority of the share capital of the Novo Banco, S.A., between Nani Holdings, SGPS, SA (Lone Star) and the Resolution Fund, a mechanism of contingent capital ("CCA") was established, which requires the Group to be compensated, up to a limit of 3,890,000 K€, for losses incurred in a set of defined assets, which had an initial net value of approximately 7,836,823 K€ (with reference to 30 June 2016), for certain costs associated with the financing structure of the Group, and for the lower profitability associated to assets covered by the CCA. According to the agreement, the payments from the Resolution Fund under the CCA will be made, each	Our approach to audit the amount booked under the contingent capital mechanism included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding and evaluated the design of the existing internal control procedures in the process to quantify the CCA; ► analyzing the movements for the year and inspecting the support documentation to these movements, including the reports from the verification agent;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
year, up to the amount required to meet the minimum level of Common Equity Tier 1 ratio ("CET1"), as defined in the conditions for the operation of the CCA. Throughout 2020, the decrease of equity and consequently to the CET 1, which led to a claim under the CCA of 598,312 K€ that will be subject to validation by the verification agent. This value is presented on the caption reserves, retained earnings and other comprehensive income of the balance sheet and on the line reserve of contingent capital facility of the statement of changes in equity and more fully disclosed in the notes to the financial statements (note 35). The Portuguese Parliament approved, on November 26, 2020, a legislative proposal to withdraw from the 2021 State Budget the authorization for the Resolution Fund to transfer the CCA amount to the Group. Calculating the CCA requires the computation of the regulatory capital requirements that follow the prudential rules in conjunction with the determination of the accounting results of a defined set of assets. Additionally, the CCA is significant in the Group's performance and is relevant for its solvency. For this reason, we consider this topic as a key audit matter.	► reading the minutes of the monitoring commission and correspondence with the Resolution Fund to identify any matters susceptible of judgement; ► evaluating the methodology used and comparing the values used for the calculation with the source information in accounting and prudential reporting; ► inquiring the management on the impact of the approval of the legislative proposal on the recognition of the CCA amount, examining the legal opinions obtained and consulting with accounting subject-matter experts; and ► analyzing the disclosures contained in the consolidated financial statements based on the requirements of international financial reporting standards and in the accounting records.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, Corporate Governance Report and the Non-financial statement in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion; and

- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and

- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures we took to eliminate those matters or the related safeguards we applied.

Our responsibility additionally includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code regarding corporate governance, as well as verifying that the Non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

As mentioned in article 451. Nr. 7 of the Commercial Companies Code, this opinion is not applicable to the Non-financial statement included in the Management Report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the Chapter 6. Corporate Governance included in the Management Report includes the information required to the Group to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of nr.1 of the said article.

On the Non-financial statement

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Group prepared the Sustainability Report separated from the Management Report, which includes the Non-financial statement, as required in article 508-G of the Commercial Companies Code, being the same disclosed together with Management Report.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Novo Banco, S.A. (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020. We were reappointed in the shareholders' general meeting held on 22 October 2020 for a second mandate from 2021 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on this date; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Group in conducting the audit.

Lisbon, March 26, 2021

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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*(Translation from the original document in the Portuguese language.
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Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Novo Banco, S.A. (the Bank), which comprise the Balance Sheet as at 31 December 2020 (showing a total of 44,042,448 thousand euros and a total equity of 2,753,089 thousand euros, including a net loss for the year of 1,374,246 thousand euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Novo Banco, S.A. as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet caption loans and advances to customers includes an accumulated impairment amount of 1,587,003 thousands of euros ("K€"), with a negative impact of 520,516 K€ recorded in the period on Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. The details of the impairment for loans and advances to customers, the related accounting policies, methodologies, definitions and assumptions are disclosed in the notes to the financial statements (Note 2.4, note 3.1, note 21 and note 38)	Our approach to audit the impairment for loans and advances to customers included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding, evaluating the design and testing the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; ► performing analytical procedures on the evolution of the balance of the impairment for loans and advances to

