NOVO BANCO

2019 ANNUAL REPORT

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Contents

ABBREVIATIONS AND ACRONYMS

NB *NOVO BANCO*

NBG *NOVO BANCO Group*

ECB *European Central Bank*

DG Comp *Directorate-General | Competition*

CCA *Contingent Capitalization 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*

€m *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. For more information please refer to chapter 3.4. of this report.

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

PART I. MANAGEMENT REPORT

1 WHO WE ARE

NOVO BANCO in 2019

Message from the Chairman of the General and Supervisory Board

Dear Stakeholders,

The General and Supervisory Board ("GSB") and the respective GSB committees met throughout year 2019 supervising and supporting the Executive Board of Directors ("EBD") in the monitoring of the execution of the Bank's strategic goals and targets as set out and agreed in the medium-term plan ("the Plan").

During 2019, the Bank continued at an accelerated pace to execute this Plan in particular focusing in investing, developing and supporting its core commercial franchises as well as the de-risking of the balance sheet through the cleaning up of the past Legacy issues, including the disposal of non-core assets.

The financial results of the year for the Recurrent Bank reflects the good progress being made with a net customer loan growth of 5.7% and a Net Income of €177.6m, compared to the loss making results for year 2018. The Legacy Bank successfully disposed of non-core assets and non-performing loans and real estate during the year, resulting in a net balance sheet reduction of €6.2bn, 57.9%. The NPL ratio for NOVO BANCO for 2019 is 11.8% compared to 22.4% for year 2018. This ratio however is still at an elevated level and remains an outlier both in the Portuguese and other European markets (average European Bank NPL ratio <4%) and will therefore continue to be an area of focus for further reduction during the course of 2020.

For the year of 2019, the Bank successfully met all the interim European Commission, State Aid Director General for Competition ("DG Comp") targets with respect to pre provision income, cost / income ratio, number of employees, number of branches and the disposal of significant non-core businesses.

NOVO BANCO further improved its internal governance, control, operations and risk management capabilities during 2019. Recognition of the progress being made was reflected in a 25bps SREP Pillar 2 requirement reduction to 3.00% by the Single Supervision Mechanism ("SSM") for 2020. However, this SREP Pillar 2 requirement for year 2020 remains at a significant high level compared to our Portuguese and European Banking peer group and should therefore be addressed in the near term.

The Bank has maintained strong capital and liquidity during the year. The Contingent Capitalization Agreement ("CCA") continues to provide capital support in the cleanup of past Legacy issues. A loan to deposit ratio of 92% and a liquidity coverage ratio of 143% reflects the healthy liquidity position of Bank at year end 2019.

Overall, the Bank has made good progress during the year in realizing its goals and targets, despite the very challenging market conditions, notably the low interest environment.

For the year of 2020, realistic strategic goals and targets for NOVO BANCO have been set and agreed, in line with the current market and economic operating conditions. The Bank will continue to transform the business and operating model in support of our customers, employees and our other stakeholders through the continued investment and development of our commercial businesses in the Recurrent Bank. The de-risking and cleanup of the Legacy Bank continues and is targeted to be largely complete by year end 2020, dependent on prevailing market conditions.

On behalf of the GSB, I would like to thank our customers and our other stakeholders for their trust and loyalty to NOVO BANCO and to the EBD members as well as all the employees of the Bank for their continued dedication, hard work and sustained commitment during 2019, in helping transform the Bank and realizing our goals and targets.

Byron Haynes

Chairman of the General and Supervisory Board

Message from the Chief Executive Officer

Dear *Stakeholders*,

The 2019 financial year was decisive for NOVO BANCO. And it was a decisive financial year because it marks a special milestone in its restructuring and viability path as agreed in the commitments between the Portuguese State and the European Union.

The fact that NOVO BANCO attained the goals established about two and half years ago, demonstrates not only the rightfulness of the defined strategy and the demanding governance that was implemented but also the undeniable quality of its people and the loyalty of its clients.

The Bank's capacity to quadruple its commercial banking product, to have reduced its cost to income by more than a third and to have kept its relative importance in the market untouched despite the reduction of more than 200 branches and 10% of employees.

All this was ensured through the “repairment” of its Balance Sheet, expressed in the reduction of 70% of the Legacy in just two years, in 2019 alone this reduction was over 3 308 billion euro. Equally important was the growth of our credit activity by more than 5%, demonstrating our importance as a funding partner of the Portuguese economy, which moreover allowed us to achieve a Recurrent Bank net income of 177 million euro.

The results obtained, both in the “repair of the Balance Sheet” and in the Recurrent Bank activity, were only possible thanks to the demanding and determined support that the Executive Board of Directors has always had from the General and Supervisory Board, as well as from the respective special Committees.

A special word for all the Bank's employees who have been tireless in these years of complex restructuring and whose resistance is unquestionable. And a special mention to the shareholders for the precious support that they have given us, not forgetting the Monitoring Committee for its permanent presence in the decisions under its responsibility.

A word to our customers as well, who have always been the Bank's *raison d'être* and who will never cease to be its reason to exist. We always try to respond sustainably adapting our offer of products and services to the demands and needs of our customers.

One last word to the community in which the Bank is inserted and that has given us so much support. When I write these brief words, we are facing one of the most decisive challenges that, as a society, we will have to overcome. I am sure that NOVO BANCO with its experience and resilience will be able to positively contribute to the future of our country.

António Ramalho

Chief Executive Officer

2019 Main indicators

FINANCIAL RESOURCES

+ €177.6 million Recurrent Bank Net Income

57.9% Reduction of Legacy Assets

€935.4 million NBG Impairments and Provisions

PEOPLE

4869 NBG employees

€750 thousand investment in training and development

46.4 training hours per employee

TECHNOLOGY & EXPERIENCE

200 employees and external contractors in digital transformation area

14 multidisciplinary and agile teams in digital transformation area

566 thousand active clients in digital channels

NETWORKS & PARTNERSHIPS

1.3 million clients

387 branches

4292 registered suppliers

6 areas of partnerships with the community: culture, science and academia, institutions of solidarity and social responsibility, financial, communication and media, and technology

MAIN INDICATORS - Recurrent	31-dez-18	31-dez-19
ACTIVITY (mn euros)		
Net assets	37 616	40 814
Customer loans (gross)	23 077	24 380
Customer Deposits	28 350	27 835
ASSET QUALITY		
Non-Performing Loans (NPL)/ (Customer loans + Cash and deposits with banks and loans and advances to banks)	5.4%	3.6%
Credit provisions / *Non-Performing Loans*	46.8%	68.3%
Credit provisions / Customer loans (gross)	2.7%	2.6%
Cost of Risk	0.17%	0.91%
PROFITABILITY		
Income before taxes (mn euros)	-77.2	177.6
Income before taxes and Non Controlling Interests / Average Net Assets (1)	0.0%	0.4%
Banking income / Average Net Assets (1)	1.9%	2.1%
Income before taxes and Non Controlling Interest / Average Equity (1)	0.1%	5.3%
EFFICIENCY		
Operating costs / Banking income (1)	64.5%	54.9%
EMPLOYEES (No.)		
Total	5 096	4 869
- Domestic	4 804	4 648
- International	292	221
BRANCH NETWORK (No)		
Total	402	387
- Domestic	381	375
- International	21	12

(1)According to Banco de Portugal Instruction No. 16/2004, in its version in force

MAIN INDICATORS - Legacy	31-dez-18	31-dez-19
ACTIVITY (mn euros)		
Net assets	10 658	4 482
Customer loans (gross)	5 635	2 675
ASSET QUALITY		
Non-Performing Loans *(NPL)* / (Customer loans + Cash and deposits with banks and loans and advances to banks)	90.3%	81.3%
Credit provisions / Non-Performing Loans	63.0%	51.7%
Credit provisions / Customer loans (gross)	59.4%	45.2%
Cost of Risk	3.97%	15.15%
PROFITABILITY		
Income before taxes (mn euros)	-1335.5	-1236.4
Income before taxes and Non Controlling Interests / Average Net Assets (1)	-6.2%	-14.3%
Banking income / Average Net Assets (1)	-2.0%	-5.1%
Income before taxes and Non Controlling Interest / Average Equity (1)	-62.1%	-142.6%

(1)According to Banco de Portugal Instruction No. 16/2004, in its version in force

MAIN HIGHLIGHTS	31-Dec-18	31-Dec-19
ACTIVITY (mn€)		
Net Assets	48 274	45 296
Customer Loans (gross)	28 712	27 055
Customer Deposits	28 350	27 835
Equity	3 922	4 003
SOLVENCY		
Common EquityTier I / Risk Weighted Assets	12.8%	13.5%
Tier I / Risk Weighted Assets	12.8%	13.5%
Total Capital / Risk Weighted Assets	14.5%	15.1%
LIQUIDITY (mn€)		
European Central Bank Funding (2)	5 864	4 714
Eligible Assets for Repo Operations (ECB and others), net of haircut	14 624	15 253
(Total Credit - Credit Provision) / Customer Deposits (1)	89%	92%
Liquidity Coverage Ratio (LCR)	125%	143%
Net Stable Funding Ratio (NSFR)	106%	101%
ASSET QUALITY		
Overdue Loans > 90 days / Customer Loans (gross)	12.1%	4.0%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	22.4%	11.8%
Credit Provision / Overdue Loans > 90 days	114.3%	171.0%
Credit Provision / Customer Loans (gross)	13.8%	6.8%
Cost of Risk	0.92%	2.32%
PROFITABILITY		
Net Income for the Period (mn€)	-1412.6	-1058.8
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-1.5%	-2.1%
Banking Income / Average Net Assets (1)	1.0%	0.9%
Income before Taxes and Non-controlling interests / Average Equity (1)	-14.3%	-22.3%
EFFICIENCY		
Operating Costs / Banking Income (1)	100.6%	113.8%
Staff Costs / Banking Income (1)	55.0%	63.1%
EMPLOYEES (No.)		
Total	5 096	4 869
- Domestic	4 804	4 648
- International	292	221
BRANCH NETWORK (No.)		
Total	402	387
- Domestic	381	375
- International	21	12

(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

Main events in 2019

JAN	FEB	MAR	APR
29 | NOVO BANCO CULTURA | Cultural assets sharing programme celebrates its 1st year. *15 protocols were signed in 2019 to grant 32 works of art to museums in 10 regions of the country.*	**20 | NOVO BANCO ALGARVE SUMMIT |** Under a partnership with *SIC Notícias* TV channel and the *Expresso* newspaper, this is an innovative and unique project that highlights entrepreneurs, businesses and other relevant entities, in Regional Summits. *Three Summits were held in 2019: Algarve, Beira Interior and Aveiro.*	**23 | ANNUAL MEETING |** 5th edition of the internal meeting with the presentation of the Strategic Plan and annual objectives for the year. **25 | DIGITAL MOBILE KEY |** Offers individual clients a new online account opening functionality.	**11 | NOVO BANCO HACKATHON FEST |** A 24h marathon to create, develop, plan and design innovative solutions in response to technological challenges, in partnership with *Nova SBE* University, in Carcavelos. **15 | INSTITUTIONAL CAMPAIGN** | Launch of first TV institutional campaign - "*O MEU NOVO BANCO*" (my new bank) - featuring direct testimonies of actual clients and partners.
MAY	**JUN**	**JUL**	**AUG**
8 | NOVO BANCO Revelação | Opening of applications for the Prize awarded in partnership with the Serralves Foundation, an initiative that distinguishes young creators in the field of contemporary photography. **31 | PME LÍDER |** Published annually, in partnership with Exame magazine, with its 11th edition, addressing topics that interest business clients.	**5 | NB ECO ECONOMIA CIRCULAR |** NB Eco Circular Economy, a new structured deposit indexed to the performance of the shares of 3 companies that stand out for their ability to apply the concept of Circular Economy. **28 | INTEGRATED PAYMENT PLATFORM |** Selection of *Fiserv* technology to improve the customer experience, through this innovative platform.	**8 | SUSTAINABILITY|** Signature of the "Letter of Commitment for Sustainable Finance in Portugal" **24 | RESIDENTIAL MORTGAGE LOANS |** Offer of new solutions, designed to fulfil the needs of young people up to 35 years old and people over 50 years old, in the current real estate market context.	**8 | NON-STRATEGIC ASSETS |** Within the scope of the divestment program, the sale of two asset portfolios was concluded – *Sertorius Project* and *Albatros Project*. *In 2019, other relevant assets were disinvested, contributing to the Legacy reduction.*
SEP	**OCT**	**NOV**	**DEC**
2 | TALENT ATTRACTS TALENT | Internship program of 47 newly graduated students, start working for a year in different Departments of the Bank. The program, which spans across the country, contemplates the commercial structure for the first time. **2 | NEW DISTRIBUTION MODEL |** Project development of business model redefinition and branch optimization project.	**4-5 | STRATEGIC REFLEXION |** Under the motto "For NOVO BANCO by NOVO BANCO", the meeting brought together all the top management to reflect on the strategic challenges for the coming years. **28 | EXPORT & INTERNATIONALIZATION AWARDS |** NOVO BANCO and *Jornal de Negócios* annual initiative, in partnership with IBERINFORM Portugal with the purpose of recognizing SMEs and Large Companies in two different areas: internationalization and export performance.	**6 | SUSTAINABILITY|** Signature of letter of commitment: United Nations Global Compact *Business Ambition for 1.5ºC*. **27 | PORTUGAL EXPORTADOR |** 14th edition of the largest event dedicated to national exports, with the purpose of helping Portuguese companies to face and overcome the challenges of the export markets. *During 2019, the Bank participated in 7 business fairs and events in the areas of Tourism, Wine, Exports, Textiles and the Food & agriculture Industry.*	**20 | BUSINESS|** Campaign aimed at giving a voice to 10 customers who speak about their business in different regions and industry sectors.

Who we are. NOVO BANCO in 2019

NOVO BANCO, S.A. (“NOVO BANCO” or the “Bank”), together with its subsidiaries and its equity holdings which make up the NOVO BANCO Group (the “Group” or “GNB”), operates mainly in the banking sector, but also in asset management, and holds equity stakes in companies operating in venture capital, insurance, renting and corporate services.

Through its 387 branches and its digital platforms, the Bank serves around 1.3 million clients, having taken significant steps in 2019 to i) optimize its core activity, by striving for improved and increasingly efficient processes, and for the accelerated divestment of its Legacy assets; ii) consolidate its digital transformation by incorporating the most advanced technological developments; and iii) continue to build up factors of differentiation vis-à-vis the competition, based on the propositions of NOVO BANCO dos Açores, Banco Best and GNB Gestão de Ativos (Asset Management), alongside NOVO BANCO business units Real Estate Financing and Principal Finance.

NOVO BANCO was set up in 2014 upon the resolution of Banco Espírito Santo, S.A.. During its first five years, NOVO BANCO has shown its resilience, overcoming the huge challenges resulting from its status as a transitional bank, and by 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.

DG COMP commitments: first intermediate target achieved

The letter of commitment signed by the Portuguese State and the European Commission in connection to the process of authorization of state aid to NOVO BANCO, in the scope of the sale to Lone Star, established 33 commitments to be fulfilled by the Bank until the end of the restructuring period (currently set to 31 December 2021). These commitments are divided into three categories, and compliance therewith is monitored and checked every six months by an international audit company chosen by the European Commission.

- **Structural commitments**, namely commitments to divest in several geographies and businesses and to reduce the Bank's non-core assets (the Legacy assets).
- **Behavioural commitments**, notably the establishment of a cap on the remunerations paid by the Bank, linked to the average remuneration paid by the institution, restrictions on the current and future shareholders, establishment of pricing tools based on Return on Equity (ROE), with preset minimum limits, restrictions on acquisitions, a ban on dividend distributions, a ban on the voting rights of the minority shareholder (the Resolution Fund), and the appointment of a Monitoring Committee to monitor the assets included in the Contingent Capitalization Agreement.
- **Viability commitments,** interim targets and 2021 targets, notably Full-time equivalent (FTE) reduction targets, branch reduction targets, Pre-Provision Income and Cost-to-Income targets (interim and 2021), and adoption of risk management policies.

2019 was the first year in which there were targets to meet under most of the commitments set forth in the letter of commitment, in particular those concerning divestment and viability. The success of the strategy followed by the Bank is patent in the results obtained. The targets set under all the commitments were met, with no exception, some of them were even exceeded.

The fulfilment of the DG COMP objectives, in particular those concerning divestment and viability, combined with strong investment in IT and digital, will allow NOVO BANCO to grow from a restructuring Bank into a digitally enabled bank, and to remain a reference in the national market, with a strong franchise in the corporate and retail segments, and stand out by the quality of the service provided.

In 2019, the Bank's activity was shaped by the objectives established by 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. In 2019, the NOVO BANCO Recurrent began to show signs of normalization and the positive effects of the strategy designed to transform it into the bank of the future.

Governance model

NOVO BANCO's management relies on a governance model that is unique 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 General and Supervisory Board is responsible for regularly monitoring, advising and supervising the management of the Bank and the Group subsidiaries, as well as for supervising the EBD in what regards the compliance with the relevant regulatory requirements of the banking activity. The GSB meets on a monthly basis, and its Chairman maintains regular communication and dialogue with the Chief Executive Officer (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 composed of and chaired by independent members of the GSB and their meetings may be attended by the members of the EBD responsible for the matters that are dealt with by said committees.

The General and Supervisory Board has the responsibilities and powers that are granted to it by law and by the Articles of Association and in its internal regulations, including the supervision of all matters related to risk management, compliance and internal audit, and prior approval on relevant matters 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, as well as ensuring the running of the business in accordance with the rules and good banking practices.

Composition of the corporate and statutory bodies of NOVO BANCO for the 2017-2020 term of office, at the date of this Report:

Board of the General Meeting

Chairman:	Rui Manuel Pinto Duarte
Vice-Chairman:	Miguel João Valente da Costa Madeira
Secretary[1]	

General and Supervisory Board

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

Executive Board of Directors

Chairman:	António Manuel Palma Ramalho - Chief Executive Officer
Member:	Jorge Telmo Maria Freire Cardoso - Chief Recovery and Investment Officer
Member:	José Eduardo Fragoso Tavares de Bettencourt - Chief Operating Officer
Member:	Luís Miguel Alves Ribeiro - Chief Commercial Officer (Retail)
Member:	Luísa Marta Santos Soares da Silva Amaro de Matos - Chief Legal and Compliance Officer
Member:	Mark George Bourke - Chief Financial Officer2
Member:	Rui Miguel Dias Ribeiro Fontes - Chief Risk Officer
Member:	Vítor Manuel Lopes Fernandes - Chief Commercial Officer (Corporate)

Monitoring Committee[3]

Chairman:	José Rodrigues de Jesus
Member:	José Bracinha Vieira

Statutory Auditor

Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM[4] under number 20161480 and in the OROC[4] 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.

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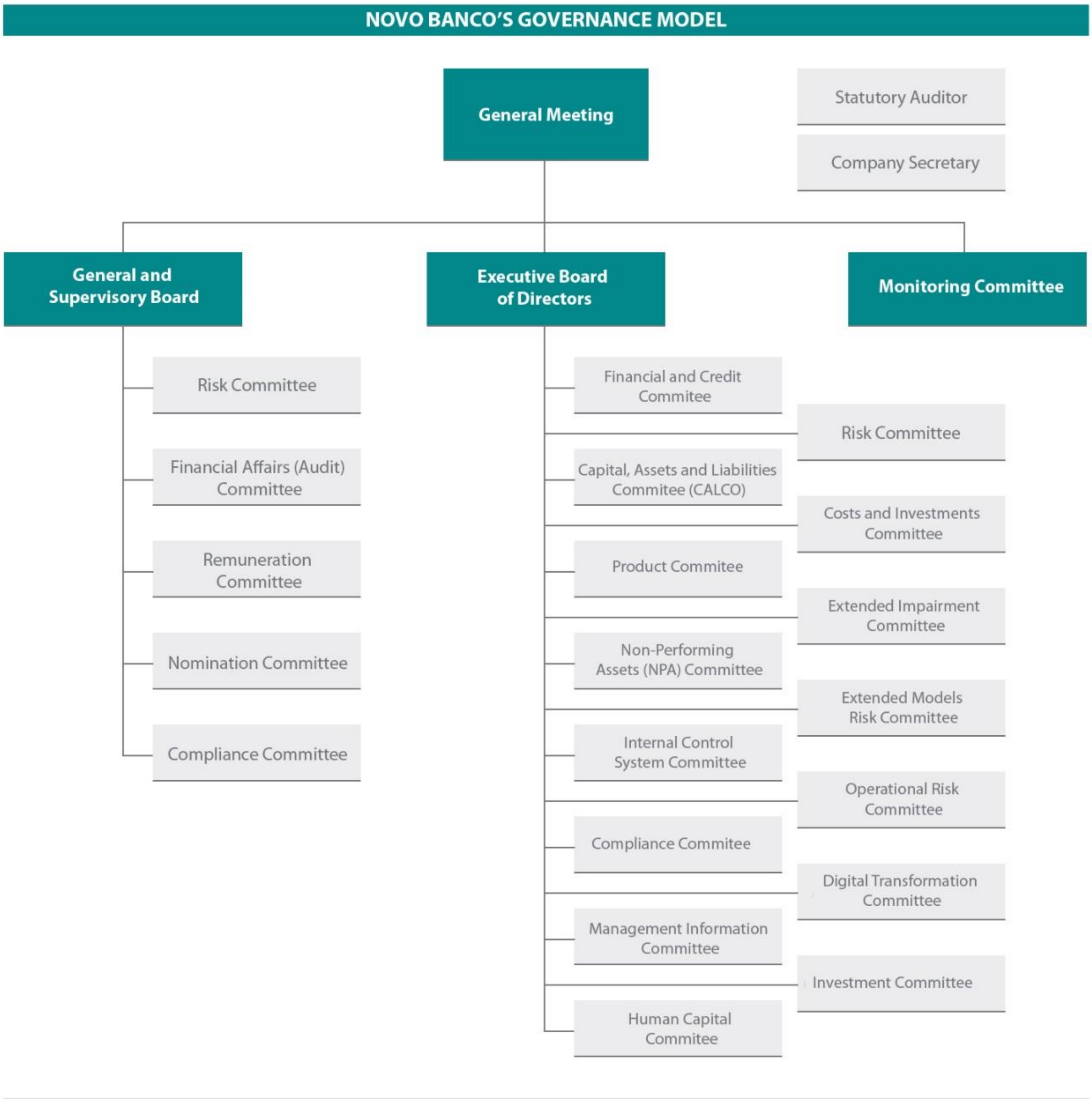
[1] Pedro Queiroz de Barros held office during the financial year of 2019. The position is held on an interim base by the Company Secretary since the resignation of Pedro Queiroz de Barros on December 31, 2019.
[2] Mark Bourke took office on 4 March 2019.
[3] During the exercise of 2018, Miguel Athayde Marques held the position of Member of the Monitoring Committee, having resigned from office with immediate effect on 28 February 2019.
[4] CMVM: Portuguese Securities Market Commission. OROC: Portuguese Institute of Statutory Auditors

Company Secretary

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



Business model

In a context of disruption of the banking sector caused by the macroeconomic environment, new players, such as fintech, and consumers pressure for greater speed, agility and simplicity, NOVO BANCO has been implementing profound changes in its positioning and working rationale.

NOVO BANCO focuses its business model on three main segments – individuals and companies, asset management and markets. The Bank seeks to meet the expectations of its clients and to improve continuously so as to deliver transparent, straightforward, and secure banking services based on the highest standards of integrity and trust, and on quality and customer satisfaction assessment tools.

The NOVO BANCO Group counts with 4869 employees distributed in a commercial network and a support services structure, encompassing the following areas: Audit, Internal Control, Human Resources, Strategy, Digital Transformation, Capital Management and Financial Planning, Legal and Compliance, Marketing, Information Systems, Risk Management and Operational Resources.

GNB EMPLOYES BY COUNTRY/REGION	
Countries	**NOVO BANCO Group**
Portugal	**4647**
Spain	**198**
Ireland	**1**
Switzerland	**7**
Luxembourg	**11**
Brazil	**5**
Total	**4869**

Awards and Recognitions

	NB Obrigações Europa FIMAO Fund	Distinguished in **Morningstar Portugal Fund Awards 2019**, in the *Best Euro Bonds National Fund category*.
	NB Obrigações Europa	The fund was distinguished in the **Rankia 2019 Awards** for the quality and consistency of management and the flexibility of its investment process.
	Best Bank in several categories	Distinguished by **Global Finance** magazine in the Best Trade Finance Provider, Best Sub-Custodian Bank and Best Integrated Corporate Banking Site categories.
	Digital Account Opening	Distinguished by the **2019 Portugal Digital Awards** (4th edition), in the *Best Digital Product & Customer Experience* category. Distinguished by **Exame Informática** magazine in *The best in Technological Portugal* category.
	Short-term Finance	Distinguished by the **2019 Portugal Digital Awards** (4th edition), in the *Best Digital Process* category.
	nbcultura.pt digital platform	Silver award winner of the 2019 **Communicator Awards** (25th edition) , category *Websites of Art* Distinguished in the *Art for Websites* category of the **W³ 2019 Awards**. Gold award in the **Davey Awards 2019**'s *Websites of Arts* category.
	Human Resources Management	Winner of the "Wealth and Well-being by MÉDIS" and "Best Trainees Academy" prizes in the **HR 2019 Awards** (14th Edition) promoted by the Human Resources Information Institute.
	NOVO BANCO Culture	"Institution" award in the **APOM 2019 Awards** for the project of sharing with society its cultural and arts heritage.
	Economic Research Team	Distinguished with the following prizes in the **Analyst Forecast Awards 2019**: #1 Best Overall Forecaster for Eurozone; #2 Best Overall Forecaster for Portugal; #1 GDP Forecaster for Portugal; #1 Interest Rate Forecaster for Portugal; #1 Fiscal Balance Forecaster for Portugal.

2 STRATEGY

Transforming NOVO BANCO for the future

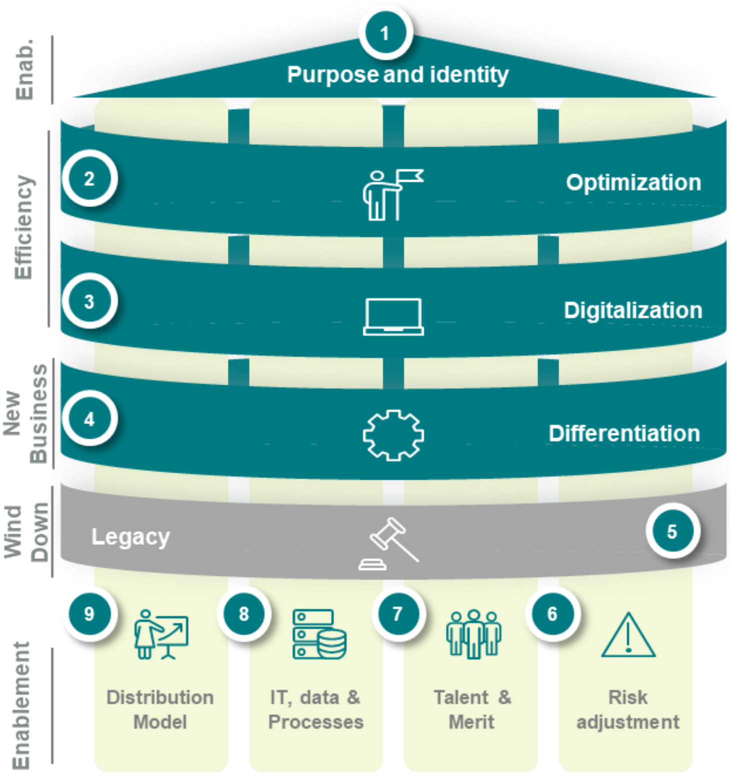
NOVO BANCO is now transitioning towards a growth strategy, as it approaches the resolution of the Legacy issues.

The 2019-2021 strategic plan has its base on four strategic pillars: adjusting risk processes, fostering talent and merit, optimizing IT, Data and Processes, and revolutionizing the distribution model. These four strategic pillars are implemented within a framework of operating circles: optimization, digitalization and differentiation.

The 2019-2021 strategic framework remains fit-for-purpose as the bank transitions from turnaround to growth. In 2020, the strategic framework and plan evolved in two main aspects: strengthen the focus on rebuilding its Purpose and Identity and finishing the tail-end of the Legacy resolution plan.

In 2020-2022 cycle, NOVO BANCO must strengthen its core competencies to compete at par with peers, and conquer a sustainable position in the national banking sector. NOVO BANCO is adamant in becoming a positive contributor in the ecosystem it sits in, continually monitoring how its behaviors impact others and continuing to display authenticity, transparency, integrity and consistency.

The circles and pillars of NOVO BANCO's strategy provide the basis for the 9 priorities underpinning the strategic plan to support its growth.



1. **Purpose and Identity**

NOVO BANCO is rebuilding its purpose and identity maintaining an underlying sustainability emphasis. NOVO BANCO steers its activity based on sustainability principles and with the firm purpose to give back to the community the support it has received from it. With the aim of managing its business fairly and responsibly, the Bank has been implementing a culture of permanent monitoring of its impact on the surrounding ecosystem, training and raising awareness of its employees, business partners and clients and promoting the values of authenticity, transparency, integrity and consistency.

More information on the sustainability strategy is provided in the **2019 Sustainability Report**.

2. **Optimization**

NOVO BANCO is further optimizing the bank's cost structure and efficiency models to gain competitive advantage, refocusing the Bank on its core activity, accelerating essential changes that reduce costs and expedite processes and restructuring the bank to achieve a high level of operating profitability.

3. **Digitalization**

Aiming to transform the organization, NOVO BANCO is evolving digital transformation to increase efficiency and meet customer expectations, ensuring compatibility between an incumbent and a digital platform and responding to digital demand, supply digitalization and digital ecosystem. This implies focusing on lower production costs and greater commercial productivity, by simplifying processes, facilitating the transition to a more efficient business model and boosting service intelligence, in parallel with customer experience, service differentiation and innovation.

4. **Differentiation**

NOVO BANCO is developing differentiated core banking value propositions and implementing additional revenue drivers that diversify income sources and distinguish the Bank from its competitors and build up the Group's differentiation, namely through new business initiatives like the Real Estate Financing and Principal Finance areas.

5. **Legacy**

NOVO BANCO is now executing the tail-end of the Legacy resolution strategy to refocus on its core activity.

6. Risk Adjustment

The strategy outlined for the Bank finds its pillar in specialized, holistic, resilient and efficient risk management and control to support decision-taking processes at both top-management level and across all levels of the organization, and in particular in the first lines of defense.

The programs in progress in the risk area thus aim to ensure the alignment of risk management and control, taking into account the new banking challenges, new technological competitors and customer requirements, in compliance with the risk appetite rules defined by the Executive Board of Directors.

7. Talent and Merit

NOVO BANCO is implementing a comprehensive talent & merit strategy, establishing and communicating sound governance policies, to attract and retain talent, enable staff to fulfill potential and enhance the Bank’s employee experience from recruitment to retirement.

8. IT, Data & Processes

NOVO BANCO is streamlining processes and systems and implementing new ways of working to simplify the bank and its processes in order to improve customer experience, maximize operational efficiency and reduce cost-to-serve.

In 2019, particular emphasis was given to programs aimed at technological transformation and at evolving the current platforms for integration into an agile IT infrastructure. This involved setting up a Data Science area, where machine-learning and artificial intelligence are used in predictive models and applying robotics to a greater number of processes, promoting efficient and fast ways of working.

9. Distribution Model

In order to meet our clients' needs, their expectations and requirements in terms of speed and simplicity, the Bank is adjusting its distribution model by replacing the current structures and architectures by more efficient, intelligent and technology-based ones, that deliver to the client a differentiating, unique and integrated new omnichannel relationship experience.

This change involves deep changes to the branch model and customer journeys, implementing an omnichannel distribution model to meet digital clients’ needs through phygital formats (complementing physical with digital and self-service).

3 RESULTS AND ACTIVITY

A landmark year for NOVO BANCO

3.1 Economic environment

2019 saw the extension of the cycle of expansion of global economic activity, with a deceleration of the main economic areas that brought down global GDP growth to 3%, the lowest in the last decade. This trend was mainly underpinned by a contraction of industrial activity as a result of the constraints associated with the advanced phase of the cycle, by structural problems in the car industry, and by the impact of trade tensions between the US and China. Economic agents' confidence was undermined by other factors of political uncertainty, notably the Brexit and social protest movements (e.g. Hong Kong, France, Catalonia, Latin America). This reflected onto the postponement of investment decisions in the main economic areas and a negative trend in international trade flows. Nevertheless, in the US and in Europe, growth was supported by the continued expansion of the services sector and the favorable performance of private consumption (upheld by falling unemployment and rising wages).

The US GDP increased by 2.3% in 2019 (2.9% in 2018), while in the Eurozone the economy grew by 1.2% (1.9% in 2018). China's GDP grew by 6.1% (6.6% in 2018), the lowest growth rate since 1990, but with signs of stabilization towards the end of the year, reflecting the new policy stimuli. In the emerging economies, GDP growth fell from 4.5% to 3.7% while in the advanced economies it decelerated from 2.2% to 1.7%. Inflation remained contained in both the US and the Eurozone, notwithstanding lower unemployment and rising wages, suggesting that companies have partially absorbed the increase in production costs (and in the US, the effect of the introduction of tariffs) through a reduction in margins. In the US, year-on-year core inflation closed the year at 2.3%, vs. 2.2% in January. In the Eurozone, core inflation increased from 1.1% to 1.3% in the same period, still below target. In China, inflation rose from 1.7% to 4.5%, reflecting the impact of the African swine fever on the price of food.

The US-China commercial war and the expectations of a normalization of the monetary policy that marked the first half of the year contributed to a short-lived inversion of the US yield curve, feeding some fears of a recession. In August, the amount of global debt with negative yields reached a historical high of close to USD 17 trillion (which by the end of the year had retreated to approximately USD 11 trillion).

Increasing risks to the outlook and the persistence of subdued inflation thus led the main central banks to reinforce the expansionary nature of the monetary policy. In the US, the Fed made three 25 bps cuts of the target fed funds rate, between July and October, lowering it to 1.5%-1.75%. In the Eurozone, the ECB announced in September the return of its asset purchase program (with monthly purchases of €20 billion per month as from November) and cut the deposit facility rate by 10 bps, to -0.50% (under a two-tier system, to mitigate the negative impact on the financial system). In this context, from January to September the 3-month Euribor fell from -0.309% to 0.383%, albeit picking up at the end of the year, while the 10-year *Bund* yield retreated from 0.242% to -0.185% (hitting a low of 0.714% at the end of August). The 10-year Treasury yield retreated from 2.685% to 1.919% (with a low of 1.457% at the beginning of September). Corporate debt spreads remained very contained in both the investment grade and the high-yield segments. The euro lost close to 1.95% to the US dollar in 2019. In average annual terms, the price of oil (Brent) retreated from USD 71.2 to USD 64/barrel, reflecting the moderation of global growth and the perception of some surplus in supply.