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Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The Impairment for loans and advances to customers represents management best estimate for the expected loss on the loan portfolio to customers. For this estimate, management made judgments such as the business model assessment, the evaluation of significant increase in credit risk, the classification as default, the definition of groups of financial assets with similar credit risk characteristics and the use of models and assumptions. For relevant exposures on an individual approach, the impairment is determined based on the judgment from Bank specialists on the evaluation of credit risk. In addition to the complexity of the models described, there is a significant volume of data that is not always available, such as the credit risk information at the time of origination, date and loan value at the first default and the amount of historical recoveries since the default. To overcome those limitations, management resorts to practical expedients which increase the judgements applied. As a response to the Covid-19 pandemic, the Decree Law 10-J/2020 of 26 march, complemented by the Associação Portuguesa de Bancos (Portuguese Banking Association) Protocol and amended by the Decree Law 26/2020 of 16 June, introduced a wide range of moratoria on mortgage and non-mortgage retail and corporate loans, which enabled the debtors to postpone the payment of capital and interest without being considered defaulted. The moratoria inhibit the counting of days past due, which increase the judgements inherent to the identification of loans with significant increase in credit risk. Additionally, the pandemic decreased the predictability on the evolution of the economy. Therefore, the determination of the scenarios and weights used to measure the forward-looking credit loss is more uncertain. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment, which together with the materiality of its value, makes we consider this topic as key auditing matter.	customers, comparing it with last year and with the expectations, which include the understanding of changes in the loan portfolio and changes in the assumptions and methodologies for impairment; ► selecting a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included the information containing business models, the financial situation of the debtors and the collateral appraisal reports. Inquiring of Bank experts in order to obtain an understanding of the recovery strategy defined and the assumptions used. ► assessing the impacts estimated by the Bank to reflect the Covid-19 pandemic at individual and portfolio level; ► analyzing the documents formalizing the relevant sale operations of loans and advances to customers and assessed the impact in the financial statements; ► obtaining the understanding and evaluating the design of the model used to calculate the expected loss, testing the calculation, comparing the information used in the model with the source information, through the reconciliations prepared by the Bank staff, evaluating the assumptions used to fill gaps in data, comparing the parameters used with the results of the estimation models and comparing the results with the values in the financial statements; ► evaluating the reasonableness of the parameters used in the calculation of impairment by: i) understanding the methodology formalized and adopted by management and comparing with the one effectively used; ii) evaluating the changes to models to determine the parameters to reflect the expected loss; iii) analysis of changes made during the financial year 2020 to risk parameters (PD, LGD, EAD, CCF, PFR and BM); iv) on a sample basis, comparing the data used in the calculation of the risk parameters with source information; v) inquiries to management's experts responsible for models and inspection of reports from internal audit and regulators; and vi) inspection of the reports with the results of the operational assessment of the model (back-testing); ► assessing the reasonableness of the overlays, in particular the ones to respond to the additional judgmental areas resulting from the moratoria and assessing the governance associated with these overlays; ► reading the minutes of the Credit Impairment Committees and of the correspondence with the Resolution Fund; and ► analyzing the disclosures included in the explanatory notes to the financial statements, based on the requirements of

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
	international financial reporting standards and accounting records.

2. Financial instruments measured at fair value and classified as level 3 under IFRS 13

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the note 21 to the financial statements, on 31 December 2020, the Bank held financial assets mandatorily at fair value through profit or loss in the amount of 2,445,605 K€, of which €403,752 K€ and 1,394,771 K€ refer to, respectively, to shares and other securities with variable income. Part of these financial assets, in the amount of 2,188,519 K€, is measured at fair value using measurement methodologies that include parameters not observable in the market (level 3) and includes the participation of the Bank in restructuring funds (note 37). The valuation of these financial instruments classified as level 3 in accordance with IFRS 13 is a matter of judgement of the management, given that these financial instruments are valued under an estimation process which is based on internal models that include parameters not observable in the market, for which assumptions have to be made. During 2020, the management, with the assistance of external experts, performed a bottom-up valuation of these financial instruments, which included the definition of assumptions to value the assets held by the funds, a fund level discount and assessment of the potential evolution of the fund value. As a result of this exercise, the Bank determined a fair value of 498,800K € for these assets and a loss amount of 300,200 K€ was recorded in the caption "Gains or losses on financial assets mandatorily at fair value through profit or loss". Management considers that this valuation corresponds to the best estimate of fair value at 31 December 2020. The consideration of this issue as a key audit matter was based on its materiality for the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	Our approach to audit the measurement of financial instruments included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding of the existing internal control procedures on the valuation of financial instruments process; ► performing analytical procedures on the evolution of the value of these financial instruments, comparing the values with last year and with the expectations formed, which included understanding the variations occurred. Comparing with the valuation of other market participants as disclosed in public available information. Assessing the reasons for the change in valuation method by the Bank; ► examination of the engagement letter with the specialists in order to obtain the understanding of the nature and scope of the work performed, as well as to evaluate the competency, capacity and objectivity of the specialists; ► examination of the valuation report prepared by the management expert and the appraisal reports for a representative sample of individual assets included in the bottom-up valuation. With the assistance of EY experts, identification of the assumptions used and assessment of their reasonableness, or comparison with market data, when available. Comparison of the assumptions with the ones from previous years and inquiries to the managers of the Bank and the management experts on the reasons for the difference; ► testing the mathematical accuracy of the calculations performed; ► testing the discount used to reflect the lack of liquidity and control, and compared the information used with the data available in the market; ► developing a range of values and compared with the amounts booked in the financial statements, taking into consideration the adjustments estimated by management to reflect the evolution from the reference date to the date of the financial statements, including the estimated effects of the Covid-19 pandemic in the assets included in fund's portfolio; ► inquiries to the auditors of the Funds held by the Bank and included in the valuation exercise;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
	► assessing the existence of events after the date of the financial statements that may provide additional information on the value of the funds; and ► analyzing the disclosures included in the explanatory notes to the financial statements based on the requirements of international financial reporting standards and in the accounting records.