Despite fears over trade tensions, the main equity indices reported significant gains in 2019, bolstered by a combination of expanding economic activity with an increasingly consistent environment of low interest rates. The high amount of share repurchases, in particular in the US (which registered the second ever highest value) are also worth noting. In the US, the Dow Jones, S&P 500 and Nasdaq indices gained 22.3%, 28.9% and 35.2%, respectively. In Europe, the DAX, CAC40 and IBEX rose by 25.5%, 26.4% and 11.8%. These gains became sharper towards the end of the year due an apparent abatement of political risks, resulting, in particular, from the announcement of a partial trade agreement between the US and China, and the lower likelihood of a hard Brexit scenario following the December elections in the United Kingdom.

In Portugal, economic activity proved resilient, mainly supported by domestic demand. GDP grew by 1.9% in the year, above the Eurozone average. Private consumption maintained relatively stable real growth compared to 2018 (2.3%), while investment slightly accelerated (to an annual increase of 7.2%). Household spending continued to be supported in 2019 by falling unemployment (6.6% of the labor force, vs. 7% in 2018), low inflation (0.3% in average annual terms, boosting purchasing power) and favorable monetary and financial conditions (supporting the growth of home and consumer loans). On the other hand, net external demand gave a moderately negative contribution to GDP growth, with exports slowing down faster than imports. While exports of goods and services grew by 3% in real terms, imports registered an annual increase of 5.3%. In this context, the combined current and capital account surplus retreated from 1.2% to 0.5% of GDP, denoting a lower net capacity to finance the economy. This resulted from the deterioration of the goods account deficit (reflecting the vigor of domestic demand) and a moderation of the services account surplus, notwithstanding the dynamic performance of the tourism activity. After a slight slowdown in 2018, house prices resumed a moderate acceleration trend in 2019, growing year-on-year by 10.3% in the 3rd quarter, which brought the average annual increase to close to 10%.

The combination of growth with improved public accounts - a fiscal balance of close to zero is expected, with the public debt ratio retreating from ca. 12% to 119% of GDP - benefited investors’ perception of the Portuguese economy. This perception translated into an improvement of the Republic's rating (BBB- to BBB by S&P and revision of the outlook to positive, by S&P, Moody’s and Fitch). The 10-year PGB yield fell from 1.72% to 0.44% (with a low of 0,071% in mid-August), narrowing the spread to the German *Bund* from 148 bps to 63 bps. The PSI-20 equity index advanced by 10.2%.

3.2 Relevant facts from the activity

- On 4 March, and following the announcement on 24 September 2018, NOVO BANCO S.A. informed that Mark Bourke had started on that day as member of the Executive Board of Directors of NOVO BANCO as Chief Financial Officer for the current term of office.
- On 17 April the rating agency DBRS Rating GmbH ("DBRS") took several rating actions on NOVO BANCO. DBRS upgraded the Long-Term Issuer rating to B (high) from B, the Long-Term Senior Debt rating to B (high) from B, the Long-Term Deposits rating to BB (low) from B (high), the Intrinsic Assessment (IA) to B (high) de B, the Long-Term Critical Obligations Ratings (COR) to BB (high) from BB, and the Short-Term COR to R-3 from R-4. The Subordinated Debt rating was also upgraded to B (low) from (CCC (high). The upgrade of the Long-Term Issuer rating to B (high) takes into consideration the improvement in the NOVO BANCO's risk profile, particularly in terms of the reduction in Non-Performing Loans (NPLs), the divestment of non-core assets and the further rationalization of the organizational structure. DBRS also made reference to notable achievements in 2018, which included large sales of NPLs and real estate assets. The trend remains Positive for the Long-Term ratings and for the Subordinated Debt. Other Short-Term ratings of NOVO BANCO remained unchanged at R-4 and the trend remains Stable. The Support Assessment remains at SA3.
- On 24 July, the rating agency Moody's Investors Service ("Moody's") took several rating actions on NOVO BANCO. Moody's upgraded the long-term deposit ratings two-notches to B2 from Caa1 and affirmed the long-term senior unsecured debt ratings at Caa2. Moody's also upgraded the baseline credit assessment (BCA) and adjusted BCA of NOVO BANCO to caa1 from caa2. The outlook on the long-term deposit ratings remained positive while the outlook on the senior unsecured debt ratings improved to positive from negative. Moody's also upgraded the long-term Counterparty Risk Ratings to B1 from B2, the long-term Counterparty Risk Assessment to B1(cr) from B2(cr) and the Subordinate Regular Bond rating to Caa2 from Caa3. The rating actions were taken following Moody's change of the Macro Profile of Portugal (Baa3 stable) to "Moderate+" from "Moderate" in combination with the continued improvement in the banks' credit fundamentals, notably asset risk.
- On 5 August, NOVO BANCO informed that its branch in Spain and Novo Banco Servicios Corporativos, S.L. signed a Sale and Purchase Agreement with Waterfall Asset Management L.L.C., a New York-based asset management firm, for the sale of a portfolio of real estate properties and nonperforming loans known as "Project Albatros". The portfolio had a gross book value of 308 million euro at NOVO BANCO consolidated level and the sale value amounted to 98.7 million euro.
- On 5 August, NOVO BANCO informed that it has signed a Promissory Sale and Purchase Agreement with entities indirectly owned by funds managed by Cerberus Capital Management, L.P., a New York-based firm, for the sale of a portfolio of real estate assets, known as "Project Sertorius". The portfolio with a gross book value of 487.8 million euro comprises 195 properties, corresponding to 1,228 individual units, with industrial, commercial, land plots and residential uses, including parking spaces. The sale value amounted to 159 million euro.

- On 5 September, NOVO BANCO and ARRÁBIDA - FUNDO ESPECIAL DE INVESTIMENTO IMOBILIÁRIO FECHADO informed that they have 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 (Project Nata II). The final Gross and Net Asset disposals approved by the Resolution Fund were €1,365 million and €248 million respectively and the sale value was €157 million.
- On 14 October, NOVO BANCO informed that it has completed the sale of the entire share capital of GNB – Companhia de Seguros de Vida, S.A. ("GNB Vida") to GBIG Portugal, S.A., an entity wholly owned by funds to which the investment adviser is APAX PARTNERS, LLP. The total consideration for the sale amounts to an upfront fixed price of 123 million euro and an earn-out component of up to 125 million euro indexed to distribution targets associated to the 20-year agreement between NOVO BANCO and GNB Vida to distribute life insurance products in Portugal.

3.3 Highlights

- Growth of recurrent loan volumes (+5.6%; +€1 303 million), building on the positive trend achieved in 1st half 2019 (+3.1%; +€713 million), with increases across both retail and corporate portfolios.

  Loans to Corporate +3.8%; Residential mortgage +8.3%; Consumer and other +4.2%.

- Stable deposits and increase in total customer funds (+0.8%; +€262 million), namely in off-balance sheet funds, the Bank continues to maintain a strong liquidity position through growing the recurrent bank funds.
- Progress to sustainable profitability.

  Recurrent net income +€177.6 million (Dec.18: -€77.2 million).

  Income before taxes increased from +€2.2 million in 2018 to +€175.3 million in 2019.

  Recurrent commercial banking income grew to +€811.9 million (+16,6%) in the year, with a growth in all quarters, with the recurrent net interest margin and fees and commissions showing a growth of +26.9% and +3.7%, respectively, reflecting the continued strengthening of its franchise.

- Continued focus on costs control while investing in the core business and in Digital transformation.

  Recurrent operating costs decreasing -0.8% to €460.8 million (Dec.18: €464.3 million).

- Marked reduction in non-performing loans, in line with the defined strategy.

  Reduction of non-performing loans -€3 308 million from €6 739 million to €3 430 million (reduction of -€6 700 million comparing to December 2017), reflecting a NPL ratio decrease of circa 58% from 28.1% in Dec.17 to 11.8% in Dec.19. The NPL ratio of the recurrent activity decreased to 3.6% (Dec/18: 5.4%).

- Reduction of Legacy assets.

  Reduction of Legacy assets by 57.9% (-€6 176 million), across all asset categories. The sale of GNB Vida's share capital contributed -€4 076 million to this reduction.

- Contingent Capitalization Agreement

  As a result of the losses recorded in the Legacy activity amounting to -€1 236.4 million, that reflects the continued deleverage of Legacy loans and real estate assets, which were in the balance sheet in 2016, NOVO BANCO will request the payment of €1 037 million under the Contingent Capitalization Agreement (CCA), as stipulated in the contract. The amount of the payments requested in 2017 and 2018 and to be requested in relation to 2019 totals €2.98 billion. The maximum amount established in the CCA contract is €3.89 billion.

NOVO BANCO continues to deliver on its strategic plan, targets and the commitments assumed by the Portuguese Government with DG Comp. Throughout the year, the Bank continued to make progress on its strategic priorities, achieving positive financial results in recurrent activity. In the Legacy activity the Bank pursued its strategy of reducing non-performing assets.

3.4 Recurrent and Legacy

As in 2018, NOVO BANCO discloses its full year 2019 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 Contingent Capitalization Agreement, 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.

3.4.1 NOVO BANCO Recurrent

Results

As at 31 December 2019, NOVO BANCO Recurrent reported a positive net income of +€177.6 million, which represents a year-on-year increase of +€254.8 million. This positive performance was underpinned by the growth of net interest income (+€104.0 million; +26.9%), of fees and commissions (+€11.5 million; +3.7%), and of capital markets results (+41.8 million), and the reduction in impairments and provisions (-€51.0 million; -20.1%), being in part offset by the decrease in other operating results (-€38.9 million). These results reflect the continuing focus on the core domestic business.

Income Statement		Recurrent			
		31-Dec-18	31-Dec-19	Change absolute	Change %
	Net Interest Income	387.2	491.2	104.0	26.9%
+	Fees and Commissions	309.2	320.7	11.5	3.7%
=	**Commercial Banking Income**	**696.4**	**811.9**	**115.5**	**16.6%**
+	Capital Markets Results	30.4	72.2	41.8	...
+	Other Operating Results	- 6.6	- 45.5	- 38.9	...
=	**Banking Income**	**720.1**	**838.6**	**118.5**	**16.5%**
-	Operating Costs	464.3	460.8	- 3.5	-0.8%
=	**Net Operating Income**	**255.8**	**377.8**	**122.0**	**47.7%**
-	**Net Impairments and Provisions**	**253.6**	**202.5**	**- 51.0**	**-20.1%**
	Credit	39.6	222.4	182.9	...
	Securities	12.4	3.5	- 8.9	-71.8%
	Other Assets and Contingencies	201.6	- 23.4	- 225.0	...
=	**Income before Taxes**	**2.2**	**175.3**	**173.1**	**...**
	Corporate Income Tax and Special Tax on Banks	74.8	-10.6	-85.4	...
=	**Income after Taxes**	**- 72.6**	**185.8**	**258.4**	**...**
-	Non-Controlling Interests	4.6	8.2	3.6	79.2%
=	**Net Income for the year**	**- 77.2**	**177.6**	**254.8**	**...**

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Net interest income increased by €104.0 million, to €491.2million (+26,9%), benefiting from the positive contribution of the optimization measures implemented in 2018 and the expansion of the loan volume and continued focus on pricing policy.

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NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-18 Average Balance	31-Dec-18 Avg. Rate	31-Dec-18 Income / Costs	31-Dec-19 Average Balance	31-Dec-19 Avg. Rate	31-Dec-19 Income / Costs
INTEREST EARNING ASSETS	34 147	1.83%	633	35 237	1.86%	666
Customer Loans	23 059	2.36%	551	23 902	2.24%	543
Other financial assets	11 088	0.73%	82	11 335	1.07%	123
Money Market Placements	2 221	-0.06%	- 1	1 056	0.01%	0
Securities and Other Assets	8 867	0.92%	83	10 279	1.18%	123
INTEREST EARNING ASSETS AND OTHER	**34 147**	**1.83%**	**633**	**35 237**	**1.86%**	**666**
INTEREST BEARING LIABILITIES AND OTHER	**34 147**	**0.69%**	**238**	**35 237**	**0.48%**	**172**
NIM /NII (without stage 3 impairment adjustment)		**1.14%**	**395**		**1.38%**	**494**
Stage 3 impairment			**- 8**			**- 3**
NIM / NII		**1.12%**	**387**		**1.37%**	**491**

During 2019 there was an increase in the loan volumes (corporate, mortgage and consumer) and revenue levels were maintained. Growth in volumes was achieved while maintaining a focus on pricing discipline. However, the highly competitive corporate market contributed to a slight decrease in interest rates to 2.24% (Dec/18: 2.36%).

The liability management measures performed led to the reduction of the cost of funding from 0.69% to 0.48%, while the interest rate on assets increased from 1. 83% to 1.86%. The resulting net interest margin was 1.37% (+25 bps compared to 31 December 2018).

Fees and commissions on banking services contributed +€320.7 million (+3.7%) to the results, which compares with +€309.2 million on 31 December 2018. Fees and commissions related to payments management, and loans and guarantees, were relatively stable despite the competitive environment that has characterized banking activity. Bancassurance and asset management continued to deliver good results.

Recurrent commercial banking income grew to +€811.9 million (+16.6%) in the year with a growth in all quarters (1Q19: +€188 million; 2Q19: +€199 million; 3Q19: +€202 million; 4Q19: +€223 million).

The **Capital markets results** totaled +€72.2 million, reflecting the gains on the sale and revaluation of securities, in particular sovereign debt securities. In addition, the losses recorded under this heading related to the hedging of sovereign debt securities (-€111.1 million) were more than offset by the increase of the respective fair value reserves (+€245.7 million), included in the Group's equity.

Operating costs totaled €460.8 million, a year-on-year absolute decrease of -0.8%, that reflects the investment in the core business and in the digital transformation, as well as continued cost control.

Operating income was up by €122.0 million year-on-year, reaching €377.8 million (+47.7%).

The **cost of risk** considering the credit impairment was 91bps. Excluding the one offs and exceptional provisions in 2019 the underlying cost of risk would be in the range of 55-65 bps.

Activity

Assets increased by €3 198 million (+8.5%) with net customer loans growing by 5.7% (+€1 270 million), building on the positive trend already achieved up to the 3rd quarter of 2019 (+4.0%; +€895 million), with increases in individuals and corporate loan portfolios. The growth in corporate loans reflects the continued support to domestic companies, across all economic sectors (including industry, retail, real estate activities and tourism and services), with a special focus on SMEs.

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	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer loans (net)	22 465	23 735	1 270	5.7%
Real estate	374	307	- 67	-18.0%
Other assets	14 777	16 772	1 995	13.5%
Total Net Assets	**37 616**	**40 814**	**3 198**	**8.5%**
Total Liabilities and Equity	**37 616**	**40 814**	**3 198**	**8.5%**

The recurrent assets' quality indicators improved, as shown by the NPL ratio's reduction to 3.6% and coverage ratios' improvement by 2150 basis points.

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CUSTOMER LOANS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer Loans (gross)	**23 077**	**24 380**	**1 303**	**5.6%**
Corporate	12 447	12 925	478	3.8%
Residential Mortgage	9 329	10 100	770	8.3%
Consumer finance and other	1 301	1 355	55	4.2%
Non-Performing Loans (NPL)*	**1 309**	**946**	**- 363**	**-27.8%**
Impairment	**612**	**645**	**33**	**5.3%**
NPL Ratio*	**5.4%**	**3.6%**	**-1.8 p.p.**	**...**
NPL coverage*	**46.8%**	**68.3%**	**21.5 p.p.**	**...**
Cost of Risk (bps)	**17**	**91**	**74**	**...**

* Includes Deposits and Loans and advances to Banks and Customer Loans

3.4.2 NOVO BANCO Legacy

In line with the medium-term strategy of deleverage of Legacy assets, NOVO BANCO Legacy reported a loss of -€1 236.4 million, which includes losses related to the sale and devaluation of assets (project Sertorius (sale of real estate); project Albatros (sale of real estate and non-performing loans in Spain); project NATA II (sale of non-performing loans and related assets) and GNB Vida).

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Income Statement	Legacy			
	31-Dec-18	31-Dec-19	Change	
			absolute	%
Net Interest Income	67.2	49.4	- 17.8	-26.4%
+ Fees and Commissions	4.6	2.7	- 1.9	-40.8%
= **Commercial Banking Income**	**71.8**	**52.2**	**- 19.6**	**-27.4%**
+ Capital Markets Results	- 70.7	- 269.0	- 198.3	...
+ Other Operating Results	- 237.0	- 201.5	35.6	15.0%
= **Banking Income**	**-235.9**	**-418.3**	**-182.4**	**-77.3%**
- Operating Costs	22.9	17.7	-5.3	-22.9%
= **Net Operating Income**	**-258.8**	**-436.0**	**-177.2**	**-68.5%**
- **Net Impairments and Provisions**	**456.4**	**732.9**	**276.5**	**60.6%**
Credit	223.9	405.1	181.1	80.9%
Securities	0.9	- 3.7	- 4.6	...
Other Assets and Contingencies	231.5	331.5	100.0	43.2%
= **Income before Taxes**	**- 715.2**	**-1 168.9**	**- 453.7**	**-63.4%**
Corporate Income Tax and Special Tax on Banks	620.2	83.4	- 536.8	-86.5%
= **Income after Taxes**	**-1 335.4**	**-1 252.3**	**83.1**	**6.2%**
- Non-Controlling Interests	0.1	- 15.9	- 16.0	...
= **Net Income for the year**	**-1 335.5**	**-1 236.4**	**99.1**	**7.4%**

NOVO BANCO Legacy assets decreased by 57.9% compared to December 2018. This was underpinned by reductions of circa -€822 million (-35.9%) in the net loan book, of -€832 million (50.1%) in real estate, and of -€4 522 million (67.4%) in other assets, of which -€4 076 due to the sale of GNB Vida.

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	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer loans (net)	2 289	1 467	- 822	-35.9%
Real estate	1 661	829	- 832	-50.1%
Other assets	6 708	2 186	-4 522	-67.4%
Total Net Assets	**10 658**	**4 482**	**-6 176**	**-57.9%**
Total Liabilities and Equity	**10 658**	**4 482**	**-6 176**	**-57.9%**

There are no liabilities directly allocated to the Legacy activity, therefore the funding costs for Legacy loans and real estate are calculated based on the average balance sheet funding rate (0.48%).

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CUSTOMER LOANS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer Loans (gross)	**5 635**	**2 675**	**-2 960**	**-52.5%**
Corporate	5 148	2 307	-2 841	-55.2%
Residential Mortgage	220	165	- 56	-25.4%
Consumer finance and other	267	203	- 64	-23.9%
Non-Performing Loans (NPL)*	**5 429**	**2 485**	**-2 944**	**-54.2%**
Impairment	**3 346**	**1 208**	**-2 138**	**-63.9%**
NPL Ratio*	**90.3%**	**81.3%**	**-9.0 p.p.**	**...**
NPL coverage*	**63.0%**	**51.7%**	**-11.3 p.p.**	**...**
Cost of Risk (bps)	**397**	**1 515**	**1117**	**...**

* Includes Deposits and Loans and advances to Banks and Customer Loans

3.5 NOVO BANCO Group (consolidated)

3.5.1 Results

NOVO BANCO Group reported a net loss of -€1 058.8 million in 2019, reflecting the combined effect of a -€1 236.4 million loss in the Legacy activity and a +€177.6 million profit in recurrent activity. NOVO BANCO Group recorded losses related to the restructuring process and the deleverage of non-performing assets, namely projects Sertorius, Albatros, and NATA II, and the sale process of GNB Vida.

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INCOME STATEMENT	31-Dec-18	31-Dec-19	Change	
			absolute	%
Net Interest Income	454.3	540.6	86.3	19.0%
+ Fees and Commissions	313.9	323.5	9.6	3.1%
= Commercial Banking Income	**768.2**	**864.1**	**95.9**	**12.5%**
+ Capital Markets Results	- 40.3	- 196.8	- 156.5	...
+ Other Operating Results	- 243.7	- 247.0	- 3.3	-1.3%
= Banking Income	**484.2**	**420.3**	**- 63.9**	**-13.2%**
- Operating Costs	487.3	478.5	- 8.8	-1.8%
= Net Operating Income	**- 3.0**	**- 58.2**	**- 55.1**	**...**
- Net Impairments and Provisions	**710.0**	**935.4**	**225.5**	**31.8%**
Credit	263.5	627.5	364.0	...
Securities	13.3	- 0.2	- 13.5	...
Other Assets and Contingencies	433.1	308.1	- 125.0	-28.9%
= Income before Taxes	**- 713.0**	**- 993.6**	**- 280.6**	**-39.4%**
- Corporate Income Tax	667.7	45.8	- 621.9	-93.1%
- Special Tax on Banks	27.3	27.1	- 0.2	-0.7%
= Income after Taxes	**-1 408.0**	**-1 066.5**	**341.5**	**24.3%**
- Non-Controlling Interests	4.7	- 7.7	- 12.3	...
= Net Income for the year	**-1 412.6**	**-1 058.8**	**353.8**	**25.0%**

The combined activity in 2019 includes the following:

- Commercial banking income reached €864.1 million (+12.5% YoY), supported by increases in net interest income (+19.0%) and in fees and commissions (+3.1%);
- Capital markets results were negative, at -€196.8 million, reflecting the losses resulting from the Legacy activity (-€269.0 million). In contrast, fair value reserves on the securities portfolio reported an expressive increase;
- Operating costs decreased by -1.8% year-on-year, to €478.5 million, underpinned by the improvements made in simplifying processes and streamlining the organization, with the consequent reduction in the number of branches and employees. The costs related to the Legacy activity were significantly reduced.
- The provision charge in the period, totaling €935.4 million, is broken down into credit impairments amounting to €627.5 million, -€0.2 million for securities and €308.1 million for other assets and contingencies, of which €47.3 million are provisions for restructuring and €177,8 million are related with the sale processes of non-performing assets (NATA II, Sertorius and Albatros) and GNB Vida.

Net Interest Income

The reduction in the interest rate on liabilities (-18bps) contributed to the increase in the net interest margin by 26bps year-on-year (from 1.06% to 1.32%), with the interest rate on assets increasing by 7bps (from 1.75% to 1.82%). The net interest margin shown also includes the net interest income of Legacy activity.

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NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-18			31-Dec-19		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	42 285	1.75%	752	40 344	1.82%	745
Customer Loans	30 722	2.06%	643	28 558	2.08%	601
Money Market Placements	2 610	0.83%	22	1 442	1.32%	19
Securities and Other Assets	8 952	0.95%	87	10 344	1.19%	125
INTEREST EARNING ASSETS AND OTHER	**42 285**	**1.75%**	**752**	**40 344**	**1.82%**	**745**
INTEREST BEARING LIABILITIES	38 404	0.73%	284	37 960	0.51%	196
Customer Deposits	28 836	0.66%	194	27 949	0.34%	97
Money Market Funding	8 470	0.30%	26	8 931	0.37%	25
Other Liabilities	1 098	5.73%	64	1 080	8.93%	73
OTHER NON-INTEREST BEARING LIABILITIES	3 881	-	-	2 383	-	-
INTEREST BEARING LIABILITIES AND OTHER	**42 285**	**0.66%**	**284**	**40 344**	**0.48%**	**196**
NIM / NII (without stage 3 impairment adjustment)		**1.09%**	**468**		**1.34%**	**549**
Stage 3 impairment			**- 14**			**- 9**
NIM / NII		**1.06%**	**454**		**1.32%**	**541**

The average rate on customer loans, the main component of financial assets (70.8%), was 2.08%. As to liabilities, the average balance of deposits was €27.9 billion, with an average interest rate of 0.34%. The Bank therefore continued to build the spread between the rate on interest earning assets (1.82%; Dec/18: 1.75%) and the cost of liabilities (0.48%; Dec/18: 0.66%).

Fees and Commissions

Fees and commissions on banking services contributed +€323.5 million (+3.1%), which compares with +€313.9 million on 31 December 2018.

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FEES AND COMMISSIONS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Payments Management	118.8	117.2	-1.5	-1.3%
Commissions on Loans, Guarantees and Similar	111.6	107.8	-3.8	-3.4%
Asset Management and Bancassurance	66.7	71.5	4.8	7.2%
Advising, Servicing and Other	16.8	26.9	10.1	60.4%
TOTAL	**313.9**	**323.5**	**9.6**	**3.1%**

In 2019 there was a decrease in fees and commissions on payment services and on loans and guarantees, due to the current context of banking activity in Portugal, which was offset by the increase in asset management, Advisory, Servicing and sundry fees and commissions.

Capital Markets and Other Operating Results

Capital markets results, at -€156.5 million, reflect the gains on the sale and revaluation of sovereign debt securities, the losses on the revaluation of derivative instruments, and the losses resulting from the Legacy activity (-€269.0 million).

Other operating results include, apart from the losses related with the projects for the sale on non-performing assets (-€46.2 million), the costs with the contributions to the Single Resolution Fund (€22.5 million) and to the Portuguese Resolution Fund (€12.2 million).

Operating Costs

Operating costs show a year-on-year reduction of -1.8%, reflecting the restructuring measures associated with the downsizing of the distribution network and simplification of the organizational structure and processes, with the consequent reduction of the headcount.

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OPERATING COSTS	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	Change 31-Dec-19 vs 31-Dec-18	
						absolute	%
Staff Costs	397.6	303.5	275.7	266.1	265.4	- 0.8	-0.3%
General and Administrative Costs *	285.4	231.4	215.4	199.0	179.5	- 19.5	-9.8%
Depreciation *	71.7	56.1	58.1	22.1	33.7	11.5	52.0%
TOTAL	**754.6**	**590.9**	**549.2**	**487.3**	**478.5**	**- 8.8**	**-1.8%**

* The adoption in 2019 of IFRS 16 led to an increase of c. €17 million in Depreciation and to a decrease of the same amount in General and Administrative Costs.

Staff costs amounted to €265.4 million (-0.3% YoY), with an associated headcount reduction of 227 employees since 31 December 2018. As at 31 December 2019, NOVO BANCO Group had 4 869 employees.

General and administrative costs dropped by -9.8% year-on-year, to €179.5 million. This reduction reflects the continued rationalization and streamlining of the Bank's internal business processes.

At 31 December 2019 the branch network comprised 387 units (402 at 31 December 2018).

Impairments and Provisions

NOVO BANCO Group increased provisions by €935.4 million (€225.5 million more than at 31 December 2018), of which €627.5 million for credit (€364.0 million increase) and €308.1 million for other assets and contingencies, including €47.3 million for restructuring and €177.8 million related to the sale of non-performing assets.

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NET IMPAIRMENTS AND PROVISIONS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer Loans	263.5	627.5	364.0	...
Securities	13.3	-0.2	-13.5	...
Other Assets and Contingencies	433.1	308.1	- 125.0	-28.9%
TOTAL	**710.0**	**935.4**	**225.5**	**31.8%**

Net impairments and provisions include €732.9 million related to the Legacy activity, which represents 78% of the total for NOVO BANCO Group.

3.5.2 Balance sheet and Activity

Customers 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, placing a particular focus on the exporting small and medium-sized companies in the industry, retail, real estate, tourism, and services sectors, and those that incorporate innovation in their products, services or production systems.

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CUSTOMER LOANS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Loans to corporate customers	**17 595**	**15 232**	**-2 363**	**-13.4%**
Loans to Individuals	**11 117**	**11 823**	**705**	**6.3%**
Residential Mortgage	9 550	10 264	714	7.5%
Other Loans	1 568	1 558	- 9	-0.6%
Customer Loans (gross)	**28 712**	**27 055**	**-1 658**	**-5.8%**
Provisions	3 958	1 852	-2 105	-53.2%
Customer Loans (net)	**24 754**	**25 202**	**448**	**1.8%**

Gross customer loans decreased by €-1 658 million relative to December 2018. The reduction in corporate loans in 2019 was mainly focused on Legacy non-performing loans, which decreased by -€2 841 million. In the recurrent activity, loan volumes increased by +5.6%, with improvements in both individuals and corporate portfolios. It should be noted that residential mortgage loan portfolios totaling €0.6 billion, which had been subject to securitization operations by the Group, were purchased in 2019.

The main credit risk indicators also showed an improvement compared to December 2017 and 2018.

ASSET QUALITY AND COVERAGE RATIOS	31-dez-17	31-Dec-18	31-Dec-19	Change Dec-19 vs Dec-18 absolute	%
Overdue Loans > 90 days	5 127	3 464	1 083	-2 380	-68.7%
Non-Performing Loans (NPL)*	10 130	6 739	3 430	-3 308	-49.1%
Overdue Loans > 90 days / Customer Loans (gross)	16.3%	12.1%	4.0%	-8.1	p.p.
Non-Performing Loans (NPL) * / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	28.1%	22.4%	11.8%	-10.7	p.p.
Credit Provisions / Customer Loans	17.9%	13.8%	6.8%	-6.9	p.p.
Coverage of Overdue Loans > 90 days	109.8%	114.3%	171.0%	56.7	p.p.
Coverage of Non-Performing Loans *	56.3%	59.9%	56.2%	-3.6	p.p.

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* Includes Deposits and Loans and advances to Banks and Customer Loans

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) improved the respective asset quality ratios to 4.0% and 11.8%, respectively, at 31 December 2019 (12.1% and 22.4% at 31 December 2018).

The coverage of non-performing loans by impairments (including deposits with banks and loans and advances to banks) reached 56.2%. Provisions for credit amounted to €1.9 billion, representing 6.8% of the total loan book.

Securities portfolio

The securities portfolio, the main source of eligible assets for funding operations with the ECB, totaled approximately €12.0 billion on 31 December 2019 and represented 26.6% of assets.

net of impairment | mn€

Securities portfolio	31-Dec-18	31-Dec-19	Change absolute	Change relative
Portuguese sovereign debt	4 434	4 071	- 363	-8.2%
Other sovereign debt	2 946	3 750	804	27.3%
Bonds	1 839	2 883	1 044	56.8%
Other	1 656	1 337	- 318	-19.2%
Total	**10 875**	**12 042**	**1 167**	**10.7%**

Funding

As at 31 December 2019 total customer funds amounted to €34.4 billion, with off-balance sheet funds having increased by 12.3% year-on-year.

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TOTAL FUNDS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Deposits	28 350	27 835	- 515	-1.8%
Other Customer Funds (1)	346	566	220	63.6%
Debt Securities (2)	689	708	18	2.7%
Subordinated Debt	415	415	0	0.0%
Sub -Total	**29 799**	**29 523**	**- 277**	**-0.9%**
Off-Balance Sheet Funds (3)	4 387	4 925	538	12.3%
Total Funds	**34 186**	**34 448**	**262**	**0.8%**

(1) Includes checks and pending payment instructions, Repos and other funds.

(2) Includes funds associated to consolidated securitisation operations.

(3) For comparison, in 2018 the Off-balance Sheet Funds placed by GNB Vida were not taken into consideraration.

3.6 NOVO BANCO (Separate)

3.6.1 Results

NOVO BANCO reported a net loss of €1 087.6 million in 2019, which compares with a net loss of €1 432.9 million in 2018.

Commercial banking income reached €841.1 million (+14.7% YoY), driven by the increase in net interest income (+22.4%); fees and commissions were up by +2.7%.

Capital markets results were negative, at €313.9 million, to which the main adverse contribution was the recognition of devaluations in the restructuring funds.

Operating costs decreased by -2.4% year-on-year, to €450.7 million, reflecting staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structures.

Net operating income (before impairments and taxes) was positive, at €45.1 million. The year's total provision charge of €1 067.4 million includes €630.9 million for credit, €0.2 million for securities and €436.3 million for other assets and contingencies.

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INCOME STATEMENT	31-dec-18	31-dec-19	% Change
Net Interest Income	446.2	546.2	22.4%
+ Fees and Commissions	287.2	295.0	2.7%
= Commercial Banking Income	**733.4**	**841.1**	**14.7%**
+ Capital Markets Results	10.0	-313.9	...
+ Other Operating Results	-204.5	-31.4	84.6%
= Banking Income	**538.9**	**495.8**	**-8.0%**
- Operating Costs	461.6	450.7	-2.4%
= Net Operating Income	**77.4**	**45.1**	**-41.6%**
- Net Impairments and Provisions	822.8	1067.4	29.7%
Credit	295.1	630.9	...
Securities	10.6	0.2	-98.1%
Other Assets and Contingencies	517.1	436.3	-15.6%
= Income before Taxes	**-745.5**	**-1022.2**	**-37.1%**
- Taxes	660.6	38.7	-94.1%
- Special Tax on Banks	26.8	26.6	-0.6%
= Net Income for the year	**-1432.9**	**-1087.6**	**24.1%**

3.6.2 Activity

NOVO BANCO's activity in 2019 was developed under the same guidelines already referred to for NOVO BANCO Group.

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ACTIVITY EVOLUTION	31-dec-18	31-dec-19	Change	
			absolute	%
Assets	**43 831**	**45 026**	**1 196**	**2.7%**
Customer Loans (gross)	**26 893**	**25 046**	**-1 848**	**-6.9%**
Loans to Individuals	9 085	9 939	854	9.4%
Residential Mortgage	7 653	8 524	871	11.4%
Other Loans	1 432	1 415	- 17	-1.2%
Loans to corporate customers	17 808	15 106	-2 702	-15.2%
On Balance Sheet Funds	**29 332**	**28 891**	**- 441**	**-1.5%**
Deposits	28 101	27 419	- 683	-2.4%
Other Customer Funds (1)	338	561	223	66.1%
Debt Securities	478	496	18	3.8%
Subordinated Debt	415	415	0	0.0%

(1) Includes checks and pending payment instructions, Repos and other funds.

On 31 December 2019, customer deposits totaled €27.4 billion, which is €683 million less than in December 2018 (€28.1 billion).

Gross customer loans decreased by €1 848 million relative to December 2018, with loans to individuals posting an increase of €854 million that partly offset the reduction in corporate loans (-€2 702 million). This reduction was particularly sharp in non-performing loans.

The Overdue loans >90 days / Gross loans ratio improved to 4.3% (from 12.9% on 31 December 2018), with the corresponding coverage ratio rising to 171.6% (117,5% on 31 December 2018).

CREDIT QUALITY	31-dec-18	31-dec-19	Change	
			absolute	%
DATA BASIS (Euro millions)				
Customer Loans (gross)	26 893	25 046	- 1 848	-6.9%
Overdue Loans	3 529	1 097	- 2 432	-68.9%
Overdue Loans > 90 days	3 466	1 073	- 2 393	-69.0%
Forborne Loans	4 793	2 694	- 2 099	-43.8%
Non-Performing Loans (NPL)*	6 665	3 372	- 3 293	-49.5%
Customer Loans Impairment	4 072	1 841	- 2 230	-54.8%
ASSET QUALITY AND COVERAGE RATIOS (%)				
Overdue Loans / Gross Loans to Customers	13.1%	4.4%	-8.7 p.p.	
Overdue Loans > 90 days / Gross Loans to Customers	12.9%	4.3%	-8.6 p.p.	
Forborne Loans / Gross Loans to Customers	17.8%	10.8%	-7.1 p.p.	
Non-Performing Loans (NPL)* / Gross Loans to Customers + Gross Loans to Credit Institutions	23.7%	12.4%	-11.2 p.p.	
Impairment / Total Loans to Customers	15.1%	7.4%	-7.8 p.p.	
Impairment / Overdue Loans	115.4%	167.8%	52.4 p.p.	
Impairment / Overdue Loans > 90 days	117.45%	171.6%	54.1 p.p.	
Impairment / Non-Performing Loans*	61.1%	54.6%	-6.5 p.p.	

* includes Credit Institutions

3.7 Business segments

3.7.1 Retail Banking

In 2019 the Retail banking area once again stressed its relevance in the daily life of thousands of clients, individual customers and small business, that entrust their main banking relationship to NOVO BANCO. In a context of fast-changing customer preferences and service requirements, and a very challenging competition environment, with new Fintech players entering the banking sector, NOVO BANCO maintained a prominent position in the main product lines, the result of differentiation through service quality and permanent enhancement of the functionalities and services provided through the various customer relationship channels.

In its drive for customer service optimization, in 2019, NOVO BANCO launched the '*NB360º Singular*' service, designed to improve the value proposition for the Affluent and Upper Affluent clients. This service, under its own brand and identify, and having specifically allocated areas within the branches, fosters greater proximity between clients and their account managers, and gives access to investment experts.

In recognition of the focus placed by NOVO BANCO on the well-being of its clients, there has been a widespread increase in several treasury and day-to-day management products for the Portuguese companies and families, including salary credit, credit cards and service accounts. The number of active clients using the digital channels grew by more than 10% YoY, while the number of Clients subscribing to the '*Solução NB Ordenado'* (NB Salary Solution) registered an increase of over 15%.

The competitiveness and breadth of the Insurance and Protection offer, in both the Life and Non-Life insurance products, also contributed to boost the commercial activity in Retail and to increase the level of client cross-selling, with production of new insurance policies growing by more than 20% year-on-year.

NOVO BANCO's saving and investment solutions were reinforced throughout the year with the launch of innovative products, such as the Profiled Investment Funds, which are customized to the risk appetite of each client, and the 'NB ECO Structured Deposits', whose yield is linked to the performance of companies that are leading the change in their industry sectors' economic models, and are at the forefront of best environmental, social and governance practices. The high level of customer recognition and satisfaction with the Bank's offering permitted to double the pace of diversification compared to 2018.

NOVO BANCO's position as an expert in credit solutions, ensuring high speed of response, contributed to drive consumer lending, which grew by 10% year-on-year. In terms of the non-financial offering, some exclusive thematic offers were launched in 2019, with products of several categories (technology, jewelry, collectibles, football, and others). This has permitted to maintain the rising trend of NOVO BANCO's market share in loan granting by the Portuguese banking sector.

In Residential Mortgage Loans, the introduction of specific solutions targeting different segments - such as people under 35 or over 50 years old -, according to their specific needs at the time of purchasing a home, and a new proximity service to credit intermediaries, have allowed NOVO BANCO to maintain its competitive position, amidst an environment of increasing competition.

In the Small Business segment, NOVO BANCO has been finetuning and reinforcing its product and service offer with specific solutions tailored to the different stages of companies' life-cycles, including the "*NB Novo Negócio*" (NB New Business) Solution, which is free of maintenance fees for the first three years in business, and to which a POS can be associated, also free of monthly charges.

In addition, leveraging on its deep knowledge of the characteristics of businesses and regions obtained through its proximity to the clients, NOVO BANCO enters regional protocols with several entities, which allow it to put this knowledge into practice. 2019 thus ends with a campaign that enhances the concept of proximity, joining the voice of the Clients to the voice of NOVO BANCO. This dynamic approach has yielded expressive growth rates, namely in client acquisition (+25% YoY) and in medium- and long-term credit production, construction loans and leasing (+10.7% YoY). Equally worth mentioning as a sign of the segment's buoyancy, the volume of loans contracted under the current edition of the mutual guarantee line dedicated to small and medium-sized enterprises ("*Capitalizar MPE 2018*") surpassed by 55% the volume contracted in the previous edition.

Specialized offer within the scope of the sustainability policy

NOVO BANCO Group is committed to looking out for the environmental impacts of its financial products and services and to any resulting business opportunities, shaping its offer in accordance with the expectations of its stakeholders. Recognizing the important role played by the financial sector in promoting sustainable development, the Group has a specific offer of innovative financial products and services designed to encourage environmental accountability amongst its clients. 2019 saw the launch of several such products and services.

2 April | NB ECO Less Plastic Structured Deposit. A sustainable investment, based on environmental, social and governance (ESG) criteria, in one of the fastest growing investment areas in financial markets worldwide.

3 June | NB ECO Circular Economy Structured Deposit. Linked to the share performance of three companies – Caterpilar Inc., Renault SA and Danone SA – included in the MSCI World ESG Leaders index, which stand out for their ability to apply the Circular Economy concept.

July| NB ESG DIGITAL SECURITY. Included within the saving and investment products offer, this structured deposit's underlying assets are shares of three multinational companies - Cisco Systems Inc, Symantec Corp., and SAP SE – included in the STOXX Global ESG Impact index, and as such recognized as companies that best meet environmental, social and governance (ESG) criteria.

October | NB ECO Better Environment. Included within the saving and investment products offer, this structured deposit's underlying assets are shares of three multinational companies - Iberdrola, Royal Dutch Shell and Schneider Electric – which not only are included in the STOXX Global ESG Impact index, and therefore comply in their activity with Environmental, Social and Governance (ESG) criteria, but have also undertaken the commitment to implement strategies (on the governance model, the management of greenhouse gases and financial statements disclosures) for fighting climate change.

Detailed information on environmentally responsible services is provided in the **2019 Sustainability Report**.

Subsidiaries

Still in the Retail segment the services rendered by NOVO BANCO subsidiaries NOVO BANCO dos Açores and Banco Best should be highlighted.

NOVO BANCO dos Açores

In 2019, NOVO BANCO dos Açores continued to develop its activity in close proximity to its clients, mainly in the primary and industrial sectors, with a particular focus on the manufacturing industry and tourism.

Its net profit increased by 6.4% year-on-year, reaching €4 005 thousand, which compares with €3 764 thousand in December 2018. During the year, NOVO BANCO dos Açores contributed with a €929 thousand donation to the Santas Casas das Misericórdias dos Açores, a charity shareholder of the Bank, which contributed towards the fulfilment of its Commitments and social objectives.

NOVO BANCO dos Açores continues to register a steady improvement of its activity, as shown by a 2.3% year-on-year increase in Deposits. Loans decreased by -3.7% in the period, essentially through the reduction in Overdue Loans.

Net Interest Income increased by 6.2% compared to 2018, with Commercial Banking Income and Total Banking Income rising by 3.1% and 5.1%, respectively.

NOVO BANCO dos Açores closed the year with net assets of €559 million.

NOVO BANCO dos Açores continues to be the only Bank with its registered office in the Autonomous Region of the Azores.

For detailed information about Banco Best's activity in 2019, see its annual report at **www.novobancodosacores.pt**

Banco Best

Banco Best offers the full range of products and services of a universal bank, assisting its customers in identifying saving solutions and investment opportunities at any time available, and helping them make the most of all the advantages 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.

Banco Best is headquartered in Lisbon and has no branches, in the traditional sense of the term, therefore it provides its banking and financial products and services through other channels: (i) the Internet; (ii) Investment Centers located across the country; and (iii) Contact Centre.

Banco Best posted a net profit of €2.7 million in 2019, while maintaining solid prudential and financial strength ratios, namely a loan to deposit ratio of 27%.

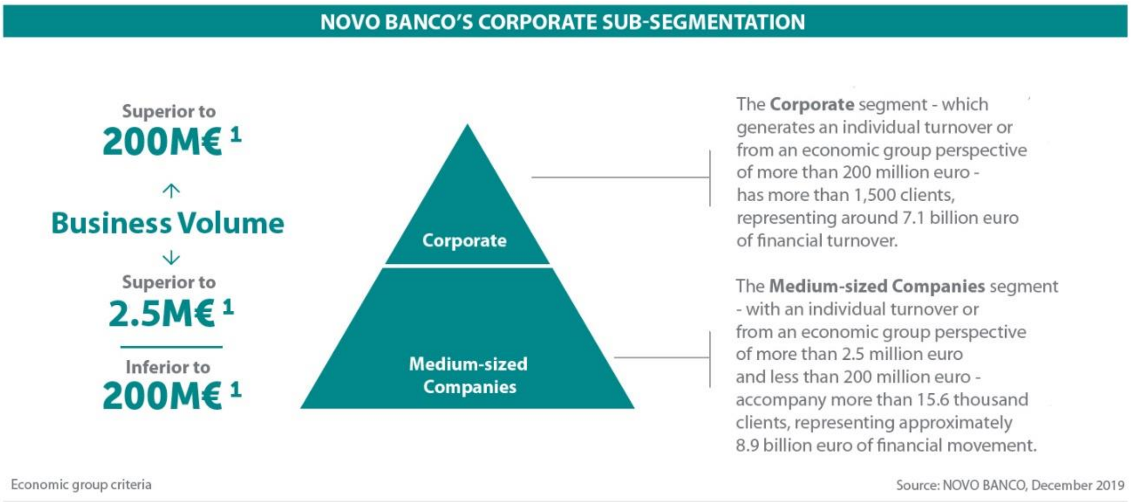
In 2019 Banco Best maintained its focus on digital banking leadership and innovation in the offer of financial products and services, developing a set of projects that emphasize its strong commitment to innovation and the independent nature of the offer, and permitted to put at the disposal of the Clients the best third-party products at world level.

For detailed information about Banco Best's activity in 2019, see its annual report at **www.bancobest.pt**

3.7.2 Corporate Banking

NOVO BANCO has strong roots in the Portuguese business community, as shown by its market shares, namely in loans to Non-financial Companies, where its share reaches 16.3%, and in deposits, where it stands at 14.6% [5].

Production of medium- and long-term loans to the SME and Corporate segment totaled approximately €2 billion in 2019, the same as in 2018. NOVO BANCO thus maintained its reference role in supporting companies and economic activity in Portugal, especially through protocol lines, and in particular through credit with mutual guarantees, which grew by 35% year-on-year.



In Trade Finance, NOVO BANCO provides a wide range of products and specialized advice designed to support international trade. The Bank's know-how in this segment is much valued by companies, which reward it with a market share of 20%[6]. In January 2020 NOVO BANCO was considered the 'Best trade finance bank' in Portugal by the *Global Finance* international magazine, based on its activity in 2019. This award highlights the international recognition for the Bank's capabilities in this important business area.

Also worth noting, in 2019 NOVO BANCO was considered by the *Global Finance* magazine as the "*Best Integrated Corporate Banking Site*" in Western Europe, an award that highlights the recognized quality

[5] Non-Financial Companies based in the Economic and Monetary Union, with contracts in Euro - November 2019.
[6] December 2019, as measured by the number of Swift messages.

of the digital solutions made available by the Bank to the corporate sector. In this context, another relevant fact concerns the ever-increasing levels of use of the corporate online banking and mobile banking solutions made available by the Bank to its business clients - **NBnetwork** and **NB smart app**, which in 2019 grew by 4% and 12%, respectively. The increase in customer satisfaction with these digital solutions should also be stressed, with 81% of the clients responding they are very satisfied with NBnetwork.

2019 also saw the introduction of important novelties in the Bank's digital offering, notably the possibility of requesting Bank Guarantees online, through a fully dematerialized, agile and very effective process that was rapidly adopted by the clients.

As to the assessment made by the corporate clients of NOVO BANCO and its team of bankers, the level of "Customer Service Satisfaction" reached 93% (percentage of responses of 8 to 10 in a scale of 1 to 10) in November 2019, which represents an increase of 4pp relative to 2017. Moreover, the results of other surveys conducted, namely relating to "Global Satisfaction with the Bank", "Trust", "Repurchase intention" and "Recommendation", have also improved steadily since 2015.

During the year NOVO BANCO also promoted and participated in several initiatives addressed to the business and corporate clients and enhancing the visibility of economic sectors, regions and outstanding companies, namely the following:

- **Regional Events.** The NOVO BANCO “Algarve Summit” (February, in Albufeira), “Beira Interior Summit” (July, in Covilhã) and “Aveiro Summit” (November, in Aveiro) promoted these regions and their distinctive assets and reached out to their companies and entrepreneurs (under a partnership with the Expresso newspaper and SIC TV channel).
- **Industry-specific Events.** Promotion of the more dynamic, representative and innovative sectors in the Portuguese economy, namely (i) the Agroindustry sector, where the Bank participated in SISAB, the International Trade Fair for Portuguese Food and Beverages (March, in Lisbon); (ii) the Agricultural sector, where the Bank participated in Ovibeja (April) and in the National Agricultural Fair (June, in Santarém); and (iii) the Wine sector, where the Bank participated in the Wine Harvest Fair, which celebrates the wine culture and economy of the Dão region and was held from the 19th to the 22nd of September. The highlight of the program was, at corporate level, the Conference "Wine Tourism in the Dão region - A way for Wine and Tourism"; (iv) the Textiles and Clothing industry - NOVO BANCO entered a partnership Protocol with ATP - Associação Têxtil e Vestuário de Portugal, under which it was exclusive banking sponsor of the annual conference of the International Textile Manufacturers Federation (ITMF), held in Porto from the 20th to the 22nd of October, as well as of the Textiles Industry Forum, held in December, in Famalicão; and (v) the Tourism sector - NOVO BANCO was exclusive sponsor of the “Publituris Trade Awards” (March, in Lisbon) and “Publituris Travel Awards” (September, in Cascais), which are flagships of the business dynamism and recognition enjoyed by Tourism at national level.
- **Events to promote Exports.** (i) The Export & Internationalization Awards, an initiative of NOVO BANCO and the Jornal de Negócios newspaper (in partnership with IBERINFORM), that aim to distinguish SMEs and Large Companies in different areas, namely successful internationalization and best exporting performance (October, in Ílhavo); (ii) 'Portugal Exporter',

the largest national event dedicated to business internationalization, under a partnership with AIP (Portuguese Industrial Association) and AICEP (Portugal Global Trade & Investment Agency); the purpose of this event is to promote capacity building and assert the exporting capabilities of Portuguese companies in international markets. This event, held in Lisbon on 27 November, had more than 1,200 participants and over 130 Portuguese and international speakers.

NOVO BANCO's objective is to maintain a competitive positioning in the corporate segment, and in particular to support the exporting companies and the most dynamic and innovative industries. To this end, it will continue to invest in developing digital platforms and in streamlining processes that enhance customers' service experience, designing its products and services according to innovative solutions that meet companies' needs, thus reinforcing its role as a partner of the Portuguese business community.

3.7.3 International Commercial Banking

In line with its strategy of divesting from non-strategic assets, in January 2019 NOVO BANCO closed down its London branch (United Kingdom).

2018 was primarily marked by the drawing up, approval and start-up of implementation of a Strategic Plan for NOVO BANCO's **Branch in Spain**, to be deployed over 2018-2022.

The Plan lays down a set of activity guidelines that, considering the scope and dynamics of the Spanish economy, and several specific characteristics of this country (such as, among others, the consolidation of the banking sector, or the fact that BANCO is the only Portuguese bank with activity in Spain), will permit to harness the existing opportunity by pursuing an ambitious goal of expanding the commercial activity.

2019 was a year of deep transformation for the **Spain** branch. Several strategic scenarios were analyzed at the start of the year, with a view to adapting the business model and cost structure to a context of general decline in interest rates. Each segment, in the branch network and central structure, was subject to thorough analysis, and a sweeping restructuring program (involving more than 300 measures) was designed, which will contribute significantly to the growth, profitability and sustainable development of the branch. This work involved changing the segmentation criteria and defining target clients, as well as designing a more customized customer service model, focused on the higher added value clients (namely Medium-sized and Large Companies, including those operating at Iberian level, and the Private and Affluent Banking segments). Eight branches were closed, and the branch now operates from nine distribution points plus specialized teams based in the head office and a central structure that manages the remote channels.

This global repositioning involved multiple client migrations between agencies and segments, under very controlled business erosion levels. Moreover, a large number of processes were re-engineered or outsourced, and cost-cutting measures were implemented, so as to increase the branch's efficiency. As a corollary of all these initiatives, a staff downsizing program was also carried out, covering about 20% of the branch's workforce. This initiative was completed in December 2019 with no problems and in a climate of social peace.

Another key priority for the branch was to improve the quality of its balance sheet. This was achieved through two sale operations of non-performing assets - Albatros and Cannas -, which, in addition to having a very positive impact in terms of reducing REOs, also allowed the branch to lower its NPL ratio from 24% to 6.5% in 2019, decisively contributing to improve the Asset Quality Indicators of the Group itself.

Moreover, several other initiatives were launched in the course of 2019 to set in place objective conditions for the sustainable growth of the activity in Spain, namely: the adoption of new risk management policies and procedures, the implementation of new rating models adjusted to the market specificities and the reality of the strategic segments, the definition of new Standard conditions and offerings customized to each Segment, and the migration of the IT infrastructure to an external supplier, among others.

The **Luxembourg** Branch posted a 49% year-on-year increase in total assets, which reached €2.5 billion at the end of 2019. These results are in line with the strategic reorientation carried out in this Branch, which resulted in a reinforcement of the booking activity, through the operationalization of new financing transactions originating from NB's commercial structures and the hosting of transactions transferred from discontinued international units.

Also deriving from this strategy, the winding down of the local client acquisition business, initiated at the end of 2017, was completed, as imposed by the European competition authority.

3.7.4 Asset Management

The asset management activity is developed by GNB Gestão de Ativos, mainly in Portugal and Spain. The offer covers all types of funds - securities, real estate and pension funds - in addition to the provision of discretionary and portfolio management services. At the end of 2019 GNB Gestão de Ativos had total assets under management of €11.3 billion, which represents an increase of 5.6% compared to the end of the previous year (€10.7 billion in December 2018). Such volumes consolidate the asset management activity in Portugal, Luxembourg and Spain.

In Portugal, asset volume under management was up by 6.0% (to €10.2 billion, versus €9.6 billion in December 2018). This increase was supported by all business areas except for Real Estate Investment Funds, which contracted by 26.7% (to €1 096.5 million, from €1 495.9 million in 2018), as a result of this business unit's divestment strategy in 2019. Mutual funds registered an increase of 60.2% (to €573.3 million, from €357.9 million in 2018), mainly underpinned by net subscriptions totaling €177.8 million in 2019. The volume under management of Pension Funds increased by 8.4% year-on-year (to €2 340.2 million, from €2 158.4 million in 2018), reflecting net subscriptions of €33.2 million and a €148.6 million value increase of the fund's assets. In Wealth Management, volume under management reached €6 194.5 million (€5 611.1 million in December 2018), underpinned by a €358.0 million asset value increase and net subscriptions of €225.3 million, mainly focused on the Life Products portfolios (which increased by €171.8 million).

The Luxembourg unit reported an increase of 26.5% in volumes under management relative to the end of the previous year (€310.3 million at the end of 2019 vs. €245.3 million at the end of 2018), essentially through the growth of the NB Eurobond fund (+35.1% YtD).

The promissory sale and purchase agreement on the Spain asset management unit (Novo Activos Financieros, S.A.) was signed at the end of 2019. The transaction is expected to be closed in the second half of 2020.

The net profit for the year was €8.7 million, representing a year-on-year reduction of 9.9%. To these results the domestic units contributed with €6.3 million and the international units with €2.4 million, of which €2.8 million were contributed by the Luxembourg unit. The good performance of the funds in 2019 allowed the company to receive performance fees totaling €3.5 million (€1.7 million in the domestic units and €1.8 million from Luxembourg funds).

Equity increased by 12.3% relative to the end of 2018, reaching €70.4 million at the end of the year.

3.7.5 Markets

This segment includes the global financial management activity of the Group, namely raising and placement of funds in the financial markets, as well as investment in and risk management of credit, interest rate, FX and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes any activities arising from strategic decisions impacting the entire Group.

3.8 Digital banking

The implementation of NOVO BANCO Digital was completed in 2019. This is a group-wide area created in 2018, which acts as an accelerator and facilitator of transformation to allow meeting the new and demanding expectations of the Bank's clients: banking anywhere, available 24 hours a day, 7 days a week, faster, more intuitive, more personalized, smarter and with more options to choose from.

Digital transformation equals organizational transformation

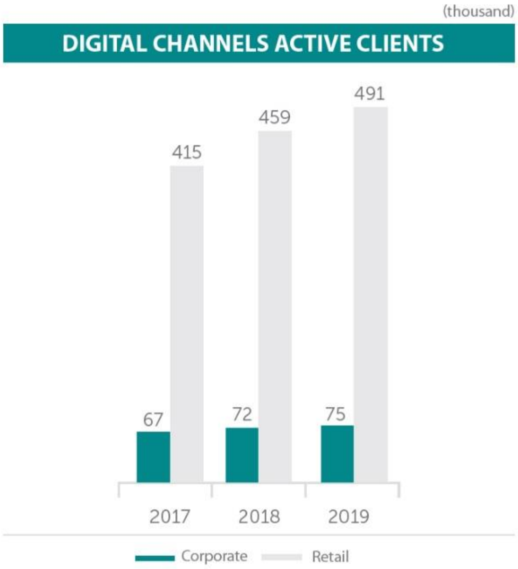
The ambition in this field is strong: the aim is to attain the highest level of service delivery and quality in commercial digital banking, providing our clients with solutions aligned to the best global standards of usability, service level and satisfaction.

An agile organization was built with close to 200 people from various areas of the bank and from partners, structured into multidisciplinary autonomous teams empowered to develop solutions for the clients. Customer-centric designed methodologies were introduced to delve deeply into the customers' needs and on this basis design market leading solutions A specific governance model was established to steer digital transformation; this model is led by the CEO and ensures the ongoing involvement of the Executive Board of Directors. A relevant technological transformation has been driven, including the introduction of a new digital technology stack that allows teams to develop solutions with speed and agility. A workspace has been set up to meet the needs of the transformation teams and allow them to be agile, fast and efficient.

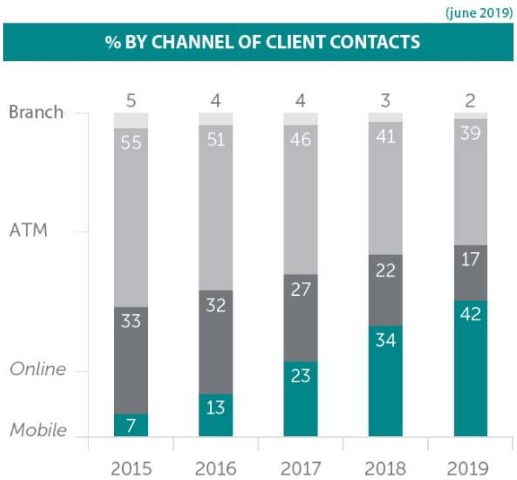
The clients fuel the digital transformation

Digital evolution in NOVO BANCO has been remarkable, especially in the development of the digital channels for individual customers. The app mobile NBsmart app is leader in Portuguese banking, both in Google Play and in Apple Store, and has scored average assessments of 4.5 out of 5. In 2019, the NBsmart app and the website NBnet maintained high levels of satisfaction, boasting more than 87% of very satisfied clients. The clients continued to trust and promote the NBsmart app and NBnet, which scored 85.2% and 83.2%, respectively, in the Net Promoter Score (NPS). The Bank will continue to develop the digital channels and expand their functionalities, so as to meet its clients' expectations.

At the end of 2019 there were more than 566 thousand active clients in the digital channels (+6.6% YoY) and more than 374 thousand in mobile banking (+20.1% YoY). The clients' digital activity continued to grow at a strong pace, with the digital clients' penetration rate in December reaching 45.3% in individual clients, 79% in corporate clients, and 67.2% in small business clients. This growth is strongly underpinned by mobile banking, with this channel's penetration rate reaching 32% in the individual client's segment and 24.8% in the small business segment, corresponding to year-on-year increases of 6pp and 3pp, respectively.



It is also worth noting that, for the first time, customer interactions on the mobile channel surpassed ATM's and branches. The NBsmart app has been growing to be the channel of excellence and preference in the relationship with private customers.



Digital Transformation Programme

The following initiatives contributed to improve and fine-tune the experience delivered to the clients:

Digital mobile key. First bank in Portugal to launch a digital mobile key for online account opening, with no need for face-to-face contact or video calls, in a more convenient, simple, fast, safe and paperless process. This new service earned NOVO BANCO an honorable mention in the Internet category 'The best of Technological Portugal' awarded every year by *Exame Informática* to people and organizations that distinguish themselves in the field of Science and Technology. This initiative also deserved an honorable mention in the 'Best Digital Product & Customer Experience' category of the 4th edition of the Portugal Digital Awards, organized under a partnership between *Jornal de Negócios* newspaper, IDC and Axians.

New Home Buying experience – residential mortgage loans. A new digital mortgage loan tool has been made available, which allows a private customer to simulate, consult eligibility, obtain an immediate response by validating the information provided and submitting the process mortgage loans in a convenient and remote way. This tool improves the experience of those who want to take out a mortgage loan, simplifying the process, without papers and travel to the bank until commercial approval, providing:

- "Smart Simulator" - much more than a simple and traditional simulator, it allows to inform in a simple and immediate way, if the simulation is eligible to proceed to the credit application. If not, the simulator itself indicates the way to fine-tune parameters for a favorable result, with the possibility of requesting a contact by the Bank to find a solution.
- Loan pre-analysis document - from the outset, allows the client to print a document with the pre-analysis of the credit application, valid for 30 days, to support the home search process, subject to commercial approval and consequent confirmation of declarative information presented by the customer.
- Loading of documents to support the mortgage loan process, providing greater convenience and speed in the decision.
- Monitoring the entire process in a completely digital way, with a dynamic list of documents to be presented according to the purpose and type of credit sought

NB smart app. The mobile application has evolved to enable access to new functionalities that make life easier for our clients, at no additional cost.

- Transfers to phone contacts with no need of BIN or IBAN.
- Mobile phone cash withdrawal.
- App payments using QR or NFC codes.
- Use of Multibanco (ATM) with no need to insert a bank card.
- Matrix Card replaced by biometric data.

NBnet. The internet banking started offering online personal loan application, with simulation and approval, for amounts of up to €15,000 and 72-month maturity.

NBnetwork. Launch of CRM (Customer relationship management) on this digital channel for corporate clients, taking full advantage of the Digital Channels for commercial purposes, always and increasingly based on the rationale of improving our clients' experience, and developing more targeted and personalized offers. Bank guarantee request now available online, promoting customer autonomy for frequent transactions, increasing response speed and quality, and simplifying the whole process in an end-to-end process.

Short Term Finance. A new approach to treasury support for corporate clients is now on pilot phase, which will transform their experience and provide an immediate response to their treasury needs. This solution, which simplifies the integrated credit process, is accessed through our corporate bankers, who define a pre-established credit limit based on the clients' profile, which can be used within one year through the credit products which the client finds more convenient. This initiative deserved an honorable mention in the ‘Best Digital Operational Process’ category of the 4th edition of the Portugal Digital Awards, organised under a partnership between *Jornal de Negócios*, IDC and Axians.

Phygital. A pilot set of initiatives to change processes and introduce simpler and more efficient ones was made available at some of the Bank's branches to promote a “paperless” culture. Different forms of digital signature are being introduced, in a phased and incremental manner, that allow the formalization of operations at branches to be dematerialized, using, for example, handwritten electronic signatures and signatures validated and obtained through ‘one-time password’ validation codes sent to customers' mobile phones. Finally, the conditions have been set in place to start a shared mobility pilot within and outside the branches, improving customer-centered service and increasing contracting and execution speed, while also contributing to greater cost efficiency (printing, paper and filing).

Data Science. A Data Science area has been created, which, through machine-learning and artificial intelligence predictive models, permits to offer the clients a deeply personalized relationship with the bank. Its main mission is to generate value from data, whether structured or not, in a fair and ethical manner for both the clients and the bank. The area's activity is based on open-source technologies within the Phyton and Spark ecosystem, working in big data environments from a newly-created data lake. It provides cross-cutting support to all areas of the organization, working in cases of use of marketing, strategy, digital channels, compliance, among others. Among the initiatives already launched, two stand out, which are currently in production and generating value for clients and the Bank:

- *Next Best Offer* – new models for detecting the needs of individual customers and the products that best satisfy them were designed, predicting the relevance of each offer, at each moment, and according to the profile of each customer. These models make it possible to improve and personalize the relationship with the clients, anticipating their needs and increasingly enriching their relationship with the bank. Their use of explainable and interpretable methods (explainable AI) should be stressed, as they permit to assess the ethical impact of the model's recommendations.
- *Corporates like You* – a set of models has been developed to design and map companies' commercial relations network (clients and non-clients), based on transactional and external data, thus permitting to find clusters of clients with similar needs and profiles. These models allow account managers to take a 360º approach to their clients, understanding and forecasting their financial and commercial needs, while also facilitating the acquisition and reactivation of clients which have relations with NOVO BANCO clients and permitting to analyze the value chain in which they operate (from production to distribution).

PSD2. Launch of dedicated interface solutions developed in the context of the new payments directive (“PSD2”), that allow Clients to access accounts with NOVO BANCO, for consultations and payments, through other entities’ websites and applications. The development of a dedicated solution to foster customer loyalty has also been initiated, providing added value and innovative services.

Technological evolution. The bases have been laid for an approach to application development, with autonomous teams oriented to the customer journeys, facilitating an omnichannel approach and supported by agile methodology. The development of the first two customer journeys relied on a completely renewed technology stack, based on open-source tools and a container-supported microservices approach, with a strong DevOps component, enhancing speed, reuse, and scalability, as well as ensuring greater flexibility. In order to maximize agility, efficiency and flexibility, as well as to minimize risks, the first steps have been taken to use the cloud as a valuable tool.

NOVO BANCO HACKATHON FEST

A marathon of ideas and new solutions in the financial area, lasting 24 intensive hours, promoted under a partnership with NOVA SBE – School of Business & Economics. With the "Hello Future" signature, its aim was to involve undergraduate and master students in the development of innovative technological solutions for banking problems and challenges. The first edition had the participation of 37 students from 3 Universities: Nova SBE, IADE, and FCT, and 12 employees of NOVO BANCO. The participants, organized into 10 teams, were given the challenge of proposing the creation of a Fintech B2B startup which, in partnership with NOVO BANCO, will help support Portuguese companies to overcome their growth challenges, along three key drivers: (i) development of new products and a new approach to the market based on support data existing in the banking universe; (ii) internationalization; and (iii) digitization.

The interaction between participants and mentors generated a positive and creative energy, resulting in 10 ideas that were assessed by a panel of judges, two of which were awarded prizes.

3.9 Liquidity and funding

NOVO BANCO manages liquidity risk in accordance with all the regulatory rules and its own management principles, guaranteeing that all its responsibilities are met, whether in normal market conditions or under stress conditions.

NOVO BANCO's liquidity risk is managed under the perspective of (i) short-term liquidity, (ii) structural liquidity, and (iii) contingency liquidity.

Short-term liquidity

Short-term liquidity levels are monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which permit to detect 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. This process ensures an ongoing and active role in liquidity risk management and risk assessment from the EBD. In addition, the liquidity position is also regularly reported to the Banco de Portugal and the ECB.

The EBD monitors the evolution of the liquidity position, namely eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the evolution of the treasury gap (net interbank deposits), as well as certain warning signals pre-established for the purpose.

Structural liquidity

In terms of the structural liquidity, NOVO BANCO prepares a monthly liquidity report (for more details see 'Liquidity Risk' in chapter 3.8. Risk Management), taking into account not only the effective maturity but also behavioral maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on this information, the activity funding annual plan is prepared taking into account the established budget targets. This plan, which is regularly reviewed, favors, as far as possible, stable funding instruments.

The Capital and Asset Liability Committee (CALCO), in its monthly meetings, analyses and discusses the Bank's liquidity position. CALCO 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.

Contingency liquidity

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

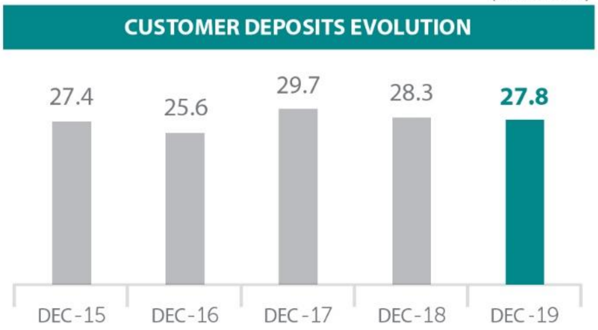
NOVO BANCO Group's funding policy is one of the major components of the Bank's liquidity risk management, which stresses the diversification of funding sources. NOVO BANCO's strategy has from its incorporation largely relied on boosting customer deposits as its major source of funding, in so far as since the resolution measure was implemented access to the financial markets has not yet been normalized.

At the end of 2019 NOVO BANCO showed a liquidity surplus, with deposits with the ECB having increased by €0.9 billion, to €1.4 billion. During the year, liquidity management continued to involve the rationalization of funding sources, and the improvement of profitability, namely through an effort to reduce the pricing of deposits and to diversify the product offering, focusing in particular on off-balance sheet products.

Funding

Hence at the end of 2019 customer deposits with NOVO BANCO totaled €27.8 billion, a year-on-year reduction of €0.5 billion that mainly resulted from the referred effort to adjust the price of liabilities, and from the off-balance sheet products offering.