3. Restructuring Provisions

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
During 2020, the Bank registered an amount of 187,839 K€ in the profit and loss caption 'Provisions or reversals of provisions' of which 123,915 K€ refer to restructuring provisions, as disclosed in the notes to the financial statements (note 30). As disclosed in the accounting policies in Note 2.16, restructuring provisions are recognized when the Bank has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced. The determination of whether an organizational reorganization is fundamental, material or just part of a process of continuous improvement is a subjective judgement. It is also a matter of judgement the consideration if the actions taken before December 31, 2020 were enough to have raised a valid expectation in those affected that the reorganization will be carried out. Additionally, the amount recognized as a provision is an estimate by management that includes the expected direct expenditures arising from the restructuring but should not include future operating losses. The consideration this issue as a key audit issue was based on its materiality for the financial statements and the judgement exercised by Management on the necessary conditions to recognize a restructuring provision.	Our approach to audit the recognition of the restructuring provisions included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding of the existing internal control procedures in the process of recognition and quantification of provisions; ► reading the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► inquiring managers of the Bank with the responsibility to implement the restructuring plan and obtaining evidence of meetings held with worker´s representatives; ► analyzing the documentation that supports the recognition of the restructuring provision, in particular, minutes of the meetings of the executive board, restructuring plans and the updated to the medium term plan of the Bank, which was shared with the joint supervisory team of European Central Bank; ► testing the quantification of the restructuring provision; ► analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

4. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The balance sheet account Other assets includes real estate assets of 233,479 €. The detail of these assets and the accounting policies are disclosed in the notes to the financial statements (note 2.10 and note 3.6). As disclosed in note 2.10 to the financial statements, the Other assets include real estate for which management implemented a plan pursuant to its sale that were essentially obtained by credit foreclosure. These real estate assets are valued at the lower of net book value and the fair value less cost to sell. The fair value is based on appraisals prepared by management experts. The caption Financial assets mandatorily at fair value through profit or present the amount of 1,394,771 K€, which include participation units in investment funds whose asset is mostly composed of real estate which are rented to third parties for obtaining income or held to generate capital gains. The real estate assets of these funds are valued at fair value which is calculated by experts registered at CMVM contracted by the management. The management of the Bank reviews the valuation of these real estate assets. The fair value results from an estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted independent experts. The assumptions considered include the best use that can be given to the asset, what could be considered as a comparable transaction or the potential yield that can be obtained. Due to the Covid-19 pandemic, the uncertainty on the estimate of fair value increased due to variables such as (i) the reference transactions of similar and comparable assets, (ii) the timings to conclude the real estate assets under construction, (iii) the cash flows arising from rented assets, (iv) the discount rates considered, (v) the capacity to rent vacant assets and (vi) the risk premium required by potential investors. The consideration of this topic as a key audit matter is based on its materiality to the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	Our approach to audit the measurement of the real estate obtained through credit foreclosure included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding of the existing internal control procedures in the process of valuation of the real estate assets received by credit recovery; ► performing analytical procedures on the value of the assets included in the investment properties and other assets, compared with last year and with the expectation formed, which include the understanding of the variations that have occurred and identification of changes in the assumptions and methodologies; ► assessing the reasonableness of the assumptions and of the methodologies used in a sample of the appraisals carried out by management's external experts registered in CMVM. For these assets, inspection of the eventual promissory sale contracts and the certificate of land register; ► inspecting the real estate sale contracts and assessing the derecognition requirements and the calculation of gains and losses recorded; ► analyzing the counterparties of the most significant sales in order to assess eventual constraints to an arm's length transaction; ► obtaining the Resolution Fund approvals to the most significant transactions with real estate assets in the scope of the contingent capital agreement; ► discussing with the management experts the assumptions used for a sample of assets and read the minutes of the executive board. ► Inquiring the management about potential sale operations and, when applicable, examining the offers received on the assets and comparing with the fair value calculated by the management; and ► analyzing the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

5. Disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The notes to the financial statements disclose the contingent liabilities (note 34) that may represent a possible obligation to the Bank resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Bank. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 2.16 and the main estimates and assumptions in note 3.5. The main contingent liabilities arise from various situations, most notably: ▶ notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Bank; ▶ the existence of litigation resulting from the resolution measure applied to BES, which, in spite of existing guarantees, may lead to effects or impacts in the Bank which not possible to determine or quantify; ▶ existing lawsuits following the closing of the sale and purchase agreement of the Bank and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Sta; ▶ the Bank includes participating institutions in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Bank will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. In spite of the management consideration that it is not likely that the situations described above materialize in impact on the Bank's financial statements, the magnitude of these impacts would be quite significant. The risk assessment and the assumptions are matters of judgement by the management which requires complex analysis using internal and external legal experts by the Bank. Given the relevance of these contingencies for the Bank, we consider this topic as a key audit matter.	Our approach to audit the disclosure of contingent liabilities included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ▶ obtaining an understanding of the existing internal control procedures in the process of disclosure of contingent liabilities; ▶ reading the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ▶ analyzing the responses to external confirmations from external legal experts of the Bank and inquiries to the managers of the legal department and in-house lawyers of the Bank; ▶ inspecting the documentation of the Resolution Fund, in particular the annual report of 2019 and the public communications from the Resolution Fund; and ▶ analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