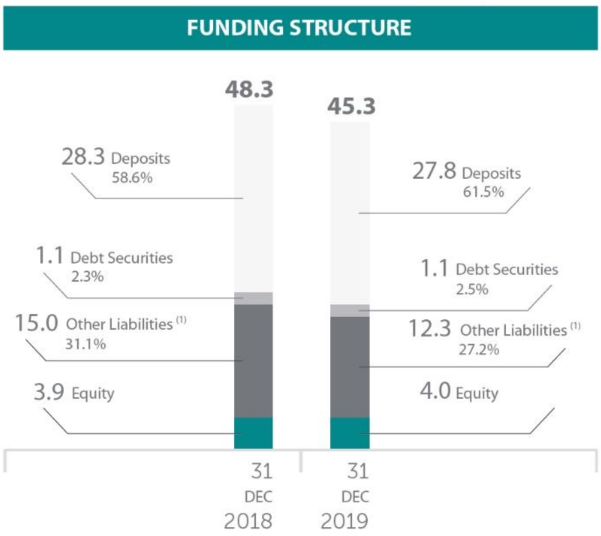
(billion euro)



The reduction in customer deposits was therefore offset by the increase in off-balance sheet customer funds, leading to a €262 million increase in total customer funds.

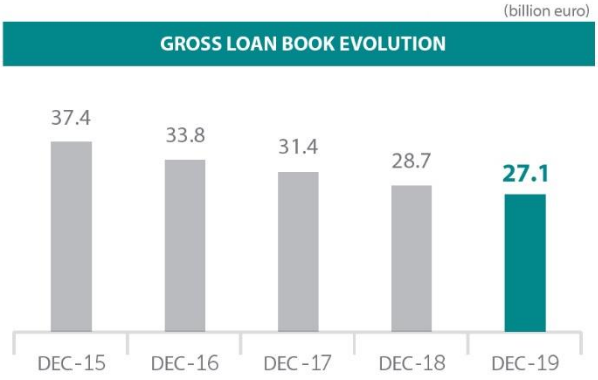
Despite said reduction in customer deposits, at the end of 2019 these remained the Bank's main funding source, accounting for roughly 61% of its funding structure (59% at the end of 2018), and of this, 68% were deposits from the retail segment.

(figures in billion €)



(1) Includes ECB funding

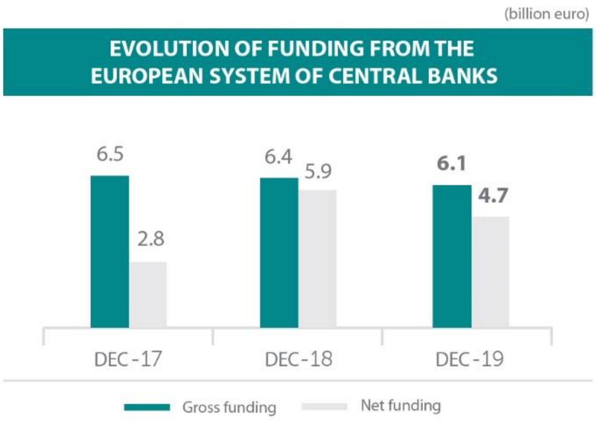
On the other hand, NOVO BANCO pursued its strategy of reducing non-strategic and non-productive assets, focusing in particular on the loan book, which in gross terms was reduced by €1.6 billion in 2019.



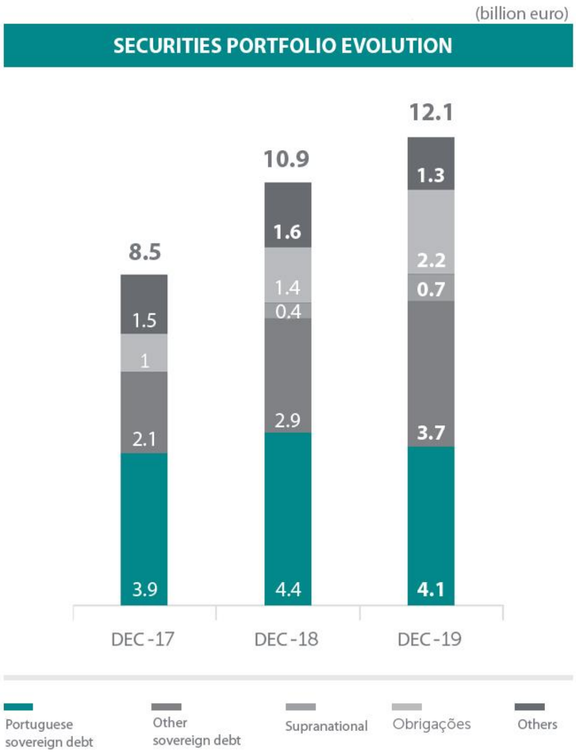
This reduction did not have a significant impact on liquidity as it essentially resulted from the write-off of loans and the sale of non-performing loan portfolios and related assets, whose financial settlement will only take place in 2020. Despite their low impact on liquidity, NOVO BANCO concluded the following material transactions in 2019 within the scope of its deleverage policy: i) sale of a portfolio of real estate assets and non-performing loans – "Project Albatros", ii) sale of a portfolio of real estate assets – "Project Sertorius", iii) sale of a portfolio of non-performing loans and related assets – 'Project Nata II', and iv) sale of the entire share capital of GNB – Companhia de Seguros de Vida, SA.

NOVO BANCO has a low senior debt reimbursement schedule in the next few years. Therefore, with reduced funding needs, no liquidity strains are to be expected in the near future.

In this context, and in view of the increase in the amount of cash placed with the ECB, to €1.4 billion, net funding from the ECB decreased to €4.7 billion at the end of 2019. In addition, gross funding registered a small decrease, to €6.1 billion.

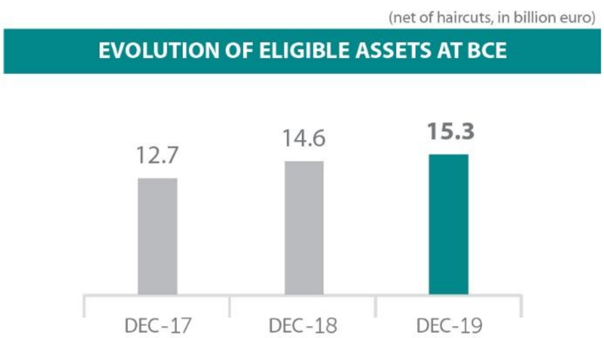


On the other hand, the securities portfolio increased by around €1.2 billion, largely through the strategy of investing in high-quality liquid assets (HQLAs), which led to an increase of €1.3 billion in this type of bonds in portfolio. This increase contributed to expand the diversification of the securities portfolio, with the Portuguese sovereign debt contracting by €0.3 billion, and the sovereign debt of other States, as well as debt from supranational and corporate issuers increasing.



NOVO BANCO extended the maturity of its PTNOBBOE0011 covered bond issue, with nominal value of €1 billion, for a period of five years, to 7 October 2024. Moreover, in December 2019 the Bank made two new issues of covered bonds, one in the nominal amount of €550 million and maturity in December 2024 and the other in the nominal amount of €750 million and maturity in June 2023.

As a result of its strategy of investment in the securities portfolio, and issuance of covered bonds, NOVO BANCO maintained a high liquidity buffer. At the end 2019, the portfolio of eligible securities for rediscount with the ECB totaled €15.3 billion (net of haircuts), which compares with €14.6 billion at the end of 2018.



NOVO BANCO thus maintained a comfortable liquidity position, with the regulatory Liquidity Coverage Ratio (LCR) improving to 143% at the end of 2019, from 125% at the end of 2018. Finally, the Net Stable Funding Ratio (NSFR) in 2019 was 101%.

The minimum requirement for own funds and eligible liabilities (MREL), set by the Single Resolution Board, using the financial and supervisory information as of 31 December 2018, has been set at 17.61% of Total Liabilities and Own Funds of NOVO BANCO. MREL requirement represents 26.01% of the Total

Risk Exposure Amount and should be reached by 31 December 2023. The requirement is in line with Bank expectations, and consistent with the funding plans. It should be noted that the MREL requirement will be subject to ongoing regulatory reviews, reflecting ongoing assessment of the business evolution and this may lead to changes in the profile of NOVO BANCO assets and liabilities, and its underlying risks.

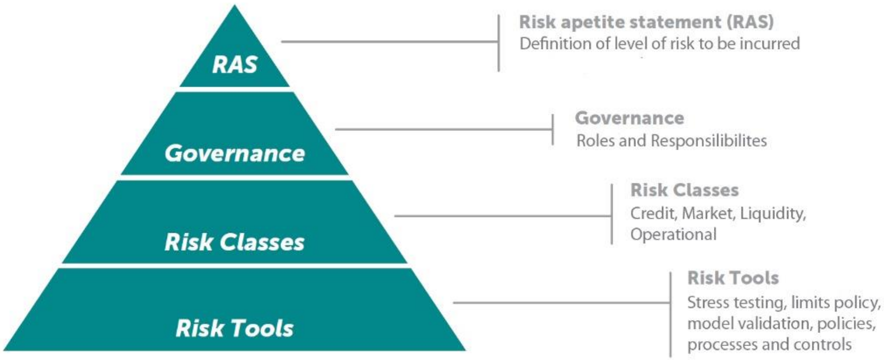
In terms of capital, and with a positive impact on the liquidity position, we would stress, in May, the payment of €1,149 million made by the Resolution Fund to NOVO Banco under the Contingent Capitalization Agreement.

3.10 Risk management

3.10.1 Risk management model framework

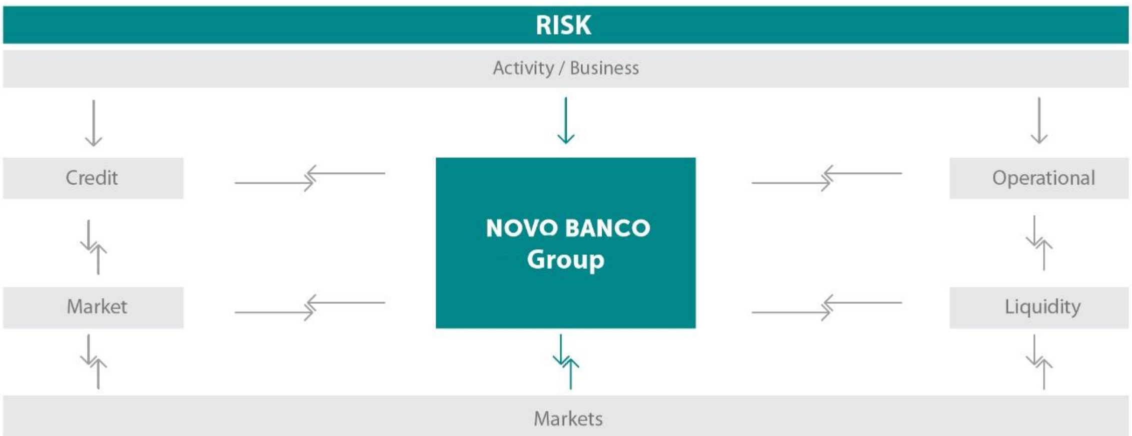
The definition of a risk management model allows the define of a strategic direction for risk management by defining standards, patterns, objectives and responsibilities for all areas of NBG. This model supports top management in effective risk management and in the development of a strong risk culture.

This model defines: (i) the main risks faced by NBG; (ii) the risk appetite requirements; (iii) the functions with responsibility in risk management; and (iv) the governance structures and corporate bodies, and risk management committee.



3.10.2 The risk culture at NOVO BANCO Group

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



NBG considers that Risk Management is a key pillar of its action to create sustained value over time. NBG's Risk Management is thus based on the three lines of defense model, viewing the adequate detection, measurement, monitoring and control of all material risks to which NBG is exposed. This model implies that all employees, in their sphere of activity, are responsible for the management and control of risks.

The First Line of Defense comprises all employees involved in revenue generation and customer service areas, commercial areas, and all associated support functions, including Finance and Accounting, Treasury, Human Resources and functions of an Operational nature. First-Line employees are responsible for: (i) identifying the risks arising in the performance of their activities and developing appropriate policies, standards and controls; and (ii) escalating risk events to the Second-Line management teams.

The Second Line of Defense comprises the Risk and Compliance employees. The role of the Second Line is to establish the limits, rules and restrictions under which the First Line activities must be carried out, in accordance with Novo Banco's risk appetite, and to monitor the performance of the First Line with regard to these limits and restrictions.

The Third Line of Defense comprises employees from Internal Audit. These provide independent assurance to the EBD and GSB regarding the effectiveness of governance and the risk management process.

The risk function is also based on other principles: independence vis-à-vis the business units, universality, through application across the whole NBG, integration of the risk culture, through a holistic and pre-emptive approach to risk, and specialization.

3.10.3 Risk management function

The risk management function is organized in such a way as to allow effective management of the risks considered relevant and material by NOVO BANCO (those to which top management pays special attention and which may have an impact on 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 relevant and material risks identified 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) market risk in the banking book, which includes interest rate risk in the banking book (IRRBB), equities risk, credit spread risk, real estate risk and pension fund risk, (iii) market risk in the trading book, (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 cyber risk, climate change, and regulatory changes, among others.

Risk management is considered vital for NOVO BANCO Group

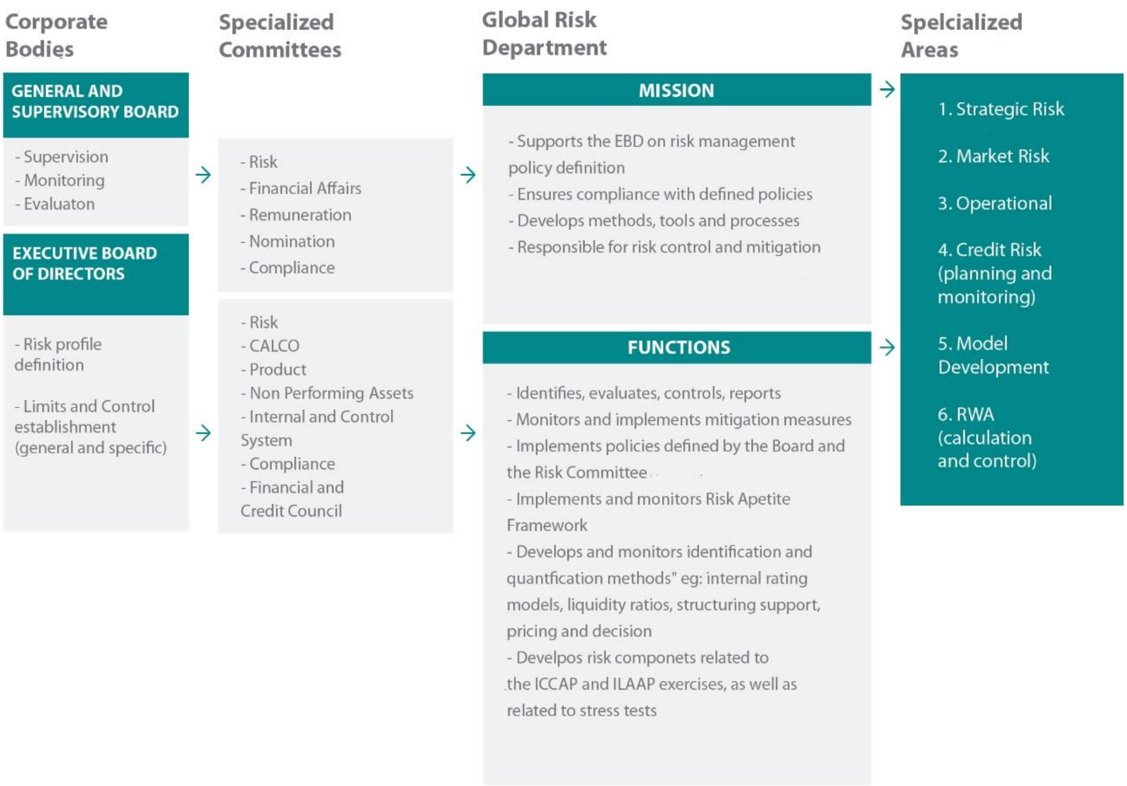
Risk Management, as a vital function for the development of NBG's activity, is centralized in the Global Risk Department (GRD), Rating Department (RTD), and Model Validation Office (MVO), which are responsible for operationalizing and implementing the policies defined by the Executive Board of Directors (EBD).

All materially relevant risks are reported to the management and supervision bodies (as applicable, to the Executive Board of Directors, General and Supervisory Board and respective Risk Committee, and to the other specialized committees, as applicable.).

NB Group takes an integrated and holistic approach to Risk Management

At operational level, the Global Risk Department (GRD) centralizes NBG'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 NBG's Risk Management Function is the Head of the GRD. To ensure maximum efficiency in the articulation with the GRD, a local Risk Management Officer function was appointed in each relevant entity of NBG. The GRD acts either directly or as coordinator, in articulation with the units of the local Risk Management function.

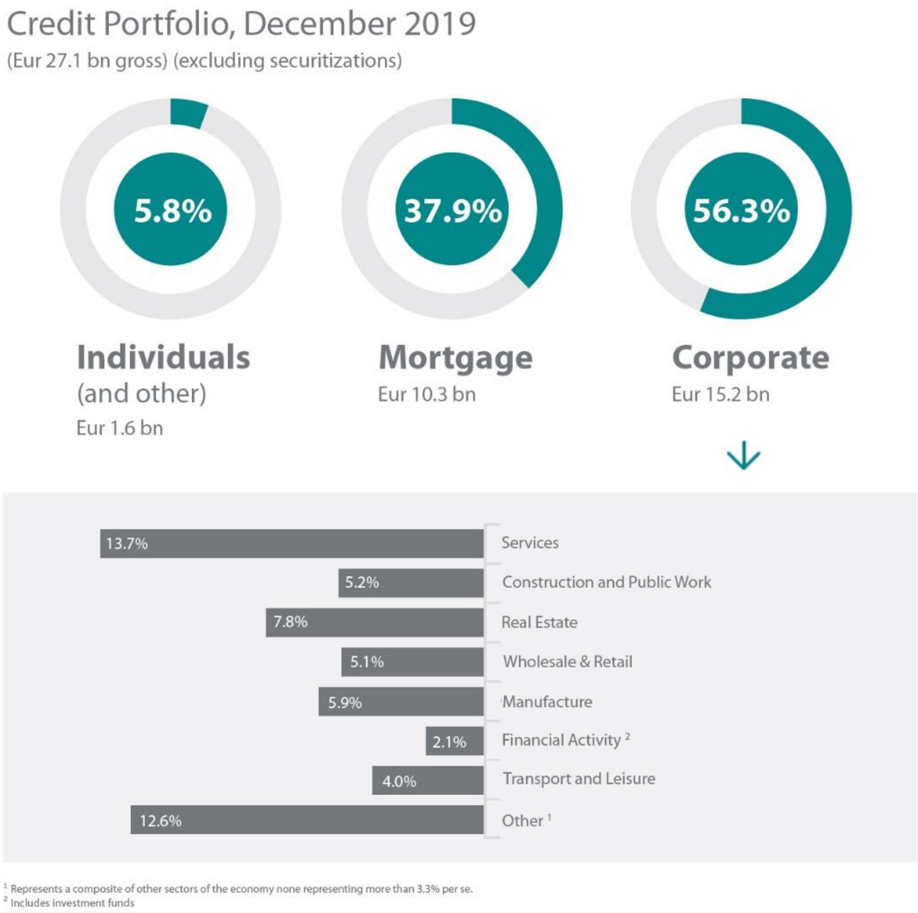


Credit Risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honor 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.

2019 main initiatives and highlights

- Reduction of the non-performing loan (NPL) portfolio, which contracted by more than €3.3 billion in 2019 at NOVO BANCO, causing the NPL ratio to decline from 22.4% (Dec/18) to 11.8% (Dec/19). It should be noted that in the Recurrent Bank the NPL ratio dropped from 5.4% (Dec/18) to 3.6% (Dec/19) and is now practically in line with the European average, and, most importantly, at a comfortable level for a sustainable bank.
- For 2020, the objective of convergence of the NPL ratio with the levels of the Sector (national and European) is maintained, making use of the strategies that best fit to achieve that same objective.
- Specific impairment coverage at conservative levels and above the European average (55% Individual NOVO BANCO vs. 45%)
- The lending activity at the Recurrent Bank maintained its growth tendency (+5.7%; +€1.3 billion relative to 2018). This growth occurred across all portfolios - individual and corporate.
- Improvement of NOVO BANCO's loan portfolio profile, with an increase in Stage 1 credit (loans with no indications of an increase in credit risk) against reductions in Stage 2 and Stage 3 credit (loans with indications of an increase in credit risk and loans in default, respectively).
- Compliance with the internally defined risk profiles when admitting credit into the different individual and corporate portfolios, by following up and monthly reporting the selected risk appetite metrics. In addition, and within the framework of the Banco de Portugal Recommendation with regard to new credit agreements entered into with consumers, and as expressed in its annual self-assessment report, the Bank incorporated and fully complies with all the criteria of this Recommendation in its decision-making procedures for credit operations (regarding solvency assessment, maximum terms assumed, limits on DSTI ratios, regular repayment schedule and maximum LTV values by type of Mortgage purpose).
- The focus was maintained on reducing concentration levels in the loan portfolio, permitting to maintain the downward trend in single-name concentration, in terms of both the largest 5 names (from 11% to 9% of total exposure), the largest 10 names (from 16% to 13% of the total exposure), and the largest 100 names (from 52% to 48% of the total exposure).



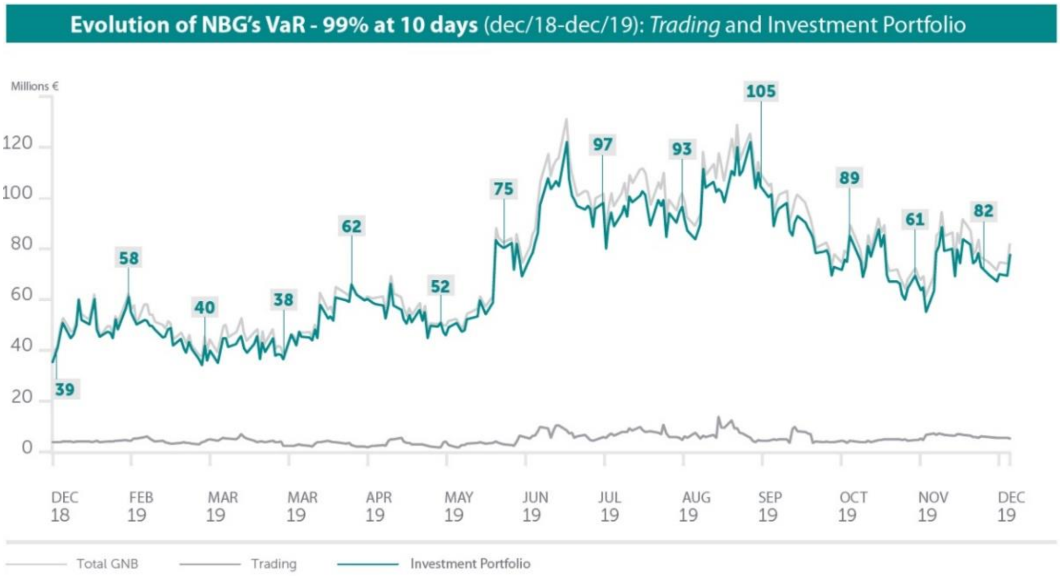
- Development of the new definition of default in accordance with the latest regulatory requirements and best market practices. Although its implementation is only scheduled for 2020, the new definition of default represented in 2019 an enormous effort to recover historical data, involving the retroactive processing of information dating back 10 years as well as the development and implementation of a daily engine, whose results have been running in parallel since the last quarter of 2019. The implementation of the new definition will still represent a significant effort in 2020.
- Definition of a new operating model to be adopted in the credit-decision process for individual clients and small businesses, with a view to increasing their degree of automation. This model will be implemented gradually during 2020, starting with the creation of a consumer credit pilot in some branches, which will be subsequently expanded to the rest of the commercial network on a test / learning basis, depending on the results achieved.

Market Risk

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

2019 main initiatives and highlights

- The risk appetite for the Bank's trading activity was kept conservative, and the policy for the investment portfolio continued to be focused on liquidity management (around 80% of the portfolio is public debt) and margin generation, taking into account the commitments assumed with the DGCOMP, measured through value at risk (VaR).
- Compliance with the risk appetite defined for the remaining risks of the banking book, namely interest rate risk on the Balance Sheet, equity risk, real estate risk, exchange rate risk on structural positions and pension fund risk, also taking into account the deleverage commitments assumed with the DG COMP, when applicable.
- Evolution of NBG's VaR - 99% at 10 days (Dec/18-Dec/19): Trading and Investment Portfolio



Liquidity Risk

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

The liquidity management process aims, on the one hand, to measure net liquidity outflows arising from contractual and contingent positions, under normal conditions or under stress scenarios previously defined by the Bank, these being used to determine the size of the available liquidity pool at any time, and on the other, to plan for stable funding sources in the medium and long-term.

2019 main initiatives and highlights

- Performance of the liquidity stress test (LiST) exercise promoted by the European Central Bank, where NOVO BANCO's performance was considered adequate.

- Discipline in liquidity management and control processes, permitting to report an LCR throughout 2019 above the defined risk appetite (regulatory minimum of 100%); the average LCR in the 12 months of 2019 was 129%.
- At 31 December 2019, NOVO BANCO had a liquidity pool with the ECB (after haircuts) in the amount of €8,2 billion, in addition to an investment portfolio concentrated on public debt, which allows it to survive a severe idiosyncratic and market stress period of 12 months.
- Funding structure based on deposits of Retail, Corporate and Institutional clients and diversification of the Bank's remaining funding sources, alongside a responsible use of public funds, with ECB funding decreasing by around €300 million.

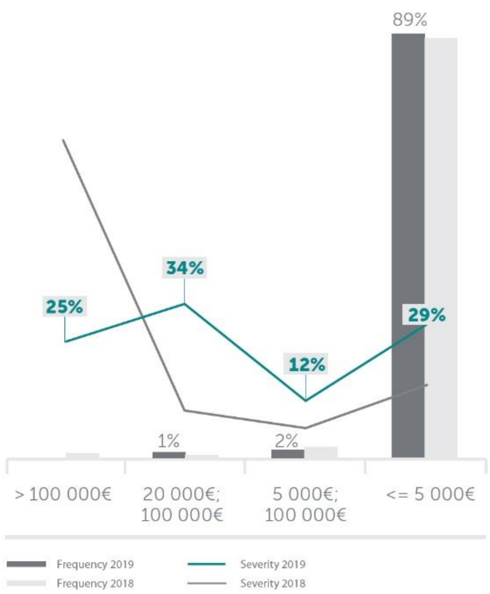
Operational Risk

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

The operational risk appetite defined for NBG covers the various categories under this risk, reflecting the infeasibility of eliminating it, from a cost-benefit perspective, along with NBG's ethical and conduct values.

Main indicators

NBG maintained its operational risk profile, which is characterized by a significant frequency of incidents with low financial impact (below €5 thousand), and very few incidents with a material impact (above €100 thousand). In 2019, 97% of the events involved losses of less than €5 thousand each, representing 29% of the total reported losses related to Operational Risk. Incidents with material severity were few and represented 25% of the total impact (which compares with 70% in 2018), and measures were defined to solve the problems identified.



The operational risk incidents identified are classified in accordance with the operational risk taxonomy approved for the Group and with Basel's Business Lines and Risk Types. Loss distribution remained broadly unchanged.

The 'External Fraud' incidents (mostly involving credit cards) registered the highest score in terms of frequency, with 70% of the incidents representing 33% of the lost amount, which is broadly in line with the average in the financial system. The “Execution, delivery & process management” events registered the highest score in terms of severity (55%), corresponding to 18% of the reported incidents.

2019 main initiatives and highlights

- Strengthening of operational risk culture, not only through training actions in several areas, namely information security and Compliance Risk, but also through a deeper involvement of the commercial areas - 1st line of defence - in the identification of sources of risk, in a pre-emptive move that permits to develop specific operational risk prevention and mitigation actions. In this regard, we note the regular meetings held by NBG’s Operational Risk Committee, which brings together the various local risk functions, Group control functions, risk experts and elements from the 1st line of defence, allowing a broad-based and deep analysis of various themes.
- Revision, implementation and monthly reporting of NBG's Operational Risk Appetite, covering all its categories - Operations, Information Systems, Compliance and Reputational - as well as the risk mitigation and control measures for any identified situations. In this context, there was a continuous effort to deepen the key risk metrics and indicators, allowing to generate warning signals designed to control operational risk at Group level.
- Annual revision of the Operational Risk Policies framework, and publication of NBG's Reputational Risk Policy.
- The Bank's high standards of employee performance are governed by and depend on compliance with the Code of Conduct and the Conflicts of Interest Policy. No material events of non-compliance with these standards of conduct have been registered.
- Implementation of initiatives intended to reinforce operational risk governance and control, in particular regarding cyber, outsourcing and conduct risks;
- Performance of operational risk assessments in connection to the management of change processes implemented in the Bank, namely concerning new products, services, processes and

outsourcing. In addition, a specific self-assessment process was carried out to gauge the effectiveness of the implementation of NBG's Outsourcing Risk Policy.

- In 2019, NBG incurred operational losses in the amount of €2.2 million, which compares with €5.2 million in 2019 and thus represents a relevant improvement in the Bank's control environment. These losses mainly resulted from operational risk events and external fraud, which characteristically are very granular and without excessive concentration, thus not materially affecting the Bank's risk profile.
- The number of incidents of an operational nature also decreased, from 5 750 in 2018 to 5 193 in 2019. In this context, it is worth noting that there were no relevant events related to the availability of computer applications, with impacts on the clients, or disruptions in the Bank's operational activity.

3.10.4 Capital management

The main objective of NOVO BANCO Group's capital management is to ensure compliance with the Group's strategic targets in terms of capital adequacy, respecting and enforcing the rules regarding the calculation of risk weighted assets, the measure of exposure (leverage), and own funds, and ensuring compliance with the solvency and leverage levels set by the supervision authorities and with the risk appetite internally established for capital metrics.

The Group's capital ratios are calculated by the Risk Weighted Assets Calculation and Control area of the Global Risk Department, which has the following main responsibilities: (i) to ensure the calculation of prudential capital ratios in accordance with the relevant regulations, with a view to complying with the minimum regulatory requirements and with the level of risk appetite defined by the Executive Board of Directors; and (ii) to project the evolution of capital needs, participating in capital ratios projection exercises for budgetary purposes, medium-term plans, and any required internal or regulatory exercise that involves the determination of capital requirements, namely the ICAAP and Stress Tests.

NOVO BANCO's Common Equity Tier 1 (CET1) and Tier 1 ratios are protected at pre-established levels, up to the amounts of losses already recorded on the assets protected by the Contingent Capitalization Agreement. The compensation amount to be requested from the *Fundo de Resolução* with reference to 2019, taking into account the losses incurred on the assets protected by the Contingent Capitalization Agreement, as well as the regulatory requirements for capital ratios defined for 2019, will be €1 037 million.

At 31 December 2019 the CET1 ratio was 13.5% and the total phased-in capital ratio was 15.1%, which represents an increase when compared with 2018 figures, due to the increase on the prudential requirements applicable to NOVO BANCO. This increase implied higher CET1 needs at the end of 2019 - +€188 million compared to the end of 2018 -, despite the €295 million decrease in risk weighted assets during the year.

mn€

CAPITAL RATIOS (CRD IV/CRR)		31-Dec-18 (Phased-in)	31-Dec-19 (Phased-in)	31-Dec-19 (fully loaded)
Risk Weighted Assets	(A)	29 874	29 579	29 436
Own Funds				
Common Equity Tier 1	(B)	3 808	3 996	3 768
Tier 1	(C)	3 809	3 998	3 769
Total Own Funds	(D)	4 328	4 475	4 228
Common Equity Tier 1 Ratio	(B/A)	12.8%	13.5%	12.8%
Tier 1 Ratio	(C/A)	12.8%	13.5%	12.8%
Solvency Ratio	(D/A)	14.5%	15.1%	14.4%
Leverage Ratio		8.2%	8.4%	7.9%

As at 31 December 2019, NOVO BANCO complied with all capital ratios required by the ECB under the Supervisory Review and Evaluation Process (SREP), maintaining a relevant buffer in view of the minimum requirements to which it was subject.

It should be noted that in the context of the ECB's SREP, the Pillar 2 requirement applying from 1 January 2020 is 3.00%, which compares with the 3.25% requirement in 2019.

The minimum own funds requirements to be complied with on a consolidated basis as from 1 January 2020, relative to total risk weighted assets (RWA), are as follows:

Ratios	Ratios *phased-in 31-Dec-2019*	Ratios *fully loaded 31-Dec-2019*	Capital requirements for 2020 (SREP): Total	Of which: Pillar 1	Of which: Pillar 2	Of which: Buffers [1]
CET1	**13.5%**	**12.8%**	**10.01%**	4.50%	3.00%	2.51%
T1	**13.5%**	**12.8%**	**11.51%**	6.00%	3.00%	2.51%
Rácio total	**15.1%**	**14.4%**	**13.51%**	8.00%	3.00%	2.51%

[1] Includes:
- Capital Conservation Buffer of 2.5%.
- Counter Cyclical Buffer that is 0% in Portugal but is 0.01% for NOVO BANCO Group.

The Other Sistemically Important Institutions Buffer of 0.375% for 2020 increasing to 0.50% in 2021 needs to be fufilled only at the consolidated level (LSF Nani Investments S.à.r.l.).

A more detailed information about the capital ratios development of the NBG and all its components may be consulted on chapter 3. “Adequação de capitais” from de document “Disciplina de Mercado”.

3.10.5 Main risks and uncertainties

The year 2020 is being marked by the pandemic COVID-19 due to the spread of the 2019-nCoV virus infection that is believed to have appeared in a living market in the city of Wuhan (Hubei province), in China. The World Health Organization agreed that the date of origin of the epidemic would be 12 December 2019, having subsequently declared COVID-19 as Pandemic (11 March 2020) alleging alarming levels of spread and inaction.

Still in its epidemic phase, China, attempting to contain the virus, decreed quarantine in the region, which led to the closure of factories, schools and services, which had a negative impact on global production chains and global demand.

In January 2020, a high number of cases arose in northern Italy, in the Lombardy region, which quickly spread throughout Europe, with the most affected countries being Spain, Germany, France, Switzerland and the United Kingdom. In an attempt to try to contain the epidemic, these countries decreed quarantine, as other Asian countries (South Korea, Singapore and Hong Kong). In the USA the situation worsened in the beginning of March, with New York and California being the most affected States.

In Portugal, the 11th most affected country on the European Continent, was declared a preventive National Emergency State in an attempt to contain the epidemic.

With this forced shutdown of the main economies of the world, high and widespread losses were observed in the financial markets, anticipating a scenario of severe deterioration, resulting from this public health problem, in the worldwide macroenomic environment.

Central banks worldwide were the first to react, announcing monetary stimulus packages in an attempt to contain liquidity levels:

- ECB launched a new € 750 billion debt purchase emergency program;
- FED launched a USD 300 billion (more than € 278 billion) aid program to support the flow of credit to employers, consumers and businesses, in addition to lowering interest rates to levels from 0% to 0.25%;
- Bank of England announced interest rate decline from 0.25% to 0.1%, a historic low and an increase in the UKP 645 billion stimulus program (€ 700 billion);
- Bank of Japan reinforced its asset purchase policy, which was already € 13.4 billion to provide interest-free loans to small and medium-sized companies.

Governments have also started to take fiscal policy measures:

- The EU has made the equivalent of 2% of the region's GDP available in budgetary measures: (i) € 37 billion under the Coronavirus Response Investment Initiative; (ii) € 29 billion from the structural funds of; (iii) € 8 billion of investment liquidity; (iv) up to € 40 billion to meet the short-term financing needs of SMEs, through the EIB. In addition, the EU allows flexibility in the application of EU rules on i) state aid measures designed to support companies and workers; as well as ii) public finances and fiscal policies, for example, in order to take into account exceptional expenses
- The US Senate unanimously approved a stimulus package of USD 2 trillion (about 9% of GDP), including very significant amounts of public investment, direct transfers to families (USD 1200

per adult and USD 500 per child), the payment of unemployment benefit for an additional 4 months, a USD 500 billion rescue fund for companies in the hardest hit sectors (eg aviation) and USD 350 billion in loans to SMEs.

The Portuguese Government announced a package that includes several lines of financing, totaling € 3 billion with state guarantee, particularly aimed at the sectors of tourism, restaurants, textiles, clothing, footwear and the wood sector, as well as the establishment of a 6 months moratorium for companies affected in their activity by the impacts of Covid-19 and for national residents customers with acquisition of their own and permanent housing mortgage loans.

Uncertainty, however, remains in conjunction with high volatility because of a non-existing effective vaccine / treatment, making it very difficult to predict the final consequences of this public health crisis.

All these unexpected challenges imply an increasing resilience, capacity to adapt and mobilize support to companies and families by NOVO BANCO, which has a main mission to remain as the second line of defense of Economics in the face of this context of high uncertainty,

4 CORPORATE GOVERNANCE

Doing it well done at NOVO BANCO

4.1 Shareholder structure

Qualified holdings in NOVO BANCO's share capital

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

Qualified holdings in NOVO BANCO's share capital as at 31 December 2019:

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%

Equity holders with special rights

There are no shareholders with special rights.

Restrictions on voting rights

In view of the commitments assumed by the Portuguese State before the European Commission in the context of the approval of the sale of a participation in the share capital of NOVO BANCO under EU rules on State aid, the shareholder Resolution Fund should refrain from exercising its non-equity rights, namely its voting rights.

4.2 Management and supervisory corporate bodies

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 General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company Secretary. The members of the corporate bodies are elected for four-year terms of office and they may be re-elected once or more than once.

Also, in terms of the accordance with the Articles of Association, the members of the General Meeting, the General and Supervisory Board, and the Monitoring Committee are elected by the General Meeting. The General Meeting also has the powers to appoint and replace the Bank's Statutory Auditor, upon a proposal of the General and Supervisory Board. The members of the Executive Board of Directors are appointed by the General and Supervisory Board. The Company Secretary and Alternate Secretary are appointed by the Executive Board of Directors, after consulting with the General and Supervisory Board.

Amendments to the Articles of Association

Changes to NOVO BANCO’s Articles of Association are the responsibility of the General Meeting.

In 2019 there were no changes in NOVO BANCO's articles of association.

General and Supervisory Board

The General and Supervisory Board is the supervisory body of NOVO BANCO and its members are elected by the General Meeting.

In 2019 there were no changes in the composition of the General and Supervisory Board, whose members at the date of this report are identified in point 1. Who we are. NOVO BANCO in 2019, The governance model.

At the date of this Annual Report, five of the 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 GSB 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 headquarters, closing or changing of representation structure 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 Capitalization Agreement; and (vi) hiring of employees with annual remunerations 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, the latter holding some powers delegated by the General and Supervisory Board.

These Committees are composed of and chaired by 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 policies and procedures and the follow-up of the external auditor, in particular with powers under the Commercial Companies Code.

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

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 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

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 also has delegated powers in matters concerning related parties (with the exception of the Bank's transactions with shareholders, and its related parties, the matter of which is not delegable and is a matter of the GSB).

The above functions also extend to the following financial subsidiaries: BEST, NOVO BANCO Açores and companies of GNB Gestão de Ativos (Asset Management).

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 companies of GNB Gestão de Ativos (Asset Management.

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

Remuneration Committee

The Remuneration Committee advises and supports the General and Supervisory Board in the establishment of, and in ensuring adherence to, consistent and well-integrated remuneration policies in the Bank and the following financial subsidiaries: BEST, NOVO BANCO Açores and companies of GNB Gestão de Ativos (Asset Management).

This Committee also has delegated powers with regard to the hiring of employees with annual remuneration above €200 000.

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 rules of procedure of all the Committees of the General and Supervisory Board can be accessed in the Bank's website, at: www.novobanco.pt/homepage institutional/Governance/ Company Documents/ here

Executive Board of Directors

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

The members of the EBD in office at the date of this report are identified in point *1. WHO WE ARE, Governance model*. There were no changes in the composition of the Executive Board of Directors in 2019 other than the member Mark George Bourke as Director, who took office as Chief Financial Officer on 4 March 2019.

Committees of the Executive Board of Directors

In accordance with its rules of procedure, the Executive Board of Directors 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 NBG's integrated risk profile, and for analyzing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, market, liquidity and operational.

Rui Fontes (Chairman)

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.

José Eduardo Bettencourt (Chairman)

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.

Mark Bourke (Chairman)

PRODUCT COMMITTEE. The Product Committee is the global forum where, from a compliance standpoint, products and services to be developed and/or distributed by NOVO BANCO are approved. The Committee must issue an opinion on all products and services within the scope of the signoff process of current products. In this context, and among others, it is up to the Committee to make sure that the products and services in question comply with the applicable legislation and regulations and were duly analyzed and validated by the competent structures of the Bank.

Luísa Soares da Silva (Chairwoman)

NON-PERFORMING ASSETS (NPA) COMMITTEE. Responsible for ensuring the monitoring of the Strategic Plan (SP), the development and enhancement of the Operational Plan, and for defining and monitoring NBG's divestment strategies.

Jorge Freire Cardoso (Chairman)

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 Committee and the Compliance Committee.

Rui Fontes (Chairman)

COMPLIANCE COMMITTEE. Responsible for the monitoring of all relevant Compliance matters, with particular emphasis on the analysis of new legislation and regulations and of any ensuing actions required for the necessary adaptations, matters of conflicts of interest / conduct, products and financial intermediation, and money laundering.

Luísa Soares da Silva (Chairwoman)

MANAGEMENT INFORMATION COMMITTEE. Committee of a transitional nature implemented to guarantee the development and implementation of the Management Information Project, responsible for monitoring, presenting and communicating measures related to: Governance model, centralization of Management Information, Data Certification Process, Signoff of concepts, and other topics related to Management Information.

Mark Bourke (Chairman)

DIGITAL TRANSFORMATION COMMITTEE. Responsible for defining and driving digital transformation at NOVO BANCO.

António Ramalho (Chairman)

INVESTMENT COMMITTEE. Responsible for agreeing the macroeconomic vision and NOVO BANCO's asset allocation positioning, as well as for issuing guidelines and core beliefs to product and commercial units.

Luís Ribeiro (Chairman)

HUMAN CAPITAL COMMITTEE. Responsible for promoting NOVO BANCO's Talent and Merit Plant and for fostering the engagement of the Bank's employees.

António Ramalho (Chairman)

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 acquisitions strategy.

José Eduardo Bettencourt (Chairman)

EXTENDED 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.

Rui Fontes (Chairman)

EXTENDED MODELS RISK COMMITTEE. Responsible for managing the models implemented at NOVO BANCO, including the approval and/or modification of existing models, and for monitoring the

Model Risk, namely by regularly reporting on the global vision, adequacy assessment, robustness, predictive capability and legal compliance of the models in use at the Bank.

Rui Fontes (Chairman)

OPERATIONAL RISK COMMITTEE. Responsible for developing and monitoring the operational risk policies and monitoring the operational risk levels of NOVO BANCO Group (excluding the insurance activity). This committee operates under delegation of EBD's Risk Committee, and reports to this Committee.

Rui Fontes (Chairman)

Monitoring Committee

The Monitoring Committee is a statutory advisory body ruled by the Articles of Association and deriving from the Contingent Capitalization Agreement composed of three members elected by the General Meeting, one of whom to act as Chairman. The composition of the Monitoring Committee shall respect the following criteria: one of its members shall be independent from the parties to the Contingent Capitalization Agreement, and another shall be a registered charter accountant, as the Resolution Fund is responsible for appointing two of its members. The Committee has as main responsibilities to discuss and issue (non-binding) opinions on Relevant Issues concerning the Contingent Capitalization Agreement 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 General and Supervisory Board.

Supervision

Supervision is in part 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 General Meeting, under a proposal of the General and Supervisory Board, and they have the powers and responsibilities provided for in the law.

Powers of the management body

Powers of the management body, namely 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 General Meeting. In the case of traded securities emission, the GSB issues a previous opinion.

4.3 Internal control and risk management systems

Main details of the internal control and risk management systems implemented at the company regarding the financial reporting process.

Risk management system

In addition to that described in chapter 3.10 Risk Management, which describes the implemented Risk Management and Control Model, it should be noted that the Global Risk Department (DRG) assumes responsibility for ensuring the effectiveness of the Risk Management and Control Function of the GNB.

The organizational model for the Bank's risk management function and the various Committees is presented as follows:

Note: A detailed description of the Committees is available in section 4.2.4 The Executive Board of Directors of this Report.

The DRG is organized in specialized teams that ensure the identification, measurement, monitoring, control and reporting of the Risks to which the Group is exposed.

DRG's specialized teams ensure: (i) the comparison of the risk profile with the risk appetite approved by the GSB; (ii) the promotion of an effective risk culture in which the defined risk appetite is incorporated into management and decision making; (iii) the proposal for corrective measures in case the defined thresholds are reached; and (iv) reviewing the risk appetite and identifying new risks to which the NB Group may be exposed.

I. Strategic Risk Management area. At a functional level, this area is subdivided into two units:

- **Research and Development (R&D)** whose functions are: (i) to develop and monitor methodologies and models for the identification and quantification of the various types of risk, including, in this case, in the case of credit risk, several models of default probabilities (PD), loss given default (LGD), and credit conversion factors (CCF) used in Grupo NB; (ii) maintenance of the risk / value-based decision support tools used in the NB Group; (iii) supporting the business areas in the appropriation of risk-adjusted profitability concepts; (iv) participate in the ICAAP, planning and stress test exercises, (v) support the securitization processes in the management of the rating assignment process and in the selection of portfolios in a risk transfer logic, vi) manage changes and extensions to the IRB method under your responsibility, in accordance with the specific regulations on this matter and the approach defined by the NB Group for the topic .; and

- **Risk / Process Policies**, which is responsible for: (i) proposing risk policies; (ii) participate in the evaluation of the efficiency and effectiveness of decision-making processes and in their redesign proposals, quantifying the risk parameters necessary for a cost-benefit analysis and (iii) analysing and proposing limits for the approval powers of various types of risk, at the operation, customer and portfolio level.

II. Market Risk Area, whose main duties are:

- Monitor, control and report market risks (banking book and trading book), including Balance Sheet interest rate risk, liquidity, counterparty and issuing risk of the positions managed by the room;
- Monitor and control the risk policies and limits established by the Executive Board of Directors, Risk Committee and CFC for the risks mentioned above, as well as for money market operations;
- Develop, together with the Treasury and Finance Department (DTF), the internal liquidity adequacy assessment process (ILAAP);
- Contribute to the calculation of economic capital for market risks to the DRG internal capital adequacy assessment (ICAAP) process;
- Validate the valuation of level 1, 2 and 3 financial instruments, subject to market risk limits
- Identify new methodologies, procedures and analysis tools for market risks;
- Perform and participate in various stress test exercises.

III. Operational Risk, whose functional responsibilities are related to:

- Design, monitor and maintain the Operational Risk Management System, ensuring the uniformity, systematization and recurrence of the activities of identification, monitoring, control and mitigation of the main sources of operational risk;
- Propose and review the appetite for operational risk for its various categories and carry out their monitoring, through key risk indicators (KRIs);
- Perform periodic self assessment exercises;
- Analyze and classify the totality of incidents and sources of risk detected and reported, by the various units, in the Application of Operational Risk (AGIRO);
- Identify and monitor the implementation of the improvement actions identified through the operational risk management tools;
- Propose the definition of Specific Operational Risk Policies and promote their periodic review;
- Participate in the various sign-off processes in force at NB (processes, products and services, outsourcing). The area coordinates the intervention of the DRG in the sign-off processes of products and services, and outsourcing

- Manage and maintain the Group's Inventory of Models.

IV. Portfolio Credit Risk Planning and Monitoring Area, whose main functions are:

- Monitor and report, internally and externally, the credit risk profile;
- Ensure budget planning and control / projections of credit risk / loss ratio and impairment indicators;
- Report / validate regulatory reports on credit risk / loss ratio and impairment indicators;
- Develop and manage the credit risk impairment calculation model.

V. The Risk-weighted Asset Calculation and Control area has the following main responsibilities:

- Ensure the determination of the NOVO BANCO Group's solvency, in accordance with the corresponding regulations, with a view to meeting the minimum solvency levels regulated by the regulations and the level of risk appetite defined by CAE;
- Contribute to an efficient, profitable and sustained capital management, as far as risk-weighted assets (RWAs) are concerned, in NOVO BANCO Group;
- Calculate and report internally the assets weighted by your risk and the capital ratios, as well as their evolution (solvency and leverage) at the GNB level, in accordance with the rules in force;
- Project the evolution of risk-weighted assets, participating in projections of future capital ratios for the purposes of fiscal years, medium-term plans or others, as well as internal or regulated fiscal years involving capital requirements, namely ICAAP and "Stress Tests";
- Coordinate the reporting of prudential information, related to capital ratios, to the supervisory entity in the COREP format.

Internal control system

Definition and Objectives

Internal Control is integral to the running of the organization, combining guidelines, functions, structures and processes established and communicated by the Board to ensure efficient management in the pursuit of the objectives established, in line with the defined risk appetite.

An efficient and effective internal control system is key for the organization to achieve:

- Strategic and Operational Performance Objectives - the Bank's viability and sustainability in the long term;
- Information and Reporting Objectives - the existence of financial and management information that is complete, pertinent, reliable and timely to support decision-making and control processes at both internal and external level;
- Compliance Objectives - compliance with the applicable legal and regulatory provisions, internal rules and the code of conduct.

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 organizational 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.

Internal Control concerns all the Institution's bodies and employees, who perform their duties in accordance with internal policies and standards of ethics, integrity and professionalism. Each employee has a role to play as well as duties and responsibilities, which contribute to ensure the efficiency and effectiveness of Internal Control.

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 of internal control and establishing the discipline and structure of the remaining elements of the internal control system;
- **Solid risk management system**, designed to identify, assess, monitor and control all risks that may influence the strategy and objectives of NOVO BANCO Group, ensuring that the strategy and objectives are pursued and that the necessary steps are taken to respond adequately to undesired deviations;
- **Efficient information and communication system** that guarantees the collection, treatment and exchange of relevant, 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 potential or actual deficiencies and ensuring that corrective actions are triggered, and of opportunities for improvement allowing to strengthen the Internal Control System.

Under NOVO BANCO Group's Internal Control System, policies, processes, procedures, systems and controls are formalized 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 internal control report itself.

In addition, for the design and assessment of its Internal Control System, NOVO BANCO Group adopted COSO's Internal Control – Integrated Framework international methodologies and COBIT's Framework for IT Governance and Control.

3 Lines of Defense Model

The Executive Board of Directors is responsible for maintaining an adequate and effective Internal Control System, which is based on the Three Defense Lines model. To this extent, the allocation of portfolios is aligned to this model.

The 3 lines of defense model defines different intervention and responsibility levels in the management of risks and execution of controls, viewing the adequacy and overall effectiveness of the organization's Internal Control System.

1st LINE OF DEFENSE

The 1st line of defense is held by the organizational 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.

2nd LINE OF DEFENSE

The 2nd line of defense defines risk management and control policies, methodologies and tools, exercising functional supervision and monitoring of 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 mission of the 2nd line of defense 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 defense 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).

3rd LINE OF DEFENSE

The 3rd line of defense is held by the Internal Audit Department, whose mission is to ensure the adequacy and effectiveness of the Internal Control System through its independent, objective and risk-based assessment of the governance system, risk management system, and the system for monitoring compliance with legal obligations and other duties, regularly reporting to the management and supervisory bodies any situations liable of indicating a deterioration trend in the internal control system, and following up on the recommendations issued for their correction.

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;
- May not 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.

Main intervenient in the Internal Control System

CONTROL FUNCTIONS

Compliance Function

The Compliance function is an independent function whose mission is to promote compliance with the legal, regulatory, operational, ethical and conduct obligations and duties applicable at any time to financial institutions as well as to their corporate bodies, managers and employees within the framework of institutional control and supervision defined by the competent regulatory bodies and the legislation to which they are subject.

This function is exercised by the Compliance Department, an autonomous unit that currently reports directly to the Executive Board of Directors, through the Board member responsible for this area. In addition, it maintains a permanent communication line with the General and Supervisory Board, namely through articulation with the Compliance Committee of this body, viewing the adequate disclosure of information and the discussion of relevant issues in the activity of the Compliance Function.

As the body in charge of one of the control functions, the Compliance Department cooperates with the other control functions (Risk Management, Internal Audit) and with the Internal Control and Data Protection Department in the implementation of an effective risk management system, for which, among others, it holds monthly meetings, takes part in Committee meetings, and submits its annual activity plans to the Internal Audit Function, viewing the overall alignment of the interests of these functions.

Risk Function

As described in chapter 3.10.3 of this Report (Risk Management Function), the Risk Management function is independent of the Bank's business areas, with its main mission: (i) management of risks considered relevant and material, and that can have an impact on the achievement of the defined objectives; as well as (ii) correct assessment of risks considered emerging, whose impact may be verified in a broader time horizon.

The Risk Management Function is operationally centralized in the DRG, being responsible for the Risk Management Function, responsible for the DRG.

Additional and detailed information on the risk function can be found in point 3.10. (Risk Management), as well as point 4.3.1. (Risk management system) of this report.

Internal Audit Function

It falls on the Internal Audit Function to assess the adequacy and effectiveness of the various components of the Internal Control System, and of the Internal Control System as a whole, in the companies of the NOVO BANCO Group included in its scope of action.

In particular the Internal Audit Function is responsible for the assessment of the adequacy and effectiveness of the governance systems, the risk management systems and the systems that monitor compliance with legal obligations and other duties, regularly reporting to the Executive Board of Directors and the General and Supervisory Board and respective committees any situations liable of indicating a deterioration trend in the Internal Control System, and following up on the recommendations issued for their correction.

The Internal Audit Function at the Bank is performed by the Internal Audit Department, which assists operational management in the exercise of control, and acts upon the following general principles:

- Internal audit acts as an auxiliary body to the Executive Board of Directors and General and Supervisory Board concerning the independent verification of the adequacy of and compliance with the internally defined policies and procedures;
- The activity of the Internal Audit Department encompasses all the organizational units, structures, processes, IT or functional routines, operations and procedures within the group of companies under its scope of responsibility;
- The internal auditors, in the performance of their functions, have unlimited access to all documentation and information, in whatever support, used or produced by the audited structures or processes, and when they so request, should receive collaboration viewing the optimized execution of the audit works.

The annual planning of the Internal Audit Department’s activity principally aims to ensure adequate coverage of the activities developed by the various structures under its scope of action, in accordance with their relevance with regard to risks of a financial nature (credit risk, market risk, liquidity risk, etc.) and risks of a non-financial nature (operational risks: operations risk, information systems risk, compliance/legal risk and reputational risk), in accordance with the governance principles adopted by the Bank as the 3rd line of defense.

The final decision on the activities to be audited must strike a balance between, on the one hand the prioritization of the risks assessed in accordance with criteria aimed at ensuring adequate and reasonable annual coverage of the audit universe, and on the other, the application of criteria to ensure the efficient use of the available resources.

The planning of the Internal Audit Function's activities is thus based on a risk assessment process that is performed/revised at least annually, permitting the continuous and timely assessment of the more relevant risks inherent to the organization's activities.

This assessment of risk encompasses a variety of issues, namely regulatory recommendations and requirements, financial information, risk management information, operational risk losses, criticality for business continuity, date of last audit and respective assessment, among others. Finally, the annual planning process requires the involvement of the members of the management and supervisory bodies (the main stakeholders) in the identification of the audit priorities.

A Strategic Audit Plan (Multi-annual Plan) has been defined that establishes target audit cycles for each component (object) of the audit universe, according to risk criteria. The Plan foresees the coverage of the audit universe within a 4-year cycle for the higher risk and priority objects, this being the target period for full coverage of the various components of the Internal Control System and of the Internal Control System as a whole, of the entities of NOVO BANCO Group included in the scope of action of the Internal Audit Department.

The Strategic Plan is revised on an annual basis to incorporate the evolution of the Group's activity and risks.

CONTROL FUNCTIONS INDEPENDENCE

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

- **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 respective meetings;
- **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 the level of both the Bank and its branches and subsidiaries);

- **Remuneration:** the remuneration of control function employees is not associated with the results of the activities which they supervise and control, nor does it compromise, in any other way, their objectivity;
- **Technical resources and organization:** the functions have adequate technical resources at their disposal and are organizationally independent from each other;
- **Scope:** the Bank's control functions carry out supervision activities over the control functions of its branches and subsidiaries.

Internal Control and Data Protection Department

The mission of the Internal Control and Data Protection Department (ICDPD) is to assist the Executive Board of Directors in the maintenance of an adequate and effective Internal Control System, and to drive the implementation of the General Data Protection Regulation (GDPR) requirements in the operational model of the various entities of NOVO BANCO Group and monitor compliance therewith at all times.

Taking into account the size of NOVO BANCO Group and the specific characteristics of the activity of each department, the dynamics of the Internal Control and Data Protection Department increases the robustness and specialization of assessment of internal control matters, improves coordination among the Internal Control System's various lines of defense, promotes a culture of control, and permits the assessment of the control environment and control coverage of the critical processes.

On the other hand, it also affords the Executive Board of Directors a more integrated and consistent view of the Internal Control System, as well as more effective support in the preparation of the Internal Control Reports required under Banco de Portugal's Notice no. 5/2008 and Regulation no. 2/2007 of the Portuguese Securities Market Commission (CMVM), while ensuring coordination with the statutory auditors with regard to the adequacy and effectiveness of the Internal Control System.

External intervenients in the defense of the Internal Control System (4th line of defense)

The **Statutory Auditor**, which acts as an additional line of defense, bearing in mind its functions, essentially of an accounts supervision nature, including within the scope of the internal control report; and the **Supervision Authorities (European Central Bank and Banco de Portugal)**, which act as the last line of defense, 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 defense 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, namely through detailed assessments and regular interaction with the Executive Board of Directors and top management; (ii) They request improvements and remediation measures, when and if necessary.

4.4 NOVO BANCO Main Policies

For NOVO BANCO Group the framework of values, principles and rules that guide its actions, and the standards that govern the manner in which it conducts its business and runs its activity, are fundamental. This framework relies upon NOVO BANCO Group's Code of Conduct, Conflicts of Interest Policy, Related-Party Transactions Policy, Whistleblowing Policy, Anti-Bribery and Anti-Corruption Policy, Policies on the Prevention of Money Laundering and Terrorist Financing, Investor Protection and Market Transparency Policies and Remuneration Policies for the Management and Supervisory Bodies, and for the Employees.

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 NOVO BANCO Group companies, and also to all third parties which subscribed to this policy at the request of NOVO BANCO. 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.

NOVO BANCO Group’s Code of Conduct aims to:

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

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.

Policy on Conflicts of Interest

The Conflicts of Interest Policy establishes rules for the identification, management and monitoring of potential conflicts of interest in the various activities of NOVO BANCO and NOVO BANCO Group, in compliance with applicable legal and regulatory provisions, as well as the recommendations of Banco de

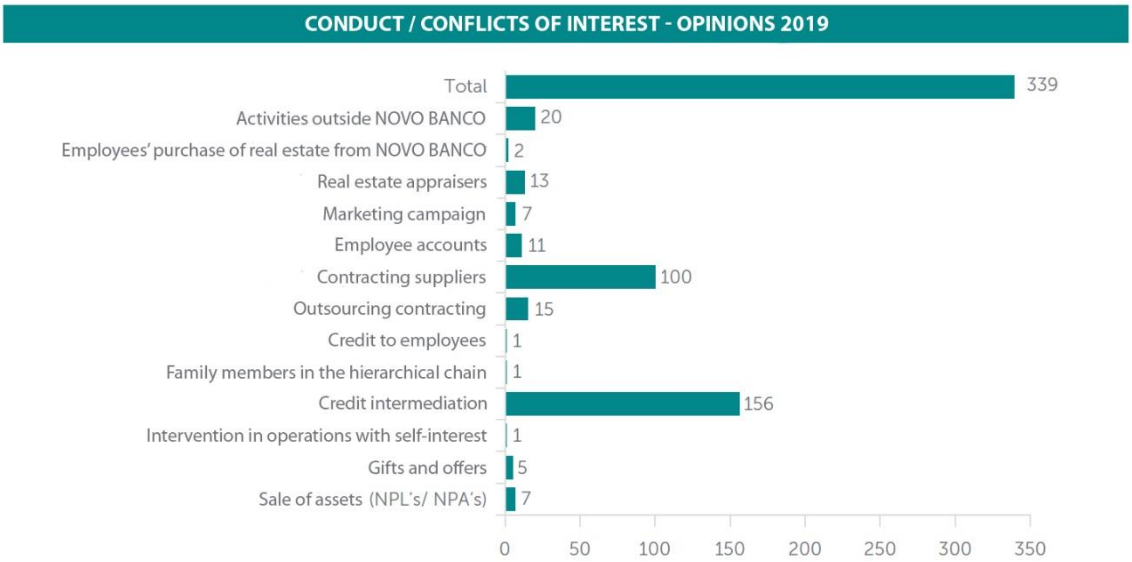
Portugal and the European Central Bank. The Code applies to all Group employees, including the members of the General and Supervisory Board and Executive Board of Directors.

The policy aims to strengthen the governance model of the NOVO BANCO Group by pursuing the following objectives:

- Define the set of rules and mechanisms to prevent, identify and manage potential or actual situations of conflict of interests;
- Ensure compliance with the legal and regulatory rules on the prevention and management of conflicts of interest that apply to NOVO BANCO and its employees;
- Reinforce the employees' knowledge of and awareness to conflicts of interest issues.

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

In the course of 2019, NOVO BANCO pursued its regular activity or revision and updating of internal regulations on various matters of conflicts of interest, such as the existence of family members in the hierarchical chain, employees' purchase of real estate from NOVO BANCO, or activities outside NOVO BANCO. During the year the Compliance Department issued a total of 339 opinions on a variety of issues, as shown in the chart below:



In 2019, due to non-compliance of internal regulations and negligence in the performance of their duties, sanctions were applied to 27 employees, namely: 2 dismissals without any indemnity or compensation; 9 days of suspension sanctions without pay and with loss of seniority; 7 holiday days lost and 9 registered reprimands.

Policy on Related Party Transactions

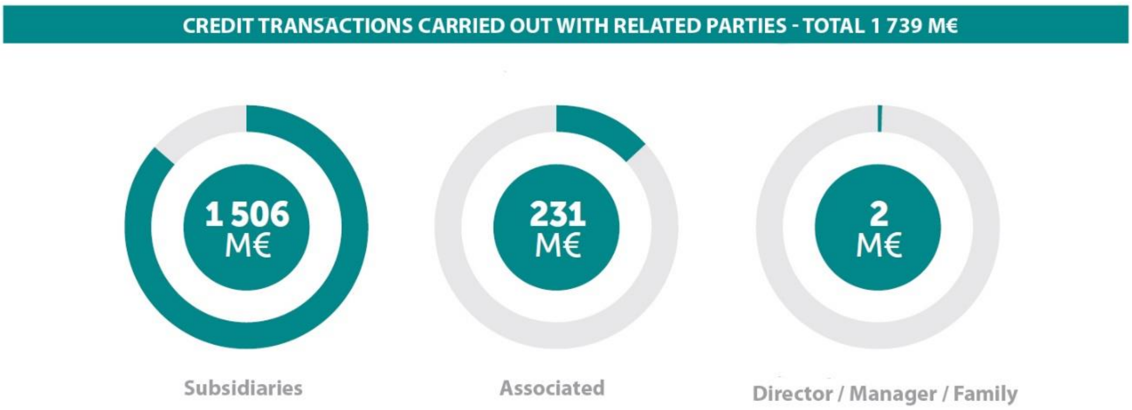
NOVO BANCO's Policy on Related Party Transactions sets down rules aimed at identifying transactions concluded between NOVO BANCO and Related Parties and at ensuring that the Bank complies with several provisions and regulations, namely the European Banking Authority (EBA) Guidelines on Internal

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 addition, the Bank has implemented internal standards that operationalize its Policy on Related Party Transactions, including through information system alarms triggered when related parties are identified, and rules on the formalization of transactions and respective approval circuits. 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, for subsequent approval by the General and Supervisory Board, and resolution by the Executive Board of Directors.

As is the case with the Code of Conduct and Conflicts of Interest Policy, the Policy on Related Party Transactions is also available at NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance >** here

During 2019, transactions carried out with related parties (credit transactions, service provision, and other contracts) included credit transactions, including extensions and renewal of limits, in the amount of €1,739 million, broken down as follows:



Article 85 of the General Law on Credit Institutions and Financial Companies sets forth that credit institutions shall not grant credit, in any form or type, including the provision of guarantees, to members of their management or supervisory bodies, nor 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 eight favorable opinions on credit transactions allowed under said paragraph 8 of Article 85, which were subsequently approved by the Compliance Committee of the General and Supervisory Board and approved by the Executive Board of Directors.

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 2019 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 internalization of a culture of compliance, namely regarding the reporting of undue or irregular behaviors or behaviors that go against the law, the regulations 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.

The following are considered as irregularities: violations within NOVO BANCO in the fields of accounting, internal accounting controls, auditing, the fight against corruption and banking and financial crime in accordance with Resolution No. 765/2009 of the National Data Protection Commission, and those relating to possible breaches of Law No. 83/2017, the regulations which implement it and the internally defined policies, procedures and controls on the prevention of money laundering and terrorist financing.

Irregularities are reported in writing and presented through the following channels, at the choice of the person who is reporting:

- Addressed to the Compliance Committee of the General and Supervisory Board (Avenida da Liberdade, 195, 14 floor, 1250-142 Lisbon);
- Through the Form available on the Bank's intranet NBWeb; or
- By e-mail to the address: irregularidades@novobanco.pt.

All communications must be made in good faith, indicating the respective grounds. The deliberate and unfounded use of the channels made available under the Whistleblowing Policy may constitute a disciplinary, civil, criminal or other infraction. Under the terms of the Whistleblowing Policy, anonymous communications are admitted.

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

NOVO BANCO guarantees the protection of the personal data of the person who makes the communication and of the suspect of violation, collected through the communication means made available.

The text of 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 organizations and public and private entities. In this context, in 2019 the Compliance Committee of the General and Supervisory Board and the Executive Board of Directors approved an Anti-Bribery and Anti-

Corruption Policy intended to prevent and mitigate the risk of corruption and bribery and of practices related thereto, reaffirming the Bank's commitment in building a more upright society.

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

Policy 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 their counterparties and respective 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 being used as a vehicle for money laundering or terrorist financing activities, which is a risk inherent to its presence and activity in the national and international financial markets.

The Novo Banco Group takes increasingly great care in the identification of weaknesses and areas of greater exposure to ensure it has in place adequate methods to control and mitigate the risks of money laundering and terrorist financing inherent to its activity. The ability to detect and, if possible, prevent 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:

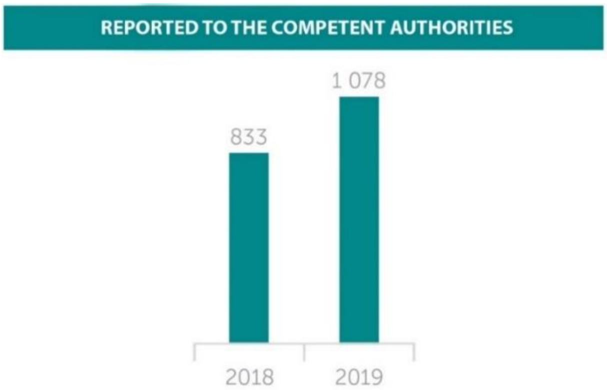
- Opening of contract or change of a party to an existing contract, through what is known as KYC (Know Your Customer) - i.e., the identity of contract parties, representatives and beneficiaries must be effectively established;
- Monitoring contracts' transactions - KYT (Know Your Transactions), spotting unusual situations, either beforehand or by contacting the client after the situation was detected.

To that end, NOVO BANCO Group, using software tools with internationally recognized 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 2018, Novo Banco reinforced training on money laundering and terrorism financing prevention, having provided 8 891 hours of online training (including 1 259 hours for senior management) and 807 hours of face-to-face training (of which 314 hours for senior management), making a total of 9 698 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.

In 2019 the NOVO BANCO Group examined 4 189 new contracts, of which 52 were rejected. In addition,1 411 other contracts were analyzed, upon which their ownership was changed. It also analyzed 13 482 transactions under existing contracts, of which 1 078 were reported to the competent authorities. 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.



The Policies on the Management of Money Laundering and Terrorist Financing Risks are available for consultation in NOVO BANCO's website, in Portuguese and English, at **NOVO BANCO > Governance > Compliance >** here

Policies on Investor Protection and Market Transparency

The Directive on Markets in Financial Instruments, 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.

This regulation determines the reinforcement of the duties of financial intermediaries, as well as changes in the marketing regulations of financial instruments. In accordance with the revised legal framework, NOVO BANCO has revised and approved its new standards and Policies, which it discloses in a dedicated area of its website **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 will request Customers and potential Customers to complete individual profile questionnaires, in order to get to know in a more complete and detailed manner, *inter alia*, their experience and knowledge of investment, their financial situation, their investment objectives (including capacity to withstand losses) and their risk tolerance, and thus assess whether a particular investment product or service is appropriate.

Order Execution Policy. The Order Execution Policy of NOVO BANCO, S.A. describes the rules and procedures, strategies and other practices to be applied to the execution of customer orders and/or their transmission to other entities authorized to execute orders, viewing compliance with the applicable laws and regulations, as arising from the Markets in Financial Instruments Directive II (MiFID II) and other legal or regulatory rules and legislation that complement it.