6. Classification and measurement of the Spanish Branch as a non-current asset held for sale

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
During 2020, the Bank classified the assets and liabilities of its Branch in Spain in the captions non-current assets and disposal groups classified as held for sale and liabilities included in disposal groups classified as held for sale, respectively, as it is expected that the value of this branch will be realized on a sale transaction, being its assets available for immediate sale, which is highly probable and expected to occur within one year. Thus, the notes to the financial statements (Note 28) disclose the balances of the non-current assets held for sale, including assets of 1,725,555 K€ and liabilities of 2,007,770 K€. The accounting policies to classify non-current assets held for sale are disclosed in Note 2.10 and the assumptions and estimates in Note 3.6. The assessment of the fair value less cost to sell of the Branch in Spain is a management estimate with the support of an independent expert which considered the offers of potential acquirers on the whole branch or for some of its assets. From this assessment, the Bank booked additional impairment of 166,000 K€. As this is a management estimate on a matter requiring judgment and because different valuation methods or assumptions could lead to different estimates of fair value, we consider this topic as a key audit matter.	Our approach to audit the classification and measurement of the Spanish Branch included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining an understanding of the existing internal control procedures in the process of measurement of non-current assets held for sale; ► reading the minutes of Novo Banco's management bodies, including the presentations of this topic during those meetings, the correspondence with regulators and with the Resolution Fund; ► analyzing the reports prepared by external entities evolved in the sale process, including their assessment of the potential sale value; ► reading the offers received and analyzing the documentation supporting the determination of the fair value less cost to sell; and ► analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

7. Contingent capital mechanism

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In line with the conditions agreed in the sale process of the majority of the share capital of the Novo Banco, S.A., between Nani Holdings, SGPS, SA (Lone Star) and the Resolution Fund, a mechanism of contingent capital ("CCA") was established, which requires the Bank to be compensated, up to a limit of 3,890,000 K€, for losses incurred in a set of defined assets, which had an initial net value of approximately 7,836,823 K€ (with reference to 30 June 2016), for certain costs associated with the financing structure of the Bank, and for the lower profitability associated to assets covered by the CCA.	Our approach to audit the amount booked under the contingent capital mechanism included (i) a global response with effect on how the audit was conducted and (ii) a specific response which resulted in the design, and subsequent implementation, of audit procedures, which included, namely: ► obtaining the understanding and evaluated the design of the existing internal control procedures in the process to quantify the CCA; ► analyzing the movements for the year and inspecting the support documentation to these movements, including the reports from the verification agent;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The payments from the Resolution Fund under the CCA will be made, each year, up to the amount required to meet the minimum level of Common Equity Tier 1 ratio ("CET1"), as defined in the conditions for the operation of the CCA. Throughout 2020, the decrease of equity and consequently to the CET 1, which led to a claim under the CCA of 598,312 K€ that will be subject to validation by the verification agent. This value is presented on the caption reserves, retained earnings and other comprehensive income of the balance sheet and on the line reserve of contingent capital facility of the statement of changes in equity and more fully disclosed in the notes to the financial statements (Note 35). The Portuguese Parliament approved, on November 26, 2020, a legislative proposal to withdraw from the 2021 State Budget the authorization for the Resolution Fund to transfer the CCA amount to the Bank. Calculating the CCA requires the computation of the regulatory capital requirements that follow the prudential rules in conjunction with the determination of the accounting results of a defined set of assets. Additionally, the CCA is significant in the Bank's performance and is relevant for its solvency. For this reason, we consider this topic as a key audit matter.	► reading the minutes of the monitoring commission and correspondence with the Resolution Fund to identify any matters susceptible of judgement; ► evaluating the methodology used and comparing the values used for the calculation with the source information in accounting and prudential reporting; ► inquiring the management on the impact of the approval of the legislative proposal on the recognition of the CCA amount, examining the legal opinions obtained and consulting with accounting subject-matter experts; and ► analyzing the disclosures contained in the financial statements based on the requirements of international financial reporting standards and in the accounting records.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Bank´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, the Corporate Governance Report and the Non-financial statement in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2020

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures we took to eliminate those matters or the related safeguards we applied.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code regarding corporate governance, as well as verifying that the Non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Bank, we have not identified any material misstatement.

As mentioned in article 451. Nr. 7 of the Commercial Companies Code, this opinion is not applicable to the Non-financial statement included in the Management Report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the Chapter 6. Corporate Governance included in the Management Report includes the information required to the Bank to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of nr.1 of the said article.

On the Non-financial statement

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Bank prepared the Sustainability Report separated from the Management Report, which includes the Non-financial statement, as required in article 508-G of the Commercial Companies Code, being the same disclosed together with Management Report.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Bank for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020. We were reappointed in the shareholders' general meeting held on 22 October 2020 for a second mandate from 2021 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Bank on this date; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Bank in conducting the audit.

Lisbon, March 26, 2021

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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Evaluation Report as defined in Article 60th of the Notice from Bank of Portugal nº 3/2020

Introduction

1. This evaluation report is presented to comply with b) of Article 58th of the Notice from Bank of Portugal nº 3/2020 (the "Notice") and belongs to the annual report on the evaluation of the adequacy and effectiveness of the organizational culture in place in Group Novo Banco, S.A. (the "Group") and the governance and internal control frameworks with reference to the period from May 1, 2020 to November 30, 2020.

Responsabilities

2. The management and the supervisory bodies are responsible, under their respective competencies, for promoting the existence in the Group of an organizational culture supported in high ethical standards which,
   - promotes an integral risk culture which encompasses all activity areas of the Group and ensures the identifications, assessment, monitoring and control of the risks that the Group is or can become exposed;
   - promotes a professional conduct prudent and responsible to be observed by all employees and members of the management and supervisory boards under their roles and aligned with high ethical standards documented in a code of conduct specific for the Group;
   - reinforces the reputation and levels of confidence on the Group, both internally as in the relations with customers, investors, supervisory bodies and other third parties

   It is also the responsibility of the management and supervisory bodies to ensure that: the organizations culture of the Group and the governance and internal control frameworks, including the remuneration actions and policies and other matters included in the Notice, are adequate and effective and promote a sound and prudent management; the Group evaluates the adequacy and effectiveness of the organizational culture in place and the governance and internal control frameworks and issues an yearly report on the results of that evaluation (the "Report").

3. It is our responsibility to issue this report as described in Article 56th of the Notice in order to include in the Report.

Activities performed

4. In order to comply with our responsibilities regarding the organizational culture and the governance and internal control frameworks, we performed the following activities, for which we present a summary:
   - Maintained regular interactions with the Executive Board of Directors. For that purpose, we met with members of the Executive Board of Directors to clarify issues, we read the minutes of the meetings of the Executive Board of Directors;
   - The General Supervisory Board monitors the activity of the Banco through its Special Committees: (i) Financial Affairs Committee; (ii) Risk Committee; (iii) Remuneration Committee; (iv) Nomination Committee and (v) Compliance Committee;
   - We met with the managers responsible by the Risk Management, Compliance and Internal Audit functions;
   - We assessed the audit plan for 2020 and the results of the internal audit actions;
   - We analyzed the gap assessment on the implementation of the Notice in the Group prepared by the Internal control department and met with the managers responsible for this assessment;
   - We have regular meetings with the external auditor and analyzed the contents of the Audit report, including the interim limited review reports and the Additional Report to the Supervisory Board, Impairment Reports and Reports from the auditor on internal control matters including the Asset Safekeeping assessment, Anti-money laundry and internal control over financial reporting reports; and
   - We read the Group Report and the individual reports of the relevant subsidiaries, including the deficiencies and planned measures to correct them and assessed the status of those measures;
   - We assessed the coherence between the internal control systems of the subsidiaries, having analyzed the content of the evaluation reports of the supervisory boards of the relevant subsidiaries.

Inherent limitations

5. The General and Supervisory Board is aware of the inherent limitations of any internal control framework which, irrespectively its adequacy and effectiveness, may only provide reasonable assurance to the management and supervisory bodies on the purposes related to organizational culture, governance and internal control systems, as well as other matters described in the Notice. Additionally, an appropriate internal control in place regarding the

financial and prudential reporting is not on itself sufficient to ensure the reliability of the disclosed financial and prudential information. In fact, there are prior processes in the different operational and support areas of the Group, where it is critical to have an adequate internal control in place to ensure the reliability of the information provided to the areas responsible for the prudential and financial reporting. Therefore, given the inherent limitations on any control system, deficiencies, fraud or errors may occur without being detected.

Given the usual dynamic in any internal control system, any conclusion on the adequacy or effectiveness of that system cannot be projected for future periods, as there is the risk that the controls and procedures in place may become inappropriate due to changes in the context or deterioration in the compliance with the policies, procedures and controls.

The evaluation of the impacts of the deficiencies is an estimate of the Executive Board of Directors and follows the criteria defined by the Group and the process to classify the deficiencies according to the criteria and assumptions. Given the judgment associated with the definition of the criteria, the assumptions and in the evaluation of the impacts, different classification could be given to the deficiencies in case different criteria or assumptions were defined. Equally, an evaluation performed in other date on the same deficiency could reach different conclusions, and the impact of a deficiency can materialize differently from what was estimated.

Conclusion

6. As described in the Report, there are deficiencies classified as F3 – High risk, and no deficiencies classified as F4 – Severe.

7. The assessment identifies several matters of the Notice for which the Group is still in the process to implement the measures to adequately comply with the Notice.

8. According to our plan, we intend to obtain a detailed assessment on the compliance with the Notice, including the effectiveness of the design and operation of the controls defined to address the requirements of the Notice, which is expected to occur during 2021, eventually with the assistance of the external auditor.

9. Limited to the activities we performed which are described in paragraph 4 above and except on the eventual impact of the matters described in paragraphs 6 to 8, notwithstanding the ongoing implementation the new requirements of the Notice and with reasonable assurance in respect to the material aspects:

   - In our opinion, the organizational culture and the governance and internal control frameworks of Novo Banco, S.A. were adequate and effective on November 30, 2020.
   - We appreciated favorably the completeness status of the defined measures on November 30, 2020 to correct the deficiencies identified in the Report.
   - We declare that the classification given to the deficiencies classified as level F3 “High” or level F4 “Severe” is adequate.
   - In our opinion, the internal control functions, including the outsourced operational procedures, are performed with adequate quality and independence.
   - The financial and prudential reporting processes were, insofar as we could appreciate due to our procedures inherent to our responsibilities, reliable from May 1, 2020 to November 30, 2020.
   - The processes to produce information disclosed to the public by the Group due to legal or regulatory requirements, including the financial and prudential disclosures were, insofar as we could appreciate due to our procedures inherent to our responsibilities, reliable from May 1, 2020 to November 30, 2020.
   - The requirements to disclose information to the public resulting from applicable law or regulation and related with the matters described in the Notice were, insofar as we could appreciate due to our procedures inherent to our responsibilities, adequately complied with from May 1, 2020 to November 30, 2020.
   - The internal control systems of the subsidiaries were, insofar as we could appreciate due to our procedures inherent to our responsibilities, coherent with the internal control system of the parent.