Internal Regulation and Conflict of Interest Prevention and Management Policy for Financial Intermediation Activities. The Internal Regulation for Financial Intermediation activities organizes in a single document the rules related to financial intermediation activities carried out by the Bank. In particular, it defines measures aimed at identifying, mitigating, managing and registering conflicts of interest in relation to all relevant Financial Intermediation Activities (Policy for Prevention and Management of Conflicts of Interest within the scope of Financial Intermediation Activities) and at ensuring that the interests of the Clients take precedence over the Bank's own interests or related interests, and that Clients are guaranteed transparent and equitable treatment, in compliance with the Regulation (EU) on Market Abuse.

Safeguard of Customer Assets. The Securities Code sets forth that in all acts performed, as well as in accounting and operations 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 reorganization 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 utilize, 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 procedures that safeguard these rules.

Offer screening process / Product Committee. 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 offers, and the monitoring of the existing offer. This ensures that any innovation in own and third-party products and services, the distribution channels or target markets, including any significant changes therein, is subject to the approval of the Executive Board of Directors, in the Product Committee, which shall support its decision on a previous transversal validation by the relevant departments that considers, among others, legal, operational, IT, information security, financial, accounting, data protection and tax aspects, as well as on an assessment by the Risk and Compliance functions.

Remuneration Policies for the Management and Supervisory Bodies and Identified Employees and Declaration on the Remuneration Policies

Under the terms and for the purposes of Law no. 28/2009 of 19 of June, and Banco de Portugal Notice no. 10/2011, and for compliance with the disclosure duties related to the remuneration policies provided for therein, the Remuneration Committee submits for approval at the General Meeting of Shareholders of NOVO BANCO the following declaration on the remuneration policy of the members of the Bank's management and supervisory bodies.

In 2019, NOVO BANCO made slight changes to the Remuneration Policies of the Management and Supervisory Bodies and of the Employees resulting essentially of: (i) updating the current regulatory context; (ii) forecasting the existence of Sign-on bonuses or Signature Awards; (iii) clarification of the application of the remuneration limits established by DG COMP; (iv) clarification of the rules for selecting the identified employees; (v) rules in case of the employment contract termination.

These Policies have been prepared in accordance with the legislation in force on this date, in particular with the RGICSF and the EBA Guideline 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. 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 and recent changes thereto, namely regarding the allocation of the variable component and respective conditions, are appropriate to the current situation of NOVO BANCO, are in line with the objectives of the Restructuring Plan and respect the associated limitations. Accordingly, the incentives defined for the members of the board of directors and for the different categories of employees, as well as the structure of these incentives, are in line with 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 entities, namely the Remuneration Committee, formed by three members 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 “State Aid” having been 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 “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 shall 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 performances occurred during the Restructuring Period, making the respective payment only at the end of said period.

- 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 any changes that may result from said commitments.
- The attribution of a variable remuneration to the members of the Management and Supervisory Bodies and to the Employees shall in no case jeopardise the maintenance of a solid capital basis and the timely termination of the extraordinary State financial aid.

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 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 establish and approve the budget for the total variable remuneration of employees, jointly with the Executive Board of Directors, based on the operating income of 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 the point above *I. Limits to remuneration in NOVO BANCO*.

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 remuneration is set based on an individual and collective assessment of performance, using 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 shall only be attributed if it does not jeopardize the Bank's capacity to maintain a solid capital basis, the Bank has had a positive operating performance and provided that the allocation 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 attributed over a multi-year framework, being fully deferred proportionally, for a minimum period of 3 years. However, during the Restructuring Period, the amounts attributed for the year 2019 are 100% deferred and will only constitute an acquired right and, consequently, be paid,

at the end of the said period, under the terms defined in the respective Policy. For the remaining years of the restructuring It is attributed over a multi-year framework period, deferral is made proportionately, and it is necessary to ensure that no instalments are paid or considered an acquired right before the end of the period;

- 50% of the amounts attributed shall take the form of "Remuneration Units", the value of which is determined by financial indicators of the Bank.
- No guaranteed variable remuneration shall be established, save in the first year after hiring, under the form of a Sign-on bonus.

All amounts paid or subject to deferral, regardless of whether or not they have vested, shall be subject to the application of adjustments based on risk, Clawback and/or Malus, including those that were deferred through application of the limits established in 1 above.

In what concerns other benefits, such as Health Insurance or Mobile Phone, their attribution is aligned to the internal policies for the remaining employees of the Bank. It is worth mentioning that for cases where the member of the EBD was an employee of the Bank before taking up such role, the Policy provides for the possibility of maintaining some benefits contractually established, such as for instance SAMS, special loan conditions and pension plan. In what concerns company cars, the models are defined taking into account the policy in force.

III. Identified Employees

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

Selection of employees. The Remuneration Policy for Employees includes specific chapters applicable to the employees who materially influence or may influence the risk profile of NOVO BANCO, these being classified as Identified Employees.

Under this policy, the following are Identified Employees:

- Senior Managers: all employees who have a material impact on the risk profile of the Bank and general directors, CAE advisors, coordinating directors or other directors who are responsible for any Department or area of the Bank, including the Control Functions, the commercial departments and other relevant functions;
- Other employees: (i) earning total remuneration above €500 thousand/year; (ii) earning total remuneration above the minimum remuneration of the group of employees selected according to the qualitative criteria referred to above, or (iii) whose total remuneration falls within that of the group of the 0.3% of employees with the highest remunerations.

In any of the above cases, providing they have a material impact on the risk profile of NOVO BANCO.

Components of Remuneration. The attribution of a Fixed Remuneration shall reflect the skills, experience and responsibility inherent to the function performed, and shall not depend on performance. The attribution of a Variable Remuneration to the Identified Employees is the result of individual and collective performance evaluation and shall take into account the following principles:

- Performance must be assessed through quantitative and qualitative criteria and 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 adjustment mechanisms based on risk (Malus and Clawback), as described in the Remuneration Policies;
- The amount attributed is limited to 100% of the annual Fixed Remuneration;
- 50% of the amounts attributed will take the form of "Remuneration Units", whose final value is determined by the Bank's financial indicators;
- Guaranteed variable remuneration cannot be defined, except in the first year after hiring and on the form of subscription premium.

IV. Disclosure of Remuneration

The amount of remuneration of the Management and Supervisory Bodies is presented in point 4.6.1 Remuneration of the members of the Management and Supervisory Bodies.

The amount of remuneration of the identified employees with material impact on the Bank's risk profile is presented in point 4.6.2. Employee Remuneration.

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

NOVO BANCO approved in March 2018 a Policy for Selection and Evaluation 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 and the General and Supervisory Board, and by the General Meeting.

The Policy intends 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 Foreign 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; Independence; iv) Availability; and v) Collective Suitability.

The Policy establishes the procedures to select and assess the employees for the identified functions, setting out the responsibilities of the Nomination Committee and of the Fit&Proper Officer in the management of processes.

4.5 Credit to members of the Corporate Bodies

At 31 December 2019 the outstanding amount of loans to persons and entities falling under the provisions of art. 85 of the RGICSF* is presented below:

Name / Denomination	Function	Value (in EUR)
Executive Board of Directors		
José Eduardo Fragoso Tavares de Bettencourt	Member of the Executive Board of Directors	- €
Closely related people		60 774,05 €
Luís Miguel Alves Ribeiro	Member of the Executive Board of Directors	241 711,86 €
Closely related people		144 738,83 €
General and Supervisory Board		
Carla Alexandra Severino Antunes da Silva	Member of the General and Supervisory Board	- €
Closely related people		116 666,67 €
Statutory Auditor		
António Filipe Dias da Fonseca Brás	Statutory Auditor, representing Ernst & Young Audit & Associados - SROC, S.A.	136 018,00 €
Entity in which a member of the Executive Board of Directors has management functions		
Locarent - Companhia Portuguesa Aluguer Viaturas S.A.		43 877 963,68 €

The amounts shown in the table below concern residential mortgage loans, save for those listed for Locarent - Companhia Portuguesa de Aluguer de Viaturas SA and the person related to the member of the General and Supervisory Board, where they concern corporate loans.

* RGICSF: *Regime Geral das Instituições de Crédito e Sociedades Financeiras* (General Law on Credit Institutions and Financial Companies).

For the purposes of Art. 109 (7) of the RGICSF, at 31 December 2019 there were no loans granted to holders, directly or indirectly, of qualified holdings nor to persons related with them.

4.6 Remuneration of the members of the Corporate Bodies and Identified Employees

4.6.1 Remuneration of the Members of the Management and Supervisory Bodies

The annual amount of remuneration received, on an individual and aggregate basis, by the Members of the Corporate Bodies of NOVO BANCO in 2019 was the following:

	Role	Total 2019		Fixed Remuneration		
		Attributed	Paid	Salary	Other post employment benefits	Deferred
Executive Board of Directors (EBD)		**2,345,296**	**2,302,332**	**2,299,416**	**2,916**	**42,963**
António Manuel Palma Ramalho	Chief Executive Officer	400,000	357,037	357,037	0	42,963
Jorge Telmo Maria Freire Cardoso	Member	275,000	275,000	275,000	0	0
Vitor Manuel Lopes Fernandes	Member	275,000	275,000	275,000	0	0
Rui Miguel Dias Ribeiro Fontes	Member	276,166	276,166	275,000	1,166	0
Luis Miguel Alves Ribeiro	Member	276,166	276,166	275,000	1,166	0
Luisa Marta Santos Soares da Silva Amaro de Mat	Member	275,000	275,000	275,000	0	0
José Eduardo Fragoso Tavares de Bettencourt	Member	276,045	276,045	275,462	583	0
Mark Georges Bourke (i)	Member	291,918	291,918	291,918	0	0
General and Supervisory Board (GSB)		**878,000**	**857,037**	**857,037**	**0**	**20,963**
Byron James Macbean Haynes	Chairman	378,000	357,037	357,037	0	20,963
Karl - Gerhard Eick	Vice-Chairman	250,000	250,000	250,000	0	0
Benjamin Friedrich Dickgiesser	Member	0	0	0	0	0
Kambiz Nourbakhsh	Member	0	0	0	0	0
Donald John Quintin	Member	0	0	0	0	0
John Ryan Herbert	Member	95,000	95,000	95,000	0	0
Robert Alan Sherman	Member	95,000	95,000	95,000	0	0
Mark Andrew Coker	Member	0	0	0	0	0
Carla Alexandra Severino Antunes da Silva	Member	60,000	60,000	60,000	0	0

(i) Took office in 2019

Note: In 2019 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 Mark Bourke as new Executive Director, Euro 320 thousand were paid in 2019 to this board member, before taking up his duties, as a sign-on bonus.

In relation to 2019, there was a conditional attribution, subject to the verification of several conditions, of a total Variable Remuneration of 1 997 thousand euro to the members of the Executive Board of Directors, due to the individual and collective evaluation of their performance and in accordance with the Remuneration Policy for Members of the Management Bodies. 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.

On the other hand, the Variable Remuneration attributed to the members of the Executive Board of Directors for 2019 is fully deferred and there will be no payments until after the end of the Restructuring Period, on the date currently defined as December 31, 2021. 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 Clawback.

The 2019 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

Nothing to report.

Plans for the attribution of shares or stock options

Nothing to report.

4.6.2 Employee Remuneration

Regarding employees with impact on the risk profile of the Bank (Identified Employees) their remuneration in 2019 is presented in the table below. Total remuneration includes the fixed remuneration for the year and variable remuneration attributed to year 2019. Variable remuneration attributed for year 2019 was fully deferred, in view of the current market conditions.

Employees with Material impact on the Risk Profile	# Employees	Fixed Remuneration 2019	Variable remuneration
			Attributed 2019 Deferred
Total	**46**	**5 405 464**	**2 262 626 (*)**
Commercial	8	874 050	376 677
Control	4	551 022	196 407
Suport	34	3 980 392	1 689 542

(*) amounts subject to minor adjustments

4.7 Securities held by members of the Corporate Bodies

As at 31 of December of 2019, and regarding 2019, the members of the Corporate Bodies of NOVO BANCO did not hold any securities issued by NOVO BANCO or by entities that in a control or group relationship with NOVO BANCO.

Additionally, no acquisitions, disposals or transmissions of securities issued by NOVO BANCO or by entities in a control or group relationship with NOVO BANCO were carried out in this period by members of the Corporate Bodies of NOVO BANCO.

4.8 Minor indirect investment in NOVO BANCO

All members of the Executive Board of Directors and certain members of the General and Supervisory Board have acquired in 2018 (as disclosed in the 2018 annual report) using their own resources, holdings in an indirect investment structure in Novo Banco, which has been structured (and is controlled) by LSF Nani GP, LLP, which owns indirectly a 75% interest in Novo Banco. This indirect investment represents an indirect 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, due to the low percentage representation of the investment in the share capital, as well as for each of the members that made the investment. This fact has been disclosed to the relevant supervisory authorities and internal control bodies.

There was no change in 2019, except in what respects to the member of the Executive Board of Directors elected in 2019, Mark Bourke, who has likewise acquired in 2019 an holding in the same indirect investment structure in Novo Banco, to which the information hereby mentioned is applicable.

5 CONSOLIDATED FINANCIAL STATEMENTS AND FINAL NOTES

5.1 Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2018

thousands of Euros

	31.12.2019	31.12.2018
Interest Income	753 087	758 691
Interest Expenses	(212 474)	(304 349)
Net Interest Income	**540 613**	**454 342**
Dividend income	9 909	8 974
Fee and comission income	367 400	366 068
Fee and comission expenses	(53 456)	(59 734)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	61 554	(173 860)
Gains or losses on financial assets and liabilities held for trading	(59 223)	(20 405)
Gains or losses on financial assets mandatorily at fair value through profit or loss	(253 720)	(32 877)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	4	(1 123)
Gains or losses from hedge accounting	(1 740)	(47 147)
Exchange differences	38 829	42 503
Gains or losses on derecognition of non-financial assets	3 954	32 270
Other operating income	139 802	177 776
Other operating expenses	(403 299)	(255 643)
Operating Income	**390 627**	**491 144**
Administrative expenses	(444 840)	(465 127)
Staff expenses	*(265 350)*	*(266 138)*
Other administrative expenses	*(179 490)*	*(198 989)*
Depreciation	(33 664)	(22 149)
Provisions or reversal of provisions	(21 297)	(238 870)
Commitments and guarantees given	*60 776*	*(26 189)*
Other provisions	*(82 073)*	*(212 681)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(627 294)	(269 979)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	333	(28 398)
Impairment or reversal of impairment on non-financial assets	(287 159)	(172 708)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	1 470	5 626
Profit or loss before tax from continuing operations	**(1 021 824)**	**(700 461)**
Tax expense or income related to profit or loss from continuing operations	(45 769)	(667 707)
Current tax	*(8 804)*	*(8 790)*
Deferred tax	*(36 965)*	*(658 917)*
Profit or loss after tax from continuing operations	**(1 067 593)**	**(1 368 168)**
Profit or loss from discontinued operations	1 128	(39 819)
Profit or loss for the period	**(1 066 465)**	**(1 407 987)**
Attributable to Shareholders of the parent	**(1 058 812)**	**(1 412 642)**
Attributable to non-controlling interests	(7 653)	4 655
	(1 066 465)	**(1 407 987)**

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019 AND 2018

thousands of Euros

	31.12.2019	31.12.2018
ASSETS		
Cash, cash balances at central banks and other demand deposits	1 854 081	977 672
Financial assets held for trading	748 732	843 783
Financial assets mandatorily at fair value through profit or loss	1 314 742	1 566 225
Financial assets designated at fair value through profit or loss	-	480
Financial assets at fair value through other comprehensive income	8 849 896	7 661 207
Financial assets at amortised cost	27 141 460	26 533 068
Securities	1 622 545	1 389 400
Loans and advances to banks	369 228	423 058
Loans and advances to customers	25 149 687	24 720 610
Derivatives – Hedge accounting	7 452	1 227
Fair value changes of the hedged items in portfolio hedge of interest rate risk	52 540	33 835
Investments in subsidiaries, joint ventures and associates	92 628	118 698
Tangible assets	889 152	1 240 565
Tangible fixed assets	188 408	142 494
Investment properties	700 744	1 098 071
Intangible assets	26 378	5 425
Tax assets	900 095	1 203 214
Current Tax Assets	1 628	6 689
Deferred Tax Assets	898 467	1 196 525
Other assets	3 378 492	3 996 257
Non-current assets and disposal groups classified as held for sale	40 255	4 092 246
TOTAL ASSETS	**45 295 903**	**48 273 902**
LIABILITIES		
Financial liabilities held for trading	544 825	492 953
Financial liabilities designated at fair value through profit or loss	102 012	96 762
Financial liabilities measured at amortised cost	39 673 649	38 336 497
Deposits from central banks and other banks	9 849 623	8 355 560
Due to customers	28 400 127	28 695 268
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 065 211	1 051 843
Other financial liabilities	358 688	233 826
Derivatives – Hedge accounting	58 855	36 150
Provisions	307 817	425 935
Tax liabilities	17 980	18 453
Current Tax liabilities	11 873	12 050
Deferred Tax liabilities	6 107	6 403
Other liabilities	586 066	506 790
Liabilities included in disposal groups classified as held for sale	1 942	4 438 001
TOTAL LIABILITIES	**41 293 146**	**44 351 541**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(702 311)	(790 884)
Retained earnings	(6 115 245)	(4 682 300)
Other reserves	5 942 501	4 872 841
Profit or loss attributable to Shareholders of the parent	(1 058 812)	(1 412 642)
Minority interests (Non-controlling interests)	36 624	35 346
TOTAL EQUITY	**4 002 757**	**3 922 361**
TOTAL LIABILITIES AND EQUITY	**45 295 903**	**48 273 902**

5.2 Separate Financial Statements

NOVO BANCO, S.A.

DEMONSTRAÇÃO DOS RESULTADOS INDIVIDUAIS EM 31 DE DEZEMBRO DE 2019 E 2018

milhares de euros

	31.12.2019	31.12.2018
Receitas de juros	765 259	762 633
Despesas com juros	(219 109)	(316 392)
Margem financeira	**546 150**	**446 241**
Receitas de dividendos	17 313	17 864
Receitas de taxas e comissões	333 362	329 201
Despesas de taxas e comissões	(48 049)	(49 395)
Ganhos ou perdas com o desreconhecimento de ativos e passivos financeiros não mensurados pelo justo valor através dos resultados	59 377	(175 182)
Ganhos ou perdas com ativos e passivos financeiros detidos para negociação	(60 446)	(22 625)
Ganhos ou perdas com ativos financeiros obrigatoriamente contabilizados pelo justo valor através dos resultados	(372 645)	(10 094)
Ganhos ou perdas com ativos e passivos financeiros contabilizados pelo justo valor através dos resultados	(102)	-
Ganhos ou perdas da contabilidade de cobertura	(2 261)	(46 910)
Diferenças cambiais	38 599	42 759
Ganhos ou perdas com o desreconhecimento de ativos não financeiros	7 996	19 943
Outras receitas operacionais	62 522	124 327
Outras despesas operacionais	(112 664)	(164 006)
Receitas operacionais totais	**469 152**	**512 123**
Despesas administrativas	(413 977)	(440 258)
Despesas de pessoal	*(242 098)*	*(244 104)*
Outras despesas administrativas	*(171 879)*	*(196 154)*
Depreciação	(36 681)	(21 314)
Provisões ou reversão de provisões	(101 844)	(239 973)
Compromissos e garantias concedidos	*60 467*	*(26 161)*
Outras provisões	*(162 311)*	*(213 812)*
Imparidades ou reversão de imparidades de ativos financeiros não mensurados pelo justo valor através dos resultados	(631 044)	(298 792)
Imparidades ou reversão de imparidades de investimentos em subsidiárias, empreendimentos conjuntos e associadas	(36 040)	(47 605)
Imparidades ou reversão de imparidades de ativos não financeiros	(298 424)	(236 460)
Lucros ou prejuízos de unidades operacionais em continuação antes de impostos	**(1 048 858)**	**(772 279)**
Despesas ou receitas com impostos relacionadas com os resultados de unidades operacionais em continuação	(38 726)	(660 596)
Impostos correntes	(2 541)	(2 714)
Impostos diferidos	(36 185)	(657 882)
Lucros ou prejuízos de unidades operacionais em continuação após dedução de impostos	**(1 087 584)**	**(1 432 875)**
Lucros ou prejuízos de unidades operacionais descontinuadas	-	-
Lucros ou prejuízos do exercício	**(1 087 584)**	**(1 432 875)**

O Contabilista Certificado

O Conselho de Administração Executivo

NOVO BANCO, S.A.

BALANÇO INDIVIDUAL EM 31 DE DEZEMBRO DE 2019 E 2018

milhares de euros

	31.12.2019	31.12.2018
ATIVO		
Caixa, saldos de caixa em bancos centrais e outros depósitos à ordem	1 674 826	802 330
Ativos financeiros detidos para negociação	748 836	925 544
Ativos financeiros obrigatoriamente contabilizados pelo justo valor através dos resultados	3 044 724	2 949 597
Ativos financeiros pelo justo valor através de outro rendimento integral	8 758 131	7 567 290
Ativos financeiros pelo custo amortizado	26 042 243	25 651 402
Títulos	2 392 843	2 302 765
Aplicações em instituições de crédito	495 252	558 652
Crédito a clientes	23 154 148	22 789 985
Derivados - Contabilidade de cobertura	7 992	1 721
Variação do justo valor dos elementos abrangidos pela cobertura de carteira para o risco de taxa de juro	49 884	31 571
Investimentos em subsidiárias, empreendimentos conjuntos e associadas	231 425	645 871
Ativos tangíveis	194 753	135 731
Ativos fixos tangíveis	194 753	135 731
Ativos intangíveis	26 043	4 781
Ativos por impostos	892 713	1 182 481
Ativos por impostos correntes	680	3 209
Ativos por impostos diferidos	892 033	1 179 272
Outros ativos	3 333 586	3 745 772
Ativos não correntes e grupos para alienação classificados como detidos para venda	21 273	186 508
TOTAL DO ATIVO	**45 026 429**	**43 830 599**
PASSIVO		
Passivos financeiros detidos para negociação	544 400	493 403
Passivos financeiros mensurados pelo custo amortizado	39 924 564	38 925 605
Recursos de Bancos Centrais e de outras instituições de crédito	10 542 549	9 119 139
Recursos de clientes	27 980 577	28 439 075
Responsabilidades representadas por títulos, Passivos Subordinados e Passivos associados a ativos transferidos	1 044 445	1 135 128
Outros passivos financeiros	356 993	232 263
Derivados - Contabilidade de cobertura	58 854	36 150
Provisões	371 744	423 883
Passivos por impostos	9 239	9 112
Passivos por impostos correntes	9 239	9 112
Outros passivos	471 626	343 167
TOTAL DO PASSIVO	**41 380 427**	**40 231 320**
CAPITAL PRÓPRIO		
Capital	5 900 000	5 900 000
Outro rendimento integral acumulado	(632 033)	(751 016)
Resultados retidos	(6 115 245)	(4 682 368)
Outras reservas	5 580 864	4 565 538
Resultados atribuíveis aos acionistas da empresa-mãe	(1 087 584)	(1 432 875)
TOTAL DO CAPITAL PRÓPRIO	**3 646 002**	**3 599 279**
TOTAL DO PASSIVO E CAPITAL PRÓPRIO	**45 026 429**	**43 830 599**

O Contabilista Certificado

O Conselho de Administração Executivo

5.3 Final notes

5.3.1 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 2019 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 2019, 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 25th of March 2020.

5.3.2 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 Commercial 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 2019, in the amount of € 1 087 582 723,94 be allocated to the "Other Reserves and Retained Earnings" caption on the Balance Sheet.

5.3.3 Note of recognition

2019 was a striking year. NOVO BANCO closed the year with a very positive Recurrent result and business growth above 5%, having at the same time reduced by more than 50% its Legacy Balance Sheet. This was also the year in which all the objectives of the commitments assumed with the European Commission when 75% of the share capital of NOVO BANCO was sold to Lone Star, were achieved. 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, 25th of March 2020

Executive Board of Directors

António Manuel Palma Ramalho

Jorge Telmo Maria Freire Cardoso

José Eduardo Fragoso Tavares de Bettencourt

Luís Miguel Alves Ribeiro

Luísa M. S. Soares da Silva Amaro de Matos

Mark George Bourke

Rui Miguel Dias Ribeiro Fontes

Vítor Manuel Lopes Fernandes

6 ANNEX – ALTERNATIVE PERFORMANCE MEASURES

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:

6.1 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:

thousand €

Official Consolidated Income Statement		Management Consolidated Income Statement											
		Net Interest Income	Fees and Commissions	Capital Markets Results	Other Operating Results	Staff Costs	General and Administrative Costs	Depreciation	Provisions for Credit	Provisions for Securities	Provisions for Other Assets and Contingencies	Corporate Income Taxes	Special Tax on Banks
		540 613	**323 460**	**(196 773)**	**(246 984)**	**(265 350)**	**(179 490)**	**(33 664)**	**(627 517)**	**188**	**(308 088)**	**(45 769)**	**(27 091)**
Interest and similar income	753 087	753 087											
Interest expense and similar charges	(212 474)	(212 474)											
Net Interest Income	**540 613**												
Dividend income	9 909			9 909									
Fee and Commission income	367 400		367 400										
Fee and Commission expense	(53 456)		(53 456)										
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	61 554			69 889	(8 335)								
Gains or losses on financial assets and liabilities held for trading	(59 223)			(59 223)									
Net gains / (losses) from assets at fair value through profit or loss mandatory	(253 720)			(253 720)									
Net gains / (losses) from financial assets at fair value through other comprehensive income	4			4									
Hedge accounting gains or losses	(1 740)			(1 740)									
Exchange differences	38 829			38 829									
Net gains/ (losses) from the sale of other assets	3 954				3 954								
Other operating income	139 802		9 516	3 973	126 313								
Other operating expenses	(403 299)			(4 694)	(371 514)								(27 091)
Operating Income	**390 627**												
General and administrative expenses													
Staff costs	*(265 350)*					(265 350)							
Other administrative expenses	*(179 490)*						(179 490)						
Depreciation and amortisation	(33 664)							(33 664)					
Provisions, net of reversals													
Commitments and granted guarantees	60 776										60 776		
Other provisions	(82 073)										(82 073)		
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss	(627 294)								(627 517)	188	35		
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	333										333		
Impairment or reversal of impairment of non-financial assets	(287 159)										(287 159)		
Proportion of profits or losses from investments in subsidiaries, joint ventures and associates accounted for using the equity method	1 470				1 470								
Profit or loss from continuing operations before taxes	**(1 021 824)**												
Tax expenses or income related to the results of continuing operations													
Current taxes	*(8 804)*											(8 804)	
Deferred taxes	*(36 965)*											(36 965)	
Profits or losses from continuing operations after tax deduction	**(1 067 593)**												
Profits or losses from discontinued operations	1 128				1 128								
Profits or losses for the exercise	**(1 066 465)**												
Attributable to shareholders of the Bank	**(1 058 812)**												
Attributable to Non-controlling interests	(7 653)												
	(1 066 465)												

6.2 Alternative performance measures

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

ALTERNATIVE PERFORMANCE INDICATORS

(DR): Income Statement Item (BAL): Balance Sheet Item

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	Difference between [(Net assets - volatile liabilities)]	
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	Indicator of the relationship 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

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 PROFITABILITY RATIO

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 Instrução nº16/2004 do 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

PART II . NOTES TO THE FINANCIAL STATEMENTS

7.1 Consolidated Financial Statements and Notes to the Consolidated Financial Statements

NOVO BANCO GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
Interest Income	5	753 087	758 691
Interest Expenses	5	(212 474)	(304 349)
Net Interest Income		**540 613**	**454 342**
Dividend income	6	9 909	8 974
Fee and comission income	7	367 400	366 068
Fee and comission expenses	7	(53 456)	(59 734)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	8	61 554	(173 860)
Gains or losses on financial assets and liabilities held for trading	9	(59 223)	(20 405)
Gains or losses on financial assets mandatorily at fair value through profit or loss	10	(253 720)	(32 877)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	10	4	(1 123)
Gains or losses from hedge accounting	11	(1 740)	(47 147)
Exchange differences	12	38 829	42 503
Gains or losses on derecognition of non-financial assets	13	3 954	32 270
Other operating income	14	139 862	177 776
Other operating expenses	14	(403 299)	(255 643)
Operating Income		**390 687**	**491 144**
Administrative expenses		(444 840)	(465 127)
Staff expenses	15	*(265 350)*	*(266 138)*
Other administrative expenses	17	*(179 490)*	*(198 989)*
Depreciation	24, 26	(33 664)	(22 149)
Provisions or reversal of provisions	31	(21 297)	(238 870)
Commitments and guarantees given		*60 776*	*(26 189)*
Other provisions		*(82 073)*	*(212 681)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	21	(627 294)	(269 979)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	23	333	(28 398)
Impairment or reversal of impairment on non-financial assets	26, 28 and 29	(287 159)	(172 708)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	23	1 470	5 626
Profit or loss before tax from continuing operations		**(1 021 764)**	**(700 461)**
Tax expense or income related to profit or loss from continuing operations		(45 769)	(667 707)
Current tax		*(8 804)*	*(8 790)*
Deferred tax		*(36 965)*	*(658 917)*
Profit or loss after tax from continuing operations		**(1 067 533)**	**(1 368 168)**
Profit or loss before tax from discontinued operations	29	1 068	(39 819)
Profit or loss for the period		**(1 066 465)**	**(1 407 987)**
Attributable to Shareholders of the parent		**(1 058 812)**	**(1 412 642)**
Attributable to non-controlling interests	34	**(7 653)**	**4 655**
		(1 066 465)	**(1 407 987)**
Basic earnings per share (in Euros)	18	(0.11)	(0.14)
Diluted earnings per share (in Euros)	18	(0.11)	(0.14)
Basic earnings per share of continuing activities (in Euros)	18	(0.11)	(0.14)
Diluted earnings per share of continuing activities (in Euros)	18	(0.11)	(0.14)

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
Net profit / (loss) for the period		(1 066 465)	(1 407 987)
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***(107 623)***	***(71 535)***
Actuarial gains / (losses) on defined benefit plans	a)	(107 341)	(70 805)
Other comprehensive income from associates accounted for using the equity method	a)	897	779
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	1 692	(2 711)
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	(2 871)	1 202
Items that may be reclassified to results		***209 412***	***(76 222)***
Foreign exchange differences	a)	31	(8 665)
Financial assets at fair value through other comprehensive income	a)	209 381	(67 557)
Total other comprehensive income/(loss) for the period		**(964 676)**	**(1 555 744)**
Attributable to non-controlling interest		**(7 653)**	**4 655**
Attributable to Shareholders of the Bank		**(957 023)**	**(1 560 399)**

a) See Statement of Changes in the Consolidated Equity

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
ASSETS			
Cash, cash balances at central banks and other demand deposits	19	1 854 081	977 672
Financial assets held for trading	20	748 732	843 783
Financial assets mandatorily at fair value through profit or loss	21	1 314 742	1 566 225
Financial assets designated at fair value through profit or loss	21	-	480
Financial assets at fair value through other comprehensive income	21	8 849 896	7 661 207
Financial assets at amortised cost	21	27 141 460	26 533 068
Securities		1 622 545	1 389 400
Loans and advances to banks		369 228	423 058
(of which, Reverse Repurchase Agreement)		-	*9 774*
Loans and advances to customers		25 149 687	24 720 610
Derivatives – Hedge accounting	22	7 452	1 227
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	52 540	33 835
Investments in subsidiaries, joint ventures and associates	23	92 628	118 698
Tangible assets		889 152	1 240 565
Tangible fixed assets	24	188 408	142 494
Investment properties	25	700 744	1 098 071
Intangible assets	26	26 378	5 425
Tax assets	27	900 095	1 203 214
Current Tax Assets		1 628	6 689
Deferred Tax Assets		898 467	1 196 525
Other assets	28	3 378 492	3 996 257
Non-current assets and disposal groups classified as held for sale	29	40 255	4 092 246
TOTAL ASSETS		**45 295 903**	**48 273 902**
LIABILITIES			
Financial liabilities held for trading	20	544 825	492 953
Financial liabilities designated at fair value through profit or loss	30	102 012	96 762
Financial liabilities measured at amortised cost	30	39 673 649	38 336 497
Deposits from banks		9 849 623	8 355 560
(of which, Repurchase Agreement)		*2 168 488*	*237 178*
Due to customers		28 400 127	28 695 268
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 065 211	1 051 843
Other financial liabilities		358 688	233 826
Derivatives – Hedge accounting	22	58 855	36 150
Provisions	31	307 817	425 935
Tax liabilities	27	17 980	18 453
Current Tax liabilities		11 873	12 050
Deferred Tax Liabilities		6 107	6 403
Other liabilities	32	586 066	506 790
Liabilities included in disposal groups classified as held for sale	29	1 942	4 438 001
TOTAL LIABILITIES		**41 293 146**	**44 351 541**
EQUITY			
Capital	33	5 900 000	5 900 000
Accumulated other comprehensive income	34	(702 311)	(790 884)
Retained earnings	34	(6 115 245)	(4 682 300)
Other reserves	34	5 942 501	4 872 841
Profit or loss attributable to Shareholders of the parent		(1 058 812)	(1 412 642)
Minority interests (Non-controlling interests)	34	36 624	35 346
TOTAL EQUITY		**4 002 757**	**3 922 361**
TOTAL LIABILITIES AND EQUITY		**45 295 903**	**48 273 902**

The accompanying explanatory notes are an integral part of these consolidated financial statements