The Financial Affairs (Audit) Committee

This report was approved by the Financial Affairs (Audit) Committee at a meeting held on February 25, 2021.

Report of the General and Supervisory Board and the Opinion of the Committee for Financial Matters on the Management Report and on the Separate and Consolidated Financial Statements of Novo Banco, S.A. for the year ended 31 December 2020

Pursuant to the mandate we have been given and in compliance with the provisions of h) and q) of paragraph 1 of article 441° and article 444.º of the Commercial Companies Code and the bylaws of Novo Banco, S.A. ("Novo Banco"), the General and Supervisory Board ("GSB") is required to issue the Annual Report on the activity developed and the Committee for Financial Matters is required to issue an opinion on the Management Report and the separate and consolidated financial statements of Novo Banco, which comprise the separate and consolidated income statement and separate and consolidated statement of comprehensive income, separate and consolidated balance sheet, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows and the respective Annexes, as well as on the proposed application of Results, presented by the Executive Board of Directors ("EBD") of Novo Banco, for the year ended on 31 December 2020.

1. Report of the General and Supervisory Board for the year 2020

1.1. Composition and scope

In accordance with the applicable law, Novo Banco's bylaws and best practices at the date of this Annual Report, five of the nine members who comprise the GSB, including the Chairman, are independent. A new independent member was approved at the Shareholders meeting on the 22nd October 2020 for mandate 2021-2024. 2021-2024 GSB mandates are subject to Fit and Proper approval. The GSB has the powers given by law, by the Bylaws and by own regulation, including the supervision of all matters related to risk management, compliance and internal audit.

During 2020, we have monitored the activity of the Bank and its more significant subsidiaries. The activity of the GSB is directly supported by 5 (five) committees, in which were delegated some of its powers, namely the Financial Matters Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, as provided for in articles 6 and 16 of the Bylaws of Novo Banco and the Regulation of the GSB.

These Committees are chaired and composed by members of the GSB and can also have the presence of the EBD members or other managers responsible for the areas covered by the activities of these Committees.

The GSB meets monthly and additionally when required, performing the duties assigned to it by law, by the Bylaws of the Bank and by own regulation. The EBD informs the GSB on all relevant matters, timely and on a comprehensive written or verbally manner.

1.2. Activity undertaken in 2020

General and Supervisory Board

During the year 2020, the GSB held 13 meetings, were several issues were discussed, analyzed and approved, including:

- The separate and consolidated financial statements of Novo Banco for the year ended 31 December 2020 and the Half Year 2020 consolidated financial statements as well as the financial results for the first and third quarters of 2020;
- 2020-2022 Strategic and Medium Term-Plans;

- NPA Plan (*Non-Performing Loans & Reos*) 2020-2022;
- The strategy and risk appetite for 2020;
- The main sale of assets of Novo Banco, in particular, the sale of GNB - Companhia de Seguros, S.A., the Spain Branch (Project Toro and Duero) and NAFE, the sale of non-performing loans-NPLs portfolios and related assets (Carter and Wilkinson);
- Compliance Department activity, including, the ratification of transactions with related parties, approved by the Compliance Committee of the GSB, further to favorable opinion of the compliance department;
- Internal Audit Department activity;
- Most relevant lawsuits against the Group;
- Evolution of Auditoria Especial 2018 Results and the plan to deal with those results;
- Evolution of independent valuation of the Projects Sertorius and Viriato sales;
- Evolution of Amoreiras Project (new head quarter);
- Evolution of compliance with the commitments assumed before DGComp, through the analysis of the various updates and Monitoring Trustee reports;
- Evolution of CCA calls and analysis of reports issued by the Verification Agent;
- Review of the GSB own regulation and the regulation of the Nomination Committee;
- Changes to the Policy for Selection and Evaluation of Novo Banco' Statutory Auditor;
- Group Impairment report;
- Group Internal Control report;
- Approval of the Internal Audit Plan May 2020 - April 2021;
- LME transaction on the NB Finance bonds;
- Approval of new member of the EBD, on recommendation of the Nomination Committee, with the resignation of 3 members of the EBD at the end of their respective mandate terms (2017 to 2020);
- Approval of the appointment and constitution of the EBD, on the recommendation of the Nomination Committee for the 2021 to 2024 term of office;
- Review and approval of the new organization structure and EBD responsibilities from December 2020;
- Throughout the year the GSB were updated with respect to the operating results, evolution of the commercial businesses, capital and liquidity position of Novo Banco as well regular forecasts for the full year 2020;
- Regular updates and notifications of regulatory changes and correspondence with the key regulators of Novo Banco; and
- Novo Banco´s response, actions and initiatives with respect to COVID19 and the global health pandemic.