GRUPO NOVO BANCO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(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: Other Comprehensive Income	Non-controlling interests: Other	Total
Balance as at 31 December 2017 *		**5 900 000**	**(175 862)**	**(2 415 578)**	**3 631 545**	**(2 298 049)**	**(29 913)**	**109 125**	**4 721 268**
Impact of transition to IFRS 9		-	(490 374)	41 379	90 175	-	-	(1 086)	(359 906)
Balance as at 1 January 2018		**5 900 000**	**(666 236)**	**(2 374 199)**	**3 721 720**	**(2 298 049)**	**(29 913)**	**108 039**	**4 361 362**
Corrections to the impact of transition to IFRS 9		-	14 635	(1 854)	-	-	-	(15)	12 766
Changes in perimeter		-	-	-	-	-	-	(13 886)	(13 886)
Other Increase / (Decrease) in Equity		**-**	**8 474**	**(2 306 247)**	**1 151 121**	**2 298 049**	**-**	**(33 534)**	**1 117 863**
*Appropriation to retained earnings of net profit / (loss) of the previous period **		-	-	*(2 298 049)*	-	*2 298 049*	-	-	-
Reserve of Contingent Capital Agreement		-	-	-	*1 149 295*	-	-	-	*1 149 295*
Transactions with non-controlling interests		-	-	-	-	-	-	*(28 882)*	*(28 882)*
Other movements		-	*8 474*	*(8 198)*	*1 826*	-	-	-	*2 102*
Other changes in non-controlling Interests		-	-	-	-	-	-	*(4 652)*	*(4 652)*
Total comprehensive income for the period		**-**	**(147 757)**	**-**	**-**	**(1 412 642)**	**4 655**	**-**	**(1 555 744)**
Changes in fair value, net of tax		-	*(67 557)*	-	-	-	-	-	*(67 557)*
Foreign exchange differences, net of tax		-	*(8 665)*	-	-	-	-	-	*(8 665)*
Remeasurement of defined benefit plans, net of tax		-	*(70 805)*	-	-	-	-	-	*(70 805)*
Other comprehensive income appropriated from associated companies		-	*779*	-	-	-	-	-	*779*
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	*1 202*	-	-	-	-	-	*1 202*
Reserves of impairment of securities at fair value through OCI		-	*604*	-	-	-	-	-	*604*
Reserves of sales of securities at fair value through OCI		-	*(3 315)*	-	-	-	-	-	*(3 315)*
Net profit / (loss) for the period		-	-	-	-	*(1 412 642)*	*4 655*	-	*(1 407 987)*
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	34	-	-	-	*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	34	-	*211 207*	-	-	-	-	-	*211 207*
Foreign exchange differences, net of tax		-	*31*	-	-	-	-	-	*31*
Remeasurement of defined benefit plans, net of tax	16	-	*(107 341)*	-	-	-	-	-	*(107 341)*
Other comprehensive income appropriated from affiliates		-	*897*	-	-	-	-	-	*897*
Credit risk changes of financial liabilites at fair value, net of tax	34	-	*(2 871)*	-	-	-	-	-	*(2 871)*
Reserves of impairment of securities at fair value through OCI	34	-	*4 336*	-	-	-	-	-	*4 336*
Reserves of sales of securities at fair value through OCI	34	-	*(4 470)*	-	-	-	-	-	*(4 470)*
Net income of 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**

* - restated by the amount of the activation of the Contingent Capital Agreement recognized in Other reserves

The accompanying explanatory notes are an integral part of these consolidated financial statements

NOVO BANCO GROUP

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Interest received		723 210	795 484
Interest paid		(217 305)	(327 982)
Fees and commissions received		367 940	366 634
Fees and commissions paid		(53 456)	(61 180)
Recoveries on loans previously written off		31 372	42 424
Contributions to the pension fund		(1 535)	(93 686)
Cash payments to employees and suppliers		(449 187)	(406 041)
		401 039	**315 653**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(297 651)	4 742
Financial assets mandatorily at fair value through profit or loss		(248 408)	129 779
Financial assets designated at fair value through profit or loss		85 964	(331 573)
Financial assets at fair value through other comprehensive income		(869 032)	(2 045 648)
Financial assets at amortised cost		(1 194 539)	594 650
Debt securities		*(185 695)*	*(103 213)*
Loans and advances to banks		*54 090*	*162 485*
Loans and advances to customers		*(1 062 934)*	*535 378*
Financial liabilities at amortised cost		1 491 918	(1 676 569)
Deposits from banks		*1 781 604*	*(69 995)*
Due to customers		*(289 686)*	*(1 606 574)*
Derivatives - Hedge accounting		(2 225)	103 973
Other operating assets and liabilities		88 249	(833 679)
Net cash from operating activities before corporate income tax		**(544 685)**	**(3 738 672)**
Corporate income taxes paid		(34 868)	(32 965)
Net cash from operating activities		**(579 553)**	**(3 771 637)**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies		(36 700)	(1 003)
Sale of investments in subsidiaries and associated companies		163 828	1 025
Dividends received		9 909	8 974
Acquisition of investment properties		-	(13 720)
Sale of investment properties		197 058	69 703
Acquisition of tangible fixed assets		(19 959)	(16 276)
Sale of tangible fixed assets		16 477	332
Acquisition of intangible assets		(26 439)	(5 252)
Sale of intangible assets		-	3
Net cash from investing activities		**304 174**	**43 786**
Cash flows from financing activities			
Contingent Capital Agreement		1 149 295	791 695
Issue of bonds and other debt securities		1 300 000	-
Reimbursement of bonds and other debt securities		(1 307 855)	(391 596)
Issue of subordinated liabilities		-	141 200
Net cash from financing activities		**1 141 440**	**541 299**
Net changes in cash and cash equivalents		**866 061**	**(3 186 552)**
Cash and cash equivalents at the beginning of the period		**719 541**	**3 906 093**
Net changes in cash and cash equivalents		866 061	(3 186 552)
Cash and cash equivalents at the end of the period		**1 585 602**	**719 541**
Cash and cash equivalents include:			
Cash	19	179 220	155 860
Deposits with Central Banks	19	1 408 908	546 023
(of which, Restricted balances)		(268 479)	(258 131)
Deposits with banks	19	265 953	275 789
Total		**1 585 602**	**719 541**

The accompanying explanatory notes are an integral part of these consolidated financial statements

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 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)) , 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 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 by 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 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 Capitalization 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 Group are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, No. 46, 4A, Lisbon. LSF Nani Investments S.a.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 2019, NOVO BANCO Group (hereinafter also designated as Group or NB Group) has a retail network comprising 387 branches in Portugal and abroad (31 December 2018: 402 branches), including branches in Spain and Luxembourg, and 4 representative offices in Switzerland (31 December 2018: 5 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.

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 Servicios Corporativos, SL	1996	1997	Spain	Insurance distrib. & real estate management	100.00%	Full consolidation
Novo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	Full consolidation
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	Electronic banking	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	Services provider	86.86%	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 fund management	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	95.28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	100.00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	85.76%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	55.73%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	95.24%	Full consolidation
Fundo de Investimento Imobiliário Fechado Solid	2004	2015	Portugal	Real estate fund management	100.00%	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Novimove - Fundo de Investimento Imobiliario Fechado	2004	2019	Portugal	Real estate fund management	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	95.28%	Full consolidation
Portucale - Sociedade De Desenvolvimento Agro - Turistico, SA	1990	2012	Portugal	Agricultural holdings	94.80%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100.00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate development	99.875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho Resort, SA	2007	2017	Portugal	Real estate development	100.00%	Full consolidation
Herdade do Pinheirinho II - Investimento Imobiliário, SA	2008	2017	Portugal	Real estate development	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real estate fund management	100.00%	Full consolidation
R Invest - Fundo Especial de Investimento Imobiliário Fechado	2009	2017	Portugal	Real estate fund management	100.00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real estate fund management	100.00%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	50.00%	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non banking financing	17.50% a)	Equity method
Ijar Leasing Algérie	2011	2011	Algeria	Leasing	35.00%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50.00% b)	Equity method
PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E.	2018	2018	Portugal	Services provider	33.33%	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**	**Holding**	**100.00%**	**Full consolidation**
GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Investment fund management	100.00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50.00% b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
Fundo 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	Holding	100.00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate management	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate management	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56.78%**	**Full consolidation**
Enkrott SA	2006	2006	Portugal	Water treatment and management	16.07% a)	Equity method
Logic C - Logística Integrada, SA	2005	2016	Portugal	Logistics	20.74%	Equity method
Epedal - Indústria de Componentes Metálicos, S.A.	1981	2015	Portugal	Holding	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 manufacturing	8.77% a)	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engeneering	8.11% a)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2010	2010	Portugal	Holding	40.00%	Equity method
Portucale - Sociedade De Desenvolvimento Agro - Turístico, SA	**1990**	**2012**	**Portugal**	**Agricultural holdings**	**94.80%**	**Full consolidation**
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	94.80%	Full consolidation

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
Lusitano SME No. 3 (*)	2016	2016	Portugal	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 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 the financial year of 2018, the main changes in NOVO BANCO Group's structure were as follows:

- Subsidiaries and branches

- In January 2018, ESTV acquired Opway 1.032% of the share capital of GNB Concessões for 1 euro;
- In March 2018, Palexpo Imobiliária. S.A., was liquidated;
- In May 2018, Fundo Solid increased its share capital by Euro 250 thousand; this capital increase was fully subscribed and paid by NOVO BANCO;
- In June 2018, the companies Quinta dos Cónegos – Sociedade Imobiliária, S.A. and GNB SI ACE were liquidated;
- In June 2018, NOVO BANCO acquired participation units of Fundo Invesfundo VII for Euro 1 003 thousand, representing 4.14% of its share capital, and now owns 100% of the capital of the Fund;
- In June 2018, Promofundo fund became part of the consolidation perimeter of NOVO BANCO Group as a result of a process of transfer in lieu of payment of the participation units representing the entire share capital of this fund;
- In August 2018, Promofundo fund increased its share capital by Euro 22 850 thousand;
- In October 2018, Sociedade da Vargem Fresca III – Comércio e Serviços, S.A., owned by Portucale, was liquidated;
- In October 2018, the securitization operation Lusitano Finance N. º 3 was liquidated;
- In October 2018, NOVO BANCO received as a payment in kind 260 000 shares from GNB Concessões equity capital, making NB Group the owner of 100% of the entity;
- In November 2018, Madeira's branch was terminated;
- In December 2018, the companies Herdade da Vargem Fresca V e Herdade da Vargem Fresca VII, owned by Portucale, were liquidated.

- Associated companies

- In February 2018, NOVO BANCO and GNB Concessões sold their stake in Ascendi Pinhal Interior, recording a consolidated capital gain of Euro 1 026 thousand;
- In April 2018, the FCR SME NB fund sold the 33.33% stake held in Attentionfocus, Lda for Euro 1, generating no impact on results. Simultaneously, the accessory capital and shareholder loans granted to this Company were fully reimbursed;
- In October 2018, FCR PME NB Fund started to consolidate the entities Ach Brito & Ca, S.A. and M. N. Ramos Ferreira, Engenharia, S.A. using the equity method.

During 2019 and 2018, the movements relating to acquisitions, disposals and other investments and reimbursements in subsidiaries and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2019						
	Acquisitions			Disposals			
	Acquision cost	Other investments (a)	Total	Disposal amount	Other reimbursements (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
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) Share capital increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies

(in thousands of Euros)

	31.12.2018						
	Acquisitions			Disposals			
	Acquision cost	Other investments (a)	Total	Disposal amount	Other reimbursements (a)	Total	Profit / (loss) on disposals / liquidations
Subsidiaries							
Solid	-	250	250	-	-	-	-
Invesfundo VII	1 003	-	1 003	-	-	-	-
Promofundo	-	22 850	22 850	-	-	-	-
	1 003	23 100	24 103	-	-	-	-
Associated companies							
			-			-	
Ascendi Pinhal Interior	-	-	-	10	-	10	1 026
	-	-	-	10	-	10	1 026
	1 003	**23 100**	**24 103**	**10**	**-**	**10**	**1 026**

(a) Share capital increases / decreases, supplementary capital contributions, shareholder loans, financial instrument exchange operations and incorporation of companies

In addition, in February 2018 the sale of assets and liabilities of the NOVO BANCO Branch in Venezuela to BANCAMIGA, Banco Universal, C.A., from Venezuela, was completed for the value of 11 707 500 thousand Venezuelan bolivars (approximately Euro 272 thousand at DICOM-BCV exchange rate of February 28, 2018). The sale had no impact on results in that period because the operation in Venezuela was fully impaired in 2017. Upon completion of the transaction and cancellation of the bank license, NOVO BANCO no longer has any banking activity in Venezuela.

The subsidiaries classified under IFRS 5 as non-current assets held for sale and discontinued operations, are detailed in Note 29.

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 Bank of Portugal, the consolidated financial statements from NOVO BANCO, S.A. were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2019.

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 2019. 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 2018, except in what concerns with the new standards issued. These changes are presented below.

Accounting Policies, Changes in Accounting Estimates and Errors

Changes in accounting policies

New and amended standards

As described in Note 45, in the preparation of its consolidated financial statements as at 31 December 2019 the Group adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory effect as from 1 January 2019. The accounting policies used by the Group in preparing the consolidated financial statements, described in this note, were adopted accordingly.

In these financial statements, the Group first applied IFRS 16, which is mandatory for periods beginning on or after 1 January 2019. The Group did not early adopt any other regulation or interpretation.

IFRS 16 Leases

The Group first adopted IFRS 16 Leases as at 1 January 2019, and the comparative information presented for 2018 has not been restated, so it is presented, as previous reported, in accordance with IAS 17 and related interpretations.

According to IFRS 16:

- as a lessee, the standard introduces a single accounting model with the recognition of rights-of-use assets representative of their rights of use of the underlying assets and lease liabilities representative of their obligations to make lease payments;
- as a lessor, accounting remains the same as existing accounting policies and leases may be classified as financial or operating.

In the transition to IFRS 16, the Group recognized assets under right of use and lease liabilities, with the following impact in the consolidated financial statements:

	(in thousands of Euros)
Assets under right-of-use presented in Other tangible assets	71 105
Lease liabilities	71 105

A. Lease Definition

The Group first adopted IFRS 16 through the modified retrospective approach, so no impact was recognized in equity, since there were no differences between the right-of-use asset and the lease liability in the initial recognition on 1 January 2019.

In the transition to IFRS 16, the Group opted to apply the “practical expedient” allowed by the standard to support the assessment of which transactions are leases. The Group has only applied IFRS 16 in contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not revalued to determine whether they were leases. Therefore, the definition of lease in accordance with IFRS 16 has been applied only to contracts that entered into force or have changed as of or after 1 January 2019 (including).

Previously, the Group classified real estate leases as operational leases in accordance with IAS 17. Leases typically take place over periods of up to 5 years. Some of them include an option to renew the lease for additional periods that vary between 1 month and 20 years after the end of the non-cancellable period. Some leases also provide for additional rent payments due to changes in local index prices.

In the transition, for leases classified as operating leases in accordance with IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental financing rate on 1 January 2019. The right-of-use assets are measured at the amount equivalent to the lease liability, adjusted by the amount of any advance or accumulated lease payments.

Practical expedients

The Group has adopted some practical expedients provided for in the standard in applying IFRS 16 to leases previously classified as operating leases in accordance with IAS 17.

- Apply the exception 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 of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- Do not separate lease components from non-lease components.

For leases that were classified as finance leases in accordance with IAS 17, the accounting amount of assets under lease use and the liability of the lease as at 1 January 2019 was determined at the accounting amount of the lease asset and the lease liability, according to IAS 17 immediately prior to that date.

The accounting standards and interpretations recently issued, but not yet effective and which the Group has not yet applied in the preparation of its financial statements, can be analysed in Note 45.

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

The consolidated financial statements and the Management Report of 31 December 2019 were approved at the Executive Board of Directors' meeting held on 25 March 2020 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 subsidiaries and associated companies during the financial years covered by these consolidated financial statements, with the exception of GNB – Companhia de Seguros 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, as at 31 December 2018, its assets and liabilities recognized in discontinued operations still follow the valuation recommended in IAS 39 - Financial Instruments.

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 recognised 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 recognised 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. NOVO BANCO carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognised in prior years may be reversed, up to the limit of the accumulated losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is 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 recognised 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 recognised 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 recognised in these consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, positive goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the carrying book value of the investments in those associated companies, determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs. Impairment losses of goodwill may not be reversed in the future.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is, or not, any indication of impairment. Impairment losses are 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 recognised as a result of such transactions. Any difference between the acquisition cost and the carrying book value of the non-controlling interest acquired is recognised directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over a subsidiary, are always recorded against reserves.

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

Non-controlling interests in Open Real Estate Funds are recorded under Other Liabilities.

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 recognised 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 recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the 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 recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into 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 recognised 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 recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

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 28 and 32) 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.

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 recognised 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 recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

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

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 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 recognised 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 recognised in the income statement.

2.5. Other financial assets: placements with credit institutions, customer loans and securities

From 1 January 2018, 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 recognised 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.

In accordance with its documented strategy for risk management, the Group contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without, however, resorting to hedge accounting as described in Note 2.4. In these situations, the initial recognition of the loan is made measurement fair value through profit or loss. In this manner, measurement consistency is achieved between the loans and the derivatives for risk management purposes (accounting mismatch).

Initial recognition and measurement and derecognition

These financial assets are initially recognised at fair value plus transaction costs, except for financial assets at fair value through profit or loss, where transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the Group's contractual rights to its cash flows have expired, (ii) the Group has transferred substantially all the risks and rewards associated with its holding, or (iii) retained part, but not substantially all the risks and rewards associated with their detention, control over the assets has been transferred. When a financial asset measured at fair value through OCI is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. In the specific case of equity instruments, the cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss and is transferred between equity captions.

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 recognised 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 recognised in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognised 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 recognised in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognised 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, and dividends are recognised 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 recognised in the income statement.

The fair value of listed financial assets is based on bid-prices, the bid price of the last transaction or on the bid known. In the absence of a price an active market, the Group estimates fair value using (i) valuation techniques, including the use of recent similar arm's length transactions, discounted cash flow techniques and option pricing models customized to reflect the specificities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third party using parameters that are not observable in the market, the Group carries out, when applicable, a detailed analysis of the historical and liquidity performance of these assets, which may imply a additional adjustment to its fair value.

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.

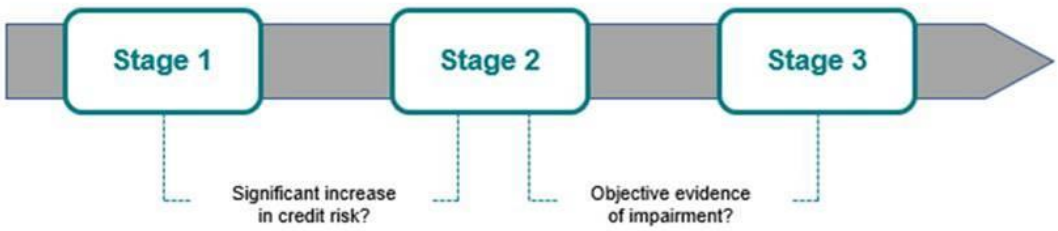
Debt instruments at amortised cost or at fair value through other comprehensive income are in the scope of the impairment calculation.

Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

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[7] (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 definition[8] - 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.

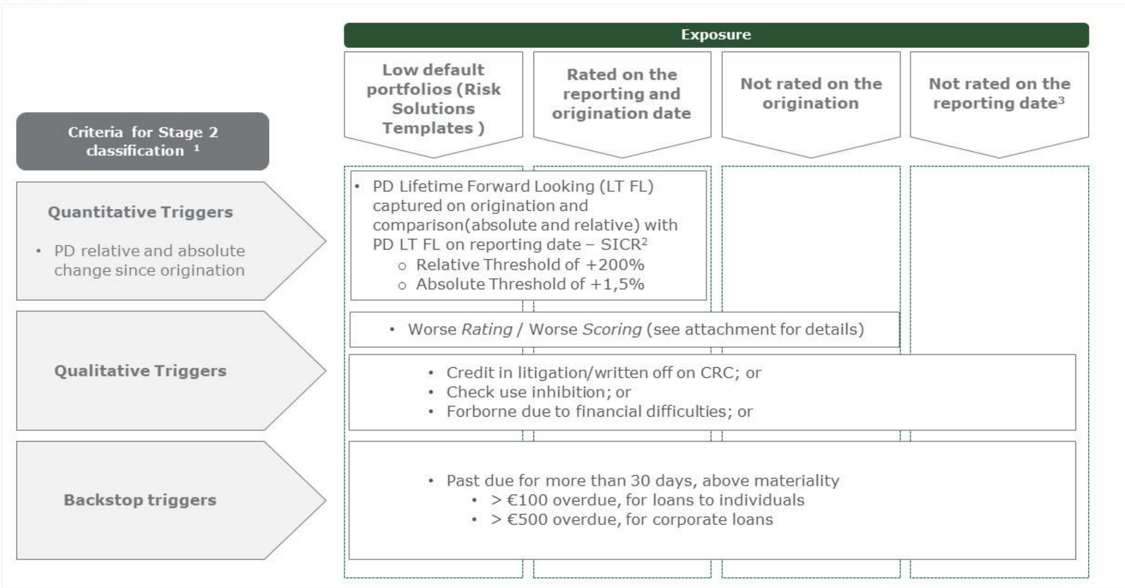
[7] Parameters used to determine recoveries vary, mainly depending on the risk profile / nature of the exposure.
[8] The internal definition of Default is aligned with article 178 of CRD IV, providing criteria of material past due for more than 90 days and for unlikely to pay.

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 analysed 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:

Stage 2



[1] – To some of the criteria presented, there are applicable concepts 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 in Stage 1 depends on:

- absence of active events that qualify for Stage 3 and Stage 2, which were mentioned and described above; or
- 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 Group assesses collective and individual impairment. In the collective assessment model, the impairment calculation is based on an initial classification of the credit risk level – Stage 1, 2 or 3; in the individual analysis the calculation is based on a going concern or gone concern approach.

If for a particular loan there is no objective evidence of impairment in an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio) and assessed collectively through the application of estimated risk factors for exposure segment - collective assessment of impairment. If an impairment loss is identified on an individual basis, the amount of the impairment loss determined prevails over the collective impairment.

Individual assessment is carried out for the following exposures:

- All borrowers classified as defaulted (stage 3), or classified in stage 2 and with no internal grade assigned, with exposure above Euro 1 million;
- All borrowers classified in stage 2, with exposure above Euro 5 million;
- All borrowers classified in stage 1 and with no internal grade assigned, with credit exposure above Euro 5 million;
- All real estate entities and financial holdings with credit exposure above Euro 5 million;
- All other low-risk borrowers (stage 1) with exposure above Euro 25 million; and
- Additionally, the following borrowers are selected for individual analysis:

    - identified by the Committee based on other justified criteria (e.g.: sector of activity);
    - exposures that in the past were subject to an individual impairment recognition;
    - exposures that based on new events which may impact the impairment calculation, might be elected for analysis by one of the Impairment Committee members or by another body/committee.

For purposes of the collective assessment of impairment, loans are grouped on a 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 purposes of the collective assessment of impairment, loans are allocated to risk sub-segments in accordance with the following definitions in the table bellow:

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 should reflect different expectations of macroeconomic developments, i.e., it should incorporate 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 must 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 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).

The macroeconomic scenarios and projections available also have a probability of occurrence. In the case of the base scenario, since it is the most representative, it has a 60% probability of occurrence. The other two alternative scenarios, considered to be variations of the central scenario, have probabilities of occurrence of 25% for the less favorable alternative scenario compared to the base scenario and 15% for the more favorable alternative scenario compared to the base scenario.

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.

So when reviewing / updating the scenarios – at least once a year – the respective probabilities of execution are also reviewed. Once updated the scenarios, the values of the risk parameters are also updated for subsequent consideration on impairment calculation. The final impairment assessment will result from the addition of the impairment in each scenario weighted by the respective probability of execution.

It is still relevant to mention the existence of specific portfolios where the internal credit risk grades incorporate, by its attribution process, forward-looking information. We refer to the commonly referred known Low Default Portfolios for which the attribution of an internal credit risk grade is based on a medium and long-term perspective and incorporating all the forward-looking information available.

Therefore, for this universe of portfolios the incorporation of the forward-looking information is guaranteed.

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.

Or additionally, if it is considered more beneficial to sell the credit to a third party. At the time of sale, the difference between the sale amount and the balance sheet amount must be fully impaired, and at the time of sale the credit will be derecognized in exchange of the funds/assets received.

Subsequent payments received after the write-off must be recognized in the income statement as subsequent write-off recoveries.

2.6. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, 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 derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the 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 recognised directly in the income statement.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognised when the underlying obligation 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 recognised (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities at fair value through profit or loss when:

- 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 recognised 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 recognised in the income statement.

If the Group repurchases debt securities issued, these are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement.

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 recognised in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognised on initial recognition and (ii) the amount of any financial obligation arising as 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 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 recognised at the contract date is equal to the amount of the commission initially received, which is recognised in the income statement over the period to which it relates. Subsequent periodic fees are recognised in the income statement in the period to which they relate.

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 recognised 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 recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly from equity as dividends, when declared.

Preference shares issued are considered equity instruments if the Group has no contractual obligation to redeem these and if dividends, non-cumulative, are paid only if, and when, declared by the Group.

2.10. 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 recognised 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 counterpart.

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 it is expectable that 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. When the carrying book value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to level 3.

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. For mortgage loans, the Group executes the collateral and receives the real estate properties. The Group also receives real estate properties through foreclosing. 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 or through collaterals execution, 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 recognised 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.

(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. The valuation reports are analysed internally to assess the adequacy of the assumptions, comparing the historical sale 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 Group proceeds to analyzes on the assumptions used, which may imply additional adjustments to their fair value.

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 recognised at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognised 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 recognised 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 recognised when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the 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
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	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 recognised when the book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset, but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the 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 recognised under the caption Other operating income and 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 recognised and recorded as intangible assets.

All remaining costs associated with information technology services are recognised as an expense as incurred.

2.14. Leases

IFRS 16 – Leases

According to IFRS 16:

- as a lessee, the standard defines a single accounting model with the recognition of rights-of-use assets representative of their rights of use of the underlying assets and lease liabilities representative of their obligations to make lease payments;
- as a lessor, accounting depends on the classification as financial or operating.

The Group adopted IFRS 16 using the Modified Retrospective approach, so there was no impact on its net worth as there are no differences between the right to use the asset and the lease liability at the time of initial recognition on 1 January 2019.

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. 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.

For leases in which the Bank is a lessee, it was decided not to separate the non-lease components and to account the lease and non-lease components as a single lease component.

B. As lessee

Finance 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 recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group leases various assets, including real estate, vehicles and IT equipment.

As lessee, the Group initially classified leases as operating leases or finance leases based on the overall assessment of whether the lease substantially transfers all risks and rewards associated with ownership of the underlying assets. 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.

However, 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). The Group recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

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.

<u>Significant judgment in determining contract lease term</u>

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.

For leases that were classified as finance leases in accordance with IAS 17, the accounting amount of assets under lease use and the liability of the lease as at 1 January 2019 was determined at the accounting amount of the lease asset and the lease liability, according to IAS 17 immediately prior to that date.

Practical expedients

The Group has adopted some practical expedients provided for in the standard in applying IFRS 16 to leases previously classified as operating leases in accordance with IAS 17.

- Apply the exception 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 of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- Do not separate lease components from non-lease components.

C. As lessor

Financial leases

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value. Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

Operating leases

Payments made by the Group under operating leases are charged to the income statement in the period to which they relate.

Until 31 December 2018, the Group classified leasing operations as finance leases or operating leases, according to their substance and not their legal form, meeting the criteria set out in IAS 17 - Leases. Transactions in which the risks and rewards incidental to ownership of an asset are substantially transferred to the lessee are classified as finance leases. All other lease transactions are classified as operating leases. The accounting policies applicable to the Group as lessor in the comparative period are not different from those policies applicable under IAS 17.

2.15. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Colectivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 16, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, 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 recognised 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 recognised 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 fund to assure its 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.

Until 1 February 2017, the Group's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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 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.

The calculation and recognition of the Group's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonus and Career bonus

In accordance with the previous Collective Labour Agreement (ACT) for the Banking Sector, in force until July 2016, the Group had the commitment to pay active employees who completed 15, 25 and 30 years of service in the Group, long-term service bonuses corresponding to one, two and three times, respectively, their monthly salary paid at the date the bonuses were paid.

At the date of early retirement due to disability or presumed disability, employees had the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

These long-term service bonuses 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.

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Group paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

Under the new ACT, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Group in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

The amount of the Group'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.

Employees’ variable remuneration

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 contractual, 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 recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised under deferred tax reserves (other comprehensive income). Corporate income tax recognised directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognised in the income statement when the gains or losses giving rise to said income tax are also recognised 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 recognised 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 recognised 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 recognised 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 NOVO BANCO and its subsidiaries.

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.

2.17. Provisions and Contingent liabilities

Provisions are recognised when: (i) the Group has a current legal or contractual 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 internal and external 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 recognised in financial expenses.

Restructuring provisions are recognised 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 recognised when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of cease the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

2.18. Recognition of interest income and expense

Interest income and expense is recognised in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all 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 recognised 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 recognised 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 recognised as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial 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 recognised as income using the effective interest rate method.

2.20. Recognition of dividend income

Dividend income is recognised when the right to receive the dividend payment is established.

2.21. 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 recognised at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognised in the income statement, 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.

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 Group proceeds to analyzes on the assumptions used, which may imply additional adjustments to their fair value.

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 recognised 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 recognised 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 recognised 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 recognised in the income statement for the year under the caption Other operating income and 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 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, except for the new judgments related to accounting as lessee of leases under IFRS. 16, which are described in Note 2.1.

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 recognised 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 annually 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, 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 significant increase of its credit risk, though IFRS 9 does not objectively define what constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default in place within NOVO BANCO Group 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;
- 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, 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 39.

3.3. Impairment of Goodwill

The recoverable amount of the goodwill recognised as an asset of the Group is revised periodically regardless of the existence, or not, of impairment triggers.

For this purpose, the book value of the cash generating units of the Group in respect of which goodwill has been recognised is compared with their respective recoverable amount. A goodwill impairment loss is recognised when the book value of a cash generating unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows techniques and applying a discount rate that includes a risk premium that is appropriate to the business unit being tested. The determination of the future cash flows to be discounted and the discount rate involve judgement.

Changes in the expected cash flows and in the discount rate may lead to conclusions that differ from those used in the preparation of these financial statements and are evidenced in the amount of goodwill indicated in Note 26.

3.4. 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 recognised in the period and evidenced in Note 27.

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 and of its subsidiaries located in Portugal during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank and of its subsidiaries, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

3.5. Pensions and other employee benefits

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.

3.6. Provisions

The Group recognises provisions intended to cover costs arising from the implementation of offers, which by commercial reasons were presented and accepted by customer groups. 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 qualify as contingent liabilities only. The provisions are detailed in Note 31.

3.7. Investment properties, Assets received from credit recovery and Non-current assets held for sale

Investment properties are initially recognised 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, using the market, income or cost methods, as defined in Notes 2.11 and 2.23. The valuation reports are analysed 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 recognised balance sheet value.

3.8. 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.

NOTE 4 – SEGMENT REPORTING

NOVO BANCO Group activities are centred on the financial sector targeting corporate, institutional and private individual customers. Its decision centre is in Portugal, making the domestic territory its privileged 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 2019, the Group has NOVO BANCO as its main operating unit - with 356 branches in Portugal (31 December 2018: 362 branches) and branches in Spain (11 branches), Luxembourg and 4 representation offices – with NBA Açores (13 branches), Banco BEST (6 branches), GNB GA, 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 (only for 31 December 2018); (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 GNB Vida, after obtaining the necessary regulatory authorizations, discontinuing the information reported in the Life Insurance Activity segment.

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:** in accordance with the DGComp commitments, the Bank has discontinued the Private Banking services, so this segment is no longer reportable.

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 GNB Vida that sells traditional and investment insurance contracts and retirement plans. As mentioned in Note 42, NOVO BANCO derecognised 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 operating segment in its true sense, but rather to an aggregation of transversal corporate structures acting throughout the entire Group, executing its overall basic management functions, such as the areas relating to the Management and Supervisory bodies, Compliance, Planning, Accounting, Risk Management and Control, Investor Relations, Internal Audit, Organization and Quality, amongst others. Since NOVO BANCO is in a situation of tax loss for the years of 2019 and 2018, the recognized deferred taxes (that includes the annulment of deferred taxes generated by tax losses in the amount of Euro 251 million in the year 2018) were totally assigned 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 analysed 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 analysed 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 recognised 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. In 2018, Banco Internacional de Cabo Verde (having been sold in July 2018, 90% of this participation) and BES Vénétie (which was sold in full in December 2018) were also considered.

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 Capitalization 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 to customers include all clients of the CCA and other non-strategic exposures;
- Securities and associated companies were selected by contract and include restructuring funds, 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;
- The cost of funding corresponds to the percentage of legacy liabilities in the total liabilities of the Group (excluding discontinued operations); 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)

	31.12.2019								
	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	57 849	2	-	156 348	-	540 613
Net fees and comissions	171 441	110 009	5 121	23 399	25 747	-	(21 773)	-	313 944
Other operating income	15 480	18 514	(5)	(17 523)	(1 056)	-	(479 280)	-	(463 870)
Total operating income	340 523	298 797	7 654	63 725	24 693	-	(344 705)	-	390 687
Operational expenses	273 315	694 359	4 680	168 877	12 179	4 082	157 912	98 517	1 413 921
Of which:									
Provisions / Impairment losses	16 172	653 594	(1 452)	119 304	536	4 082	143 181	-	*935 417*
Depreciation and amortization	10 803	882	423	3 994	433	-	1 550	15 579	*33 664*
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**	**(105 152)**	**12 514**	**(4 082)**	**(501 147)**	**(98 517)**	**(1 021 764)**
Taxes	-	-	-	(2 133)	3 418	-	3 391	41 093	45 769
Profit / (loss) of discontinued operations	-	-	-	-	(392)	1 533	(73)	-	1 068
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*	-	*91 716*	*9 274*	-	*(100 272)*	-	*11 693*
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)

(in thousands of Euros)

	31.12.2018								
	Retail	Corporate and Institutional	*Private banking*	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	116 791	184 243	(10 044)	74 598	43	-	88 711	-	454 342
Net fees and comissions	168 002	111 186	6 951	24 287	25 465	-	(29 557)	-	306 334
Other operating income	(25 305)	(89 282)	(208)	(74 167)	161	(19 741)	(60 990)	-	(269 532)
Total operating income	259 488	206 147	(3 301)	24 718	25 669	(19 741)	(1 836)	-	491 144
Operational expenses	280 545	496 943	8 333	136 061	12 396	-	179 278	83 675	1 197 231
Of which:									
Provisions / Impairment losses	*13 479*	*452 347*	*(1 067)*	*84 126*	*462*	-	*160 608*	-	*709 955*
Depreciation and amortization	*12 742*	*1 499*	*676*	*1 798*	*136*	-	*2 546*	*2 752*	*22 149*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	-	5 626	-	5 626
Profit / (loss) from continued operations before taxes and non-controlling interests	**(21 057)**	**(290 796)**	**(11 634)**	**(111 343)**	**13 273**	**(19 741)**	**(175 488)**	**(83 675)**	**(700 461)**
Taxes	-	-	-	1 129	3 139	-	3 961	659 478	667 707
Profit / (loss) of discontinued operations	-	-	-	(939)	-	(38 540)	(340)	-	(39 819)
Net Profit / (loss) for the period attributable to non-controlling interests	1 518	-	-	181	-	-	2 956	-	4 655
Net Profit / (loss) for the period attributable to Shareholders of the parent	**(22 575)**	**(290 796)**	**(11 634)**	**(113 592)**	**10 134**	**(58 281)**	**(182 745)**	**(743 153)**	**(1 412 642)**
Intersegment operating income (1)	*6 865*	*4 790*	-	*55 928*	*20 173*	-	*(71 503)*	-	*16 253*
Total Net Assets	**17 363 284**	**12 931 833**	**1 673 216**	**4 431 112**	**72 282**	**4 843 999**	**6 958 176**	**-**	**48 273 902**
Total Liabilities	**17 118 848**	**13 085 227**	**1 680 757**	**4 516 267**	**9 035**	**4 458 423**	**3 482 984**	**-**	**44 351 541**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**-**	**118 698**	**-**	**118 698**
Investments in tangible fixed assets	**1 722**	**-**	**-**	**346**	**11**	**-**	**14 197**	**-**	**16 276**
Investments in intangible assets	**-**	**-**	**-**	**1 257**	**50**	**-**	**5 391**	**-**	**6 698**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**13 720**	**-**	**13 720**
Investments in other assets - real estate properties	**2 352**	**-**	**-**	**21 404**	**-**	**-**	**154 935**	**-**	**178 691**

(1) Intersegment operating income refers essentially to interest (net interest income)

The geographical distribution of the different Group business units is as follows:

(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*	*(392)*	-	-	-	-	-	-	1 068
Total income	4 348 294	170 070	497 028	919	-	-	-	-	5 016 311
Intersegment operating income	*(25 309)*	*(11 812)*	*48 814*	-	-	-	-	-	*11 693*
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)	(84 555)	(22 121)	(303)	-	-	-	(3 725)	(1 021 764)
Turnover [(a) (b)]	945 859	48 629	70 591	367	-	-	-	-	1 065 446
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.

(in thousands of Euros)

	31.12.2018									
	Portugal	Spain	Luxembourg	United Kingdom	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	(1 369 651)	(84 058)	47 255	(3 745)	(542)	-	(1 901)	-	-	(1 412 642)
(of which: rel. to discontinued units)	*(38 880)*	*1 088*	*1 268*	-	-	-	*(2 207)*	-	-	*(38 731)*
Total income	3 846 914	111 784	568 727	9 585	461	-	-	-	-	4 537 471
Intersegment operating income	*(58 887)*	*2 116*	*79 965*	*(6 941)*	-	-	-	-	-	*16 253*
Net assets	44 247 528	2 247 277	1 755 453	8 447	3 688	3 060	-	-	8 449	48 273 902
(of which: rel. to discontinued units)	*4 075 962*	-	-	-	-	*3 060*	*1 299*	*4 013*	*6 024*	*4 090 358*
Investments in associated companies	114 372	-	-	-	-	-	-	-	4 326	118 698
Investments in tangible fixed assets	15 930	346	-	-	-	-	-	-	-	16 276
Investments in intangible assets	947	1 234	23	-	-	-	-	-	-	2 204
Investments in investment properties	13 720	-	-	-	-	-	-	-	-	13 720
Investments in other assets - real estate properties	157 287	21 404	-	-	-	-	-	-	-	178 691
Profits / (losses) of continuing operating units before taxes and non-controlling interests	(656 195)	(77 431)	38 880	(3 272)	(542)	-	(1 901)	-	-	(700 461)
Turnover [(a) (b)]	866 021	68 464	171 957	9 231	48	-	-	-	-	1 115 721
Number of employees [(a)]	4 804	262	13	3	5	-	-	-	9	5 096

[(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.

The information aggregated by legacy and recurrent activity is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Recurrent	Legacy	Total	Recurrent	Legacy	Total
Net interest income	491 188	49 425	540 613	387 164	67 178	454 342
Net fees and commissions	311 195	2 749	313 944	301 691	4 643	306 334
Other operating income	4 203	(468 073)	(463 870)	(1 714)	(267 818)	(269 532)
Total operating income	806 586	(415 899)	390 687	687 141	(195 997)	491 144
Operating expenses	668 728	745 193	1 413 921	717 926	479 305	1 197 231
Includes:						
Provisions / Impairment losses	207 907	727 510	935 417	253 587	456 368	709 955
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	4 462	(2 992)	1 470	5 698	(72)	5 626
Taxes	(37 674)	83 443	45 769	47 513	620 194	667 707
Profit / (loss) of discontinued operations	5 849	(4 781)	1 068	-	(39 819)	(39 819)
Net Profit / (loss) for the period attributable to non-controlling interests	8 217	(15 870)	(7 653)	4 655	-	4 655
Net Profit / (loss) for the period attributable to Shareholders of the parent	177 626	(1 236 438)	(1 058 812)	(77 255)	(1 335 387)	(1 412 642)
Total net Assets	40 813 669	4 482 234	45 295 903	37 615 251	10 658 651	48 273 902
(of which: related to discontinued operations)	*15 891*	*24 364*	*40 255*	*1 888*	*4 090 358*	*4 092 246*

NOTE 5 – NET INTEREST INCOME

As at 31 December 2019 and 2018, the breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019				31.12.2018			
	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	595 188	-	-	595 188	631 842	-	-	631 842
Interest from deposits with and loans and advances to banks	21 221	3 118	-	24 339	26 652	10	777	27 439
Interest from securities	117 934	-	7 063	124 997	85 162	-	1 383	86 545
Interest from derivatives held for risk management purposes	-	496	6 664	7 160	-	401	10 188	10 589
Other interest and similar income	1 403	-	-	1 403	2 276	-	-	2 276
	735 746	**3 614**	**13 727**	**753 087**	**745 932**	**411**	**12 348**	**758 691**
Interest Expenses								
Interest on debt securities issued	38 956	-	-	38 956	42 993	-	4 068	47 061
Interest on amounts due to customers	97 259	-	-	97 259	194 327	-	-	194 327
Interest on deposits from Central Banks and other banks	19 935	1 864	-	21 799	21 631	5 342	-	26 973
Interest on subordinated liabilities	34 166	-	-	34 166	16 742	-	-	16 742
Interest on derivatives held for risk management purposes	-	4 114	9 237	13 351	-	2 903	11 852	14 755
Other interest and similar expenses	6 796	147	-	6 943	4 491	-	-	4 491
	197 112	**6 125**	**9 237**	**212 474**	**280 184**	**8 245**	**15 920**	**304 349**
	538 634	**(2 511)**	**4 490**	**540 613**	**465 748**	**(7 834)**	**(3 572)**	**454 342**

Interest on deposits with and loans and advances to banks, due to customers and deposits from banks include as at 31 December 2019, respectively, the amounts of Euro -2 thousand, Euro 16 375 thousand and Euro 2 453 thousand related to repurchase agreement operations (31 December 2018: Euro 756 thousand of interest on deposits with and loans and advances to Banks, Euro 576 thousand in interest on funds from customers and Euro 1 850 thousand in interest on deposits from Banks).

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 and 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)

	31.12.2019	31.12.2018
Financial assets mandatorily at fair value through profit or loss		
Shares	3 374	2 386
Participation units	4 080	4 453
Financial assets at fair value through other comprehensive income		
Shares	2 300	2 135
Participation units	155	-
	9 909	**8 974**

During 2019, dividend income amounts to Euro 9 909 thousand, which includes dividends received from Euronext in the amount of Euro 1 348 thousand, from Soluções Arrendamento Fund in the amount of Euro 1 767 thousand, from Sealion Ltd in the amount of Euro 1 161 thousand, from ESA Energia in the amount of Euro 1 080 thousand, from Fund Explorer III in the amount of Euro 738 thousand and from SIBS SGPS in the amount of Euro 922 thousand (31 December 2018: Euro 8 974 thousand, which includes dividends recorded from Fund Explorer III in the amount of Euro 3 027 thousand, from Euronext in the amount of Euro 1 514 thousand and from Haitong FCR in the amount of Euro 1 251 thousand).

NOTE 7 – FEE AND COMMISSION INCOME AND FEE AND COMISSION EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Fee and commission income		
From banking services	260 672	254 193
From guarantees provided	46 460	52 778
From transaction of securities	7 146	7 015
From commitments to third parties	8 914	11 465
From transactions carried out on behalf of third parties - cross-selling	35 089	37 618
Other fee and commission income	9 119	2 999
	367 400	**366 068**
Fee and commission expenses		
With banking services rendered by third parties	35 906	41 581
With guarantees received	1 960	1 566
With transaction of securities	5 675	5 876
Other fee and commission income	9 915	10 711
	53 456	**59 734**
	313 944	**306 334**

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)

	31.12.2019			31.12.2018		
	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	67 860	2 021	65 839	52 957	18 411	34 546
Issued by other entities	2 443	443	2 000	644	712	(68)
Other variable income securities	-	-	-	-	6	(6)
	70 303	**2 464**	**67 839**	**53 601**	**19 129**	**34 472**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	2 050	-	2 050	5 176	1	5 175
Loans	23 662	31 997	(8 335)	40 404	253 911	(213 507)
	25 712	**31 997**	**(6 285)**	**45 580**	**253 912**	**(208 332)**
	96 015	**34 461**	**61 554**	**99 181**	**273 041**	**(173 860)**

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)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	26 480	10 963	15 517	6 032	1 100	4 932
Issued by other entities	260	-	260	2	119	(117)
Financial Derivatives						
Foreign exchange rate contracts	24 493	26 470	(1 977)	36 721	36 774	(53)
Interest rate contracts	669 602	745 048	(75 446)	445 816	484 584	(38 768)
Equity / Index contracts	93 255	92 499	756	65 744	63 356	2 388
Credit default contracts	78 141	78 522	(381)	47 055	52 180	(5 125)
Other	4 900	2 852	2 048	17 957	1 619	16 338
	897 131	**956 354**	**(59 223)**	**619 327**	**639 732**	**(20 405)**

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 2019, the related gains recognised in the income statement, which are essentially related to foreign exchange transactions, amounted to approximately Euro 3 114 thousand (31 December 2018: Euro 6 914 thousand).

NOTE 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)

	31.12.2019			31.12.2018		
	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	3 031	6 062	(3 031)	222	2	220
Shares	35 266	90 864	(55 598)	31 407	4 163	27 244
Other variable income securities	16 600	211 691	(195 091)	25 559	85 900	(60 341)
	54 897	**308 617**	**(253 720)**	**57 188**	**90 065**	**(32 877)**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	102	(102)	-	-	-
Other variable income securities	106	-	106	-	140	(140)
	106	**102**	**4**	**-**	**1 123**	**(1 123)**
	55 003	**308 719**	**(253 716)**	**57 188**	**91 188**	**(34 000)**

NOTE 11 – GAINS OR LOSSES FROM HEDGE ACCOUNTING

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Fair value changes of hedging instruments						
Foreign exchange rate contracts	51 211	67 864	(16 653)	124 967	131 494	(6 527)
Fair value changes of hedging item attributable to hedged risk	30 533	15 620	14 913	20 541	61 161	(40 620)
	81 744	**83 484**	**(1 740)**	**145 508**	**192 655**	**(47 147)**
Compensations for hedging operations interruptions (see Note 14)	461	-	461	46 714	-	46 714
Amount net of compensations	**82 205**	**83 484**	**(1 279)**	**192 222**	**192 655**	**(433)**

NOTE 12 – EXCHANGE DIFFERENCES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 114 573	1 075 744	38 829	1 012 302	969 799	42 503
	1 114 573	**1 075 744**	**38 829**	**1 012 302**	**969 799**	**42 503**

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)

	31.12.2019	31.12.2018
Real Estate	2 689	28 189
Equipment	(490)	69
Other	1 755	4 011
	3 954	**32 270**

NOTE 14 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Other operating income		
Gains / (losses) on recoveries of loans	31 372	42 424
Non-recurring advisory services	1 299	814
Income of Funds and real estate companies	37 858	28 937
Gains on investment properties revaluation (see Note 25)	44 347	29 370
Other income	24 986	76 231
	139 862	**177 776**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 30)	(465)	(86 210)
Direct and indirect taxes	(14 782)	(14 353)
Contributions to the Deposit Guarantee Fund	(42)	(45)
Contributions to the Resolution Fund	(12 196)	(10 995)
Contributions to the Single Resolution Fund	(22 469)	(20 678)
Contribution to the Banking Sector	(27 091)	(27 276)
Membership subscriptions and donations	(2 603)	(1 358)
Expenses of Funds and real estate companies	(14 317)	(16 151)
Charges with Supervisory entities	(2 456)	(2 360)
Contractual indemnities (SPE)	(297)	(4 844)
Losses on investments properties revaluation (see Note 25)	(260 466)	(45 888)
Other expenses	(46 115)	(25 485)
	(403 299)	**(255 643)**
Other operating income / (expenses)	**(263 437)**	**(77 867)**

As at 31 December 2019, the amount received for compensation for interruption of hedging operations amounts to Euro 461 thousand (see Note 11). As at 31 December 2018, Other operating income includes the amount of Euro 46 714 thousand, received as part of the early repayment of a fixed rate financing agreement, corresponding to the amount of the early reimbursement of the credit risk contract interest rate, the loss of which was recorded under the caption Gains or losses in hedge accounting.

NOTE 15 – STAFF EXPENSES

The breakdown of staff expenses is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Wages and salaries	199 815	200 835
Remuneration	198 951	200 317
Long-term service / Career bonuses (see Note 16)	864	518
Mandatory social charges	59 891	60 807
Costs with post-employment benefits (see Note 16)	14	746
Other costs	5 630	3 750
	265 350	**266 138**

The provisions and costs related to the restructuring process are presented in Note 31.

As at 31 December 2019 and 2018, the number of employees of NOVO BANCO Group has the following breakdown:

	31.12.2019	31.12.2018
NOVO BANCO employees	4 428	4 578
Employees of the Group's subsidiaries	441	518
Total employees of the Group	**4 869**	**5 096**

The breakdown by professional category of the number of employees of the NOVO BANCO Group is as follows:

	31.12.2019	31.12.2018
Senior management functions	481	546
Middle management positions	591	536
Specific positions	2 348	2 227
Administrative and other functions	1 449	1 787
	4 869	**5 096**

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 respective Union, having the Group made (until February 2017) annual contributions to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy. The measurement and recognition of the Group's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

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 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.

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 Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and 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, only the pension fund liabilities arising from the Executive Committee Complementary Plan were splited, with a part (described above) remaining in BES and the remaining responsibilities related to the Executive Committee Complementary Plan being transferred to NOVO BANCO, together with the liabilities of the Pension Fund regarding the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of the Board of Directors of the 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, after deducting the amounts already paid. The split performed on these terms resulted, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission, at that time, that was equal for each of the associates of the Fund (NOVO BANCO and BES).

However, up to the present date, the formalization of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund, currently designated *Fundo de Pensões* NB.

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.

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2019		31.12.2018	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	1.35%	6.82%	2.1%	-1.57%
Discount rate	1.35%	-	2.1%	-
Pension increase rate	0.5%	0.49%	0.5%	0.06%
Salary increase rate	0.25%	1.2%	0.75%	1.00%
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 2019 and 2018 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

The pension plan participants have the following breakdown:

	31.12.2019	**31.12.2018**
Employees	4 520	4 628
Pensioners and survivors	6 818	6 765
TOTAL	**11 338**	**11 393**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2019 and 2018 is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 848 930)**	**(1 675 608)**
Pensioners	(1 287 349)	(1 132 795)
Employees	(561 581)	(542 813)
Coverage		
Fair value of plan assets	**1 695 857**	**1 648 168**
Net assets / (liabilities) in the balance sheet (See Note 32)	**(153 073)**	**(27 440)**
Accumulated actuarial deviations recognized in other comprehensive income	**599 454**	**492 177**

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 balance sheet value includes Euro 30.4 million (31 December 2018: Euro 26.7 million) related to NOVO BANCO's share of the deficit of the complementary plan CE. With respect to the base and complementary net liabilities, the Bank has already made the contribution.

As at 31 December 2019 and 2018, the sensitivity analysis to a 0.25% increase in the rate of the assumptions and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

(in thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the change:**			
	31.12.2019		**31.12.2018**	
	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	(68 854)	73 693	(61 543)	60 526
Salary increase rate	27 329	(18 882)	19 707	(24 102)
Pension increase rate	54 664	(50 705)	46 995	(46 845)
	de +1 ano	de -1 ano	de +1 ano	de -1 ano
Mortality table	(64 631)	65 300	(55 362)	52 265

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Retirement pension liabilities at beginning of the exercise	**1 675 608**	**1 663 489**
Current service cost	14	562
Interest cost	31 687	33 839
Plan participants' contribution	2 645	2 678
Contributions from other entities	285	203
Actuarial (gains) / losses in the exercise:		
- Changes in demographic assumptions	-	(68)
- Changes in financial assumptions	125 523	(359)
- Experience adjustments (gains) / losses	64 098	17 839
Pensions paid by the fund / transfers and once-off bonuses	(69 708)	(63 998)
Early retirement	15 670	28 688
Foreign exchange differences and other	3 108	(7 265)
Retirement pension liabilities at end of the exercise	**1 848 930**	**1 675 608**

The evolution of the value of the pension funds during 2019 and 2018 can be analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Fair value of fund assets at beginning of the exercise	**1 648 168**	**1 648 405**
Net return from the fund	110 313	(22 093)
- Share of the net interest on the assets	28 026	31 824
- Return on assets excluding net interest	82 287	(53 917)
Group contributions	1 535	93 686
Plan participants' contributions	2 645	2 678
Pensions paid by the fund / transfers and once-off bonuses	(69 708)	(63 998)
Foreign exchange differences and other	2 904	(10 510)
Fair value of fund assets at end of the exercise	**1 695 857**	**1 648 168**

The assets of the pension funds can be analysed as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	163 866	59 309	223 175	133 062	56 732	189 794
Debt instruments	1 013 356	74	1 013 430	870 930	4	870 934
Investment funds	216 168	57 984	274 152	229 914	52 410	282 324
Structured debt	6 683	7 818	14 501	9 950	9 649	19 599
Derivatives	-	1	1	-	-	-
Real estate properties	-	107 166	107 166	-	103 942	103 942
Cash and cash equivalents	-	63 432	63 432	-	181 575	181 575
Total	**1 400 073**	**295 784**	**1 695 857**	**1 243 856**	**404 312**	**1 648 168**

The assets of the pension funds used by the Group or representative of securities issued by the Group's entities are detailed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Participation units	92 601	102 593
Real estate properties	75 851	58 083
Total	**168 452**	**160 676**

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**492 177**	**421 246**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Demographic assumptions	-	(68)
- Financial assumptions	125 523	(359)
- Plan assets return (excluding net of interests)	(18 189)	71 756
Other	(57)	(398)
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**599 454**	**492 177**

The cost with retirement pensions and health-care benefits during 2019 and 2018, can be analysed as follows:

(in thousans of Euros)

	31.12.2019	31.12.2018
Current service cost	14	562
Net interest	3 661	2 015
Other	-	184
Cost with post-employment benefits	**3 675**	**2 761**

During 2019, the value of early retirements amounted to Euro 15.7 million (2018: Euro 28.7 million), which are related to the Group's restructuring process, and as such, were recognised against the restructuring provision (see Note 31).

The evolution of net assets/ (liabilities) on balance sheet may be analysed, during 2019 and 2018 as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
At the beginning of the exercise	**(27 440)**	**(15 084)**
Cost for the exercise	(3 675)	(2 761)
Actuarial gains / (losses) recognized in other comprehensive income	(107 277)	(70 931)
Contributions made in the exercise	1 535	93 686
Other	(16 216)	(32 350)
At the end of the exercise	**(153 073)**	**(27 440)**

The summary of the liabilities and balance of the funds, as well as the experience gains and losses is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Retirement pension liabilities	(1 848 930)	(1 675 608)	(1 663 489)	(1 577 750)	(1 545 996)
Funds balance	1 695 857	1 648 168	1 648 405	1 557 979	1 514 326
(Under) / overfunding of liabilities	**(153 073)**	**(27 440)**	**(15 084)**	**(19 771)**	**(31 670)**
(Gains) / losses on experience adjustments in retirement pension liabilities	64 098	17 839	15 263	12 318	(2 330)
(Gains) / losses on experience adjustments in plan assets	(82 287)	53 917	(91 900)	43 716	17 545

The weighted average maturity of the liabilities of the defined benefit plans is approximately 16 years (31 December 2018: approximately 16 years). The table below presents the temporal breakdown of the estimated benefits payable:

(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	67 485	67 815	205 344	1 931 070

Career bonuses

As at 31 December 2019, the liabilities assumed by the Group amounted to Euro 7 106 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.15 – Employee benefits (31 December 2018: Euro 6 486 thousand) (see Note 32).

As at 31 December 2019, the costs recognised with career bonuses were Euro 864 thousand (31 December 2018: Euro 518 thousand) (see Note 15).

NOTE 17 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Rentals	3 622	25 325
Advertising	8 511	9 139
Communication	12 830	13 956
Maintenance and repairs expenses	9 821	8 510
Travelling and representation	3 513	3 475
Transportation of valuables	4 280	4 241
Insurance	2 777	3 656
IT services	50 378	47 972
Independent work	3 614	4 852
Temporary work	1 599	1 544
Electronic payment systems	10 482	10 052
Legal costs	9 289	15 111
Consultancy and audit fees	28 313	19 712
Water, energy and fuel	3 839	5 095
Consumables	1 644	2 208
Other costs	24 978	24 141
	179 490	**198 989**

The caption Other costs includes, amongst others, specialised service costs incurred with security and surveillance, information services, training and sundry external supplies.

The fees invoiced during financial years 2019 and 2018 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)

	31.12.2019	31.12.2018
Statutory audit of annual accounts	1 685	524
Other reliability assurance services	1 043	509
Total value of billable services	**2 728**	**1 033**

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)

	31.12.2019	31.12.2018
Net consolidated profit / (loss) attributable to shareholder of the Bank	**(1 058 812)**	**(1 412 642)**
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)	**(0.11)**	**(0.14)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0.11)**	**(0.14)**

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 2019 and 2018, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Cash	**179 220**	**155 860**
Demand deposits with Central Banks		
Bank of Portugal	1 387 250	531 664
Other Central Banks	21 658	14 359
	1 408 908	**546 023**
Deposits in other domestic credit institutions		
Repayable on demand	12 303	7 541
Uncollected checks	51 437	59 603
	63 740	**67 144**
Deposits with banks abroad		
Repayable on demand	175 761	188 470
Other deposits	26 452	20 175
	202 213	**208 645**
	1 854 081	**977 672**

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 246.8 million (31 December 2018: Euro 243.8 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 2019, the average interest rate on these deposits was null (31 December 2018: 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 2019 was included in the observation period running from 18 December 2019 to 28 January 2020.

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 20 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2019 and 2018, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	254 848	257 269
Issued by other entities	-	1
	254 848	**257 270**
Derivatives		
Derivatives held for trading with positive fair value	419 791	516 336
Fair value option derivatives with positive fair value	74 093	70 177
	493 884	**586 513**
	748 732	**843 783**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	544 825	492 953
	544 825	**492 953**

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 at 31 December 2019 and 2018, the analysis of the securities held for trading, by maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Up to 3 months	-	50 029
3 months to 1 year	-	2 007
1 to 5 years	117 227	157 434
More than 5 years	137 621	47 800
	254 848	**257 270**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 39.

Derivatives

As at 31 December 2019 and 2018, the breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	743 210	5 307	5 757	375 271	4 141	5 670
- sell	744 649			375 697		
Currency Swaps						
- buy	1 019 987	1 118	490	1 701 938	2 319	770
- sell	1 025 562			1 706 018		
Currency Interest Rate Swaps						
- buy	22 951	21 875	21 870	23 417	21 036	21 029
- sell	22 947			23 413		
Currency Options						
- buy	219 866	6 240	5 836	256 052	5 235	5 279
- sell	192 493			156 257		
		34 540	**33 953**		**32 731**	**32 748**
Interest rate contracts						
Interest Rate Swaps						
- buy	7 808 593	349 152	499 619	7 489 169	436 188	435 401
- sell	7 809 654			7 532 826		
Swaption - Interest Rate Options						
- buy	400 000	2 821	1 177	-	-	-
- sell	-			-		
Interest Rate Caps & Floors						
- buy	93 846	966	893	54 352	583	600
- sell	91 073			57 105		
Interest Rate Futures [a)]						
- buy	-	-	-	-	-	-
- sell	-			50 000		
		352 939	**501 689**		**436 771**	**436 001**
Equity / Index contracts						
Equity / Index Swaps						
- buy	152 294	3 988	3 739	116 752	13 058	13 061
- sell	152 294			116 752		
Equity / Index Options						
- buy	711 682	28 323	5 402	1 020 012	33 767	11 026
- sell	743 755			1 130 702		
Equity / Index Futures [a)]						
- buy	-	-	-	1 330	-	-
- sell	-			-		
		32 311	**9 141**		**46 825**	**24 087**
Credit default contracts						
Credit Default Swaps						
- buy	2 883	1	42	7 814	9	117
- sell	2 883			7 814		
		1	**42**		**9**	**117**
		419 791	**544 825**		**516 336**	**492 953**
Fair value option derivatives						
Interest rate contracts						
Interest Rate Swaps						
- compras	171 371	74 093	-	171 370	70 177	-
- vendas	171 371			171 370		
		74 093	**-**		**70 177**	**-**

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 2019, the Group recognized a gain of Euro 1.8 million related to the CVA of derivative instruments (31 December 2018: gain of Euro 16.0 million).

As at 31 December 2019 and 2018, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Derivatives held for negotiation						
Up to 3 months	2 094 664	1 924 137	(892)	2 467 814	2 419 978	(693)
From 3 months to 1 year	1 053 257	843 821	16 406	1 461 925	1 538 680	(4 336)
From 1 to 5 years	2 111 144	2 098 238	1 301	1 698 310	1 707 800	14 076
More than 5 years	5 916 247	5 919 114	(141 849)	5 418 058	5 490 126	14 336
	11 175 312	**10 785 310**	**(125 034)**	**11 046 107**	**11 156 584**	**23 383**
Fair value option derivatives						
More than 5 years	171 371	171 371	74 093	171 370	171 370	70 177
	171 371	**171 371**	**74 093**	**171 370**	**171 370**	**70 177**

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 2019 and 2018, these captions are analysed as follows:

(in thousands of Euros)

	31.12.2019					
	Mandatorily at fair value through profit and loss	**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 22)

(in thousands of Euros)

	31.12.2018					
	Mandatorily at fair value through profit and loss	**Fair value through profit and loss**	**Fair value through other comprehensive income**	**Amortised cost**	**Fair value changes ***	**Total**
Securities	1 566 225	480	7 661 207	1 389 400	-	10 617 312
Loans and advances to banks	-	-	-	423 058	-	423 058
Loans and advances to customers	-	-	-	24 720 610	33 835	24 754 445
	1 566 225	**480**	**7 661 207**	**26 533 068**	**33 835**	**35 794 815**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 22)

Securities

As at 31 December 2019 and 2018, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2019	**31.12.2018**
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	57 590	47
Shares	603 851	674 823
Other securities with variable income	653 301	891 355
	1 314 742	**1 566 225**
Securities at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	-	480
	-	**480**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	7 108 022	6 620 509
From other issuers	1 661 538	951 085
Shares	80 334	89 610
Other variable income securities	2	3
	8 849 896	**7 661 207**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	459 260	503 123
From other issuers	1 322 059	1 081 063
Impairment	(158 774)	(194 786)
	1 622 545	**1 389 400**
	11 787 183	**10 617 312**

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 or analyzes that are considered to have an impact on the fair value of the participation units. In the second half of 2019, the Group undertook a detailed analysis of the historical performance of these funds, as well as an analysis of the liquidity of the participation units held by the Group, having concluded that, given their complexity and limitations inherent to their liquidity it should consider an adjustment to the net book value reported by the Management Companies based on historical market metrics. Additionally, the Group is conducting an analysis of the valuation of all assets held by these funds.

As at 31 December 2019 and 2018, 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	**6 781 109**	**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.

(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	**6 563 893**	**58 463**	**(1 847)**	**6 620 509**	**(816)**
Residents	3 646 985	28 037	(612)	3 674 410	(390)
Non residents	2 916 908	30 426	(1 235)	2 946 099	(426)
From other issuers	**934 722**	**24 490**	**(8 127)**	**951 085**	**(397)**
Residents	28 613	20 600	(54)	49 159	(22)
Non residents	906 109	3 890	(8 073)	901 926	(375)
Shares	**487 063**	**19 154**	**(416 607)**	**89 610**	**-**
Residents	382 110	17 085	(328 800)	70 395	-
Non residents	104 953	2 069	(87 807)	19 215	-
Other securities with variable income	**2**	**1**	**-**	**3**	**-**
Residents	2	-	-	2	-
Non residents	-	1	-	1	-
Balance as at 31 December 2018	**7 985 680**	**102 108**	**(426 581)**	**7 661 207**	**(1 213)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

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 2017*				**1 179 050**
Impact of transition to IFRS 9				(1 178 443)
Balance as at 1 January 2018	**607**	**-**	**-**	**607**
Increases due to changes in credit risk	9 032	23	12	9 067
Decreases due to changes in credit risk	(7 608)	(1)	(12)	(7 621)
Utilization during the period	(852)	-	-	(852)
Other movements	12	-	-	12
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**

* The amount corresponds to accumulated impairment losses on available-for-sale securities at 31 December 2017, recorded in accordance with IAS 39.

During the financial year of 2019, the Group sold Euro 3 761.0 million of financial instruments classified at fair value through other comprehensive income (31 December 2018: Euro 9 208.3 million), with a gain of Euro 67.8 million (31 December 2018: gain of Euro 34.5 million), and a loss of Euro 4.5 million that were transferred from revaluation reserves to sales reserves (31 December 2018: loss of Euro 3.3 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 2017	**-**	**-**	**-**	**-**
Impact of transition to IFRS 9				213 808
Balance as at 1 January 2018	**3 549**	**4 162**	**206 097**	**213 808**
Increases due to changes in credit risk	5 226	245 353	4 385	254 964
Decreases due to changes in credit risk	(4 593)	(237 556)	(918)	(243 067)
Utilization during the period	(1 953)	(2 945)	(74 665)	(79 563)
Other movements	4	48 609	31	48 644
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**

In accordance with the accounting policy mentioned on Note 2.5, the Group regularly evaluates 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.

As at 31 December 2019 and 2018, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2019	**31.12.2018**
Securities at fair value through profit or loss - mandatory		
Up to 3 months	-	1
From 3 months to 1 year	7	-
From 1 to 5 years	57 535	-
More than 5 years	49	47
Unlimited duration	1 257 151	1 566 177
	1 314 742	**1 566 225**
Securities at fair value through profit or loss		
Up to 3 months	-	480
	-	**480**
Securities at fair value through other comprehensive income		
Up to 3 months	165 561	155 385
De 3 meses a um ano	179 917	618 944
De um a cinco anos	4 345 876	4 219 916
More than 5 years	4 078 206	2 577 349
Unlimited duration	80 336	89 613
	8 849 896	**7 661 207**
Securities at amortised cost (*)		
Up to 3 months	929 394	754 681
De 3 meses a um ano	131 372	125 633
De um a cinco anos	48 500	37 576
More than 5 years	672 053	666 296
	1 781 319	**1 584 186**
	11 945 957	**10 812 098**

(*) Gross value before impairments

The detail of the securities portfolio by fair value hierarchy is presented in Note 39.

The portfolio securities pledged by the Group are analysed in Note 35.

Loans and advances to banks

As at 31 December 2019 and 2018, the detail of Loans and advances to banks is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Loans and advances to banks in Portugal		
Very short-term placements	8 902	64 517
Deposits	9 342	269
Loans	34 013	20 051
Other loans and advances	3	3
	52 260	**84 840**
Loans and advances to banks abroad		
Deposits	10 850	28 078
Loans	1 645	1 700
Operations with reverse repurchase agreements	-	9 774
Other loans and advances	381 561	374 332
	394 056	**413 884**
Outstanding applications	-	74
	446 316	**498 798**
Impairment losses	**(77 088)**	**(75 740)**
	369 228	**423 058**

Loans and advances to banks are all recorded in the amortised cost portfolio.

The operations with repurchasing agreement, as at 31 December 2018, relate entirely to operations with a maturity of up to 1 year.

As at 31 December 2019 and 2018, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Up to 3 months	24 302	97 461
From 3 months to 1 year	11 793	6 369
From 1 to 5 years	406 305	14 471
More than 5 years	3 916	380 423
Unlimited duration (Overdue Loans)	-	74
	446 316	**498 798**

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 2017				**71 158**
Impact of transition to IFRS 9				8 950
Balance as at 1 January 2018	**1 227**	**78 563**	**318**	**80 108**
Increases due to changes in credit risk	517	3 389	426	4 332
Decreases due to changes in credit risk	(894)	(10 183)	(119)	(11 196)
Utilization during the period	-	-	(13)	(13)
Other movements	(680)	3 374	(185)	2 509
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**

Loans and advances to customers

As at 31 December 2019 and 2018, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Domestic loans and advances		
Corporate		
Current account loans	1 408 191	1 473 186
Loans	8 436 268	8 499 596
Discounted bills	121 203	141 700
Factoring	710 493	866 677
Overdrafts	3 061	36 034
Financial leases	1 523 091	1 547 898
Other loans and advances	29 617	30 577
Individuals		
Residential Mortgage loans	9 102 659	8 545 373
Consumer credit and other loans	1 178 338	1 101 674
	22 512 921	**22 242 715**
Foreign loans and advances		
Corporate		
Current account loans	667 842	352 770
Loans	1 068 336	1 031 223
Discounted bills	21 206	39 086
Factoring	138 292	101 980
Overdrafts	39 158	30 894
Financial leases	37 422	42 765
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 085 701	956 838
Consumer credit and other loans	321 114	341 592
	3 379 072	**2 897 149**
Overdue loans and advances and interests		
Under 90 days	26 695	74 885
Over 90 days	1 083 494	3 463 783
	1 110 189	**3 538 668**
	27 002 182	**28 678 532**
Impairment losses	**(1 852 495)**	**(3 957 922)**
	25 149 687	**24 720 610**
Fair value adjustaments of interest rate hedges *		
Corporate		
Loans	14 390	32 072
Individuals		
Residential Mortgage loans	38 150	1 763
	52 540	**33 835**
	25 202 227	**24 754 445**

* See Note 22

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 141.9 million Euro (1,180.7 million Euro in gross value and 1,038.8 million Euro