Additionally, in all meetings, the GSB, in addition to the analysis of the evolution of the business, monitored, as well:

- the evolution of the legal aspects and specific regulation of the financial sector, in particular the "Regime Geral das Instituições de Crédito e Sociedades Financeiras" ("RGICSF"), the regulations of the European Union and the notice and further instructions of the Bank of Portugal;
- the evolution of the main prudential ratios analyzed in the EBD meetings and presentation of the measures arising from European banking regulation and the specific requirements set by the European Central Bank (SREP); and
- the liquidity position and respective regulatory ratios of the Bank, through information presented to the EBD.

Under and for the purposes of analyses and verifications performed, the General and Supervisory Board requested, and obtained, documentation and clarification of several issues raised.

Financial Matters Committee

The Financial Matters Committee held 18 meetings during 2020 and concentrated its activity in the assessment of the Bank's financial statements, and reports of the statutory auditor for the financial year 2020, discussing and analyzing also the updated reports submitted by the Internal Audit. Throughout 2020, the main Non-Performing Assets sales operations were monitored by the Financial Matters Committee, namely, Project Carter and Wilkinson and sale of GNB Seguros. During 2020, the Committee also followed the evolution of several relevant projects, including the RWA - Risk Weighted Assets review process, the MREL requirements management process - Minimum Requirements for Own Funds and Eligible Liabilities, and the RaRoc & MIS Project (with a view, among other things, to the separation of legacy and non-legacy activity). The Financial Matters Committee also monitored during 2020 the valuation of Novo Banco´s equity investments, including restructuring funds as well as the calculations and details of the restructuring costs. The Financial Matters Committee monitored on a continued form, the independence and the work of the external auditor, including the supervision and approval of the provision for this of other additional services to Novo Banco Bank Group. The annual audit process for 2020 was discussed at meetings of the Committee. The meeting agenda included an update on the regulatory aspects of the Bank's activity, the implementation of IFRS 9 and the conclusions of the analysis and evaluation process for supervisory purposes (SREP). The statutory auditor, as well as the person responsible for internal audit and the Chief Financial Officer (CFO) participated in the meetings as guests, where necessary. In addition, Committee members met separately with the statutory auditor and the person responsible for internal audit, without the presence of the members of the CAE.

Risk Committee

The risk Committee held 17 meetings during the year of 2020. In addition to the approval of loans to individual clients or groups of clients associated with, according to the own Regulation, appreciated and discussed the strategy and risk appetite and limits of 2020, according to the Medium-Term Plan for 2020-2022, Covid-19 Key Initiatives and Actions 2020, including credit moratoria. Other topics discussed by the Risk Committee included the major monthly indicators of risk (credit risk, market risk and operation risk) and the provisions and impairments of credit in the financial statements for the financial year of 2020. Non-performing loans of the Bank were also reviewed and compared with the institutions used as reference and with the indicators of the European Banking Authority (EBA). The governance model of risk was also subject to review in the year. The meeting agenda included a report about the regulatory aspects relating to the risks faced by the Bank, particularly in the context of the exercise TRIM (Targeted Review of Internal Models) and of the conclusions of the SREP. The calculation of risk-bearing capacity of the Bank is a frequent subject in the meetings of the Committee. Other risk regulatory topics were discussed and reviewed throughout the year, including the results of on-site regulatory reviews. Responsible for the risk function and the Chief Risk Officer (CRO) participated in meetings as guests, where necessary.

Compliance Committee

The Compliance Committee held 6 meetings during 2020 and deliberated on issues of Government, regulatory and legal in which the Bank operates, having examined and discussed the issues of regulatory compliance of the Bank, including the DMIF2 implementation and of the law on the prevention of money laundering, the legislation on data protection, whistleblowing procedures and other legal and regulatory affairs and relevant ongoing projects. The Committee reviewed and discussed issues on related-party transactions and conflicts of interest, as well as more relevant lawsuits regularly accompanied by the Bank.

Nomination Committee

The Nomination Committee held 5 meetings during the year 2020. Following the measures implemented in 2018, through the creation of an independent Office of evaluation of the adequacy and suitability (Fit & Proper), an annual assessment was performed (at individual and collective level) of adequacy and suitability - "Annual Fit & Proper Assessment - Individual Members and Collective" of the members of the Executive Board of Directors of Novo Banco and members of the Board of Directors of the subsidiaries *Novo Banco dos Açores, Banco* BEST and GNB *Gestão de Ativos*. The evaluation and promotion policy for the Bank's essential functions ("Succession Plan Matrix - Key Function

Holders") was also analyzed. During 2020, the internal Fit & Proper processes were completed for the EBD and the GSB members new mandates 2021 to 2024, and individual and collective suitability documentation and questionnaires were submitted to Bank of Portugal for approval. The Nomination Committee also reviewed and approved and recommended to the GSB changes in the organization structure of Novo Banco, EBD respective responsibilities and alignment of statutory committees from December 2020.

Remuneration Committee

The Remuneration Committee held 7 meetings during the year 2020. At these meetings, the Committee monitored the implementation of policies relating to the remuneration of the management and supervisory bodies and staff and adopted a set of decisions related to the variable component of remuneration for the EBD and identified staff for year 2020. The Remuneration Committee also set and approved the main individual and collective performance indicators for the EBD members for the year 2020, based on the approved budget for this year. The Remuneration Committee approved the Identified Staff for year 2020 following recommendation of the EBD.

During the year of 2020, the GSB and their Committees have issued several opinions arising from requests made by the EBD, under article 15, paragraph 5 of the Bylaws.

The GSB and the Committee for Financial Matters held meetings throughout the year with the audit firm Ernst & Young Audit & Associados - SROC, S.A., both in the context of the audit of the separate and consolidated financial statements for the year ended 31 December 2020, and regular monitoring and discussion of the most relevant aspects resulting from the assessment of the internal control.

Under the existing articulation with the audit firm, the GSB obtained the necessary and sufficient explanations to the questions within the scope of its functions and, in particular:

- The completeness of the accounting records and documents that support them;
- The existence of goods or values belonging to the group Novo Banco or received in guarantee, deposit or other title; and
- If the accounting policies and valuation criteria adopted lead to an adequate representation of the assets and of the results of Novo Banco.

The GSB reviewed all matters contained in the Legal Certification of accounts and Audit Report on the consolidated and individual financial statements issued by the statutory auditors for the year ended 31 December 2020, having obtained from the auditors all the necessary clarifications, in particular on the relevant matters included under the same audit:

- Impairment for loans and advances to customers;
- Financial instruments measured at fair value and classified as level 3 under IFRS 13;
- Restructuring provisions;
- Measurement of real estate obtained through credit foreclosure;
- Disclosure of contingent liabilities;
- Classification and measurement of the Spanish Branch as a non-current asset held for sale; and
- Contingent Capital mechanism.

All these matters were monitored by the GSB and their committees, which, on these matters, kept updated by the EBD, by the relevant Directions and by the external auditors.

In preparing the accounts of the financial year, the GSB analyzed the management report as well as other documents submitted by the EBD, having proceeded to verifications and obtain the clarifications deemed necessary, which comply with the applicable legal requirements.

The accounts were audited by the audit firm Ernst & Young Audit & Associados SROC, S.A., which issued the Audit Report on the financial information for the year ended 31 December 2020 in 26 March 2021, without qualifications nor emphasis of matter, on which the GSB expresses its agreement.

The GSB reviewed the Additional Report to the Supervisory Board issued by the statutory auditors on the same date, which corresponds in substance to the issues that have been discussed along the year, and for which we have obtained all the necessary clarifications.

2. Opinion of the Committee for Financial Matters on the Management Report and the separate and consolidated financial statements

Within the scope of our work, and in accordance with article 444, number 2, of the Code of Commercial Companies, we verified that:

a. the separate and consolidated balance sheet, the separate and consolidated income statement and separate and consolidated statement of comprehensive income, the demonstration of changes in individual and consolidated equity, the separate and consolidated cash flow statement and the corresponding Annex, allow a proper understanding of the asset, liabilities and the separate and consolidated financial position of Novo Banco, their separate and consolidated results of changes in equity and the separate and consolidated cash flows;

b. the accounting policies and valuation criteria adopted are appropriate;

c. the management report is sufficiently clear as to the evolution of the business and the situation of the Bank and all the subsidiaries included in the consolidation, highlighting the most significant aspects, as well as a description of the principal risks and uncertainties that face;

d. the proposed application of results does not contradict the legal and statutory provisions applicable; and

e. in accordance with paragraph 5 of article 420 of the Code of commercial companies, (applicable for remission of article 441, number 2), the information about the corporate governance includes the elements required under article 245-A of the Securities Code and other applicable legislation.

Therefore, we are of the opinion of the:

a. Approval of the management report as well as other documents of account, for the year of 2020, presented by the Executive Board of Directors, considering the aspects highlighted in the Audit report on the consolidated and separate financial statements of the Bank of that year issued by the audit firm; and

b. Approval of the proposed application of results submitted by the EBD in Executive Management report.

Finally, the General and Supervisory Board would like to express its appreciation to the Executive Board, to the Executives in charge for the several areas of the Bank and to other employees, as well as the auditors, the cooperation and the support for the completion of your work.

Lisbon, 31 March 2021

General and Supervisory Board and the Financial Matters Committee

Byron James Macbean Haynes
Chairman of the General and Supervisory Board and member of the Committee for Financial matters

Karl-Gerhard Eick
Vice-Chairman of the General and Supervisory Board and member of the Committee for Financial matters

Kambiz Nourbakhsh
Member of the General and Supervisory Board and member of the Committee for Financial matters

Mark Andrew Coker
Member of the General and Supervisory Board

Benjamin Friedrich Dickgiesser
Member of the General and Supervisory Board

John Herbert
Member of the General and Supervisory Board

Donald John Quintin
Member of the General and Supervisory Board

Robert A. Sherman
Member of the General and Supervisory Board

Carla Antunes da Silva
Member of the General and Supervisory Board

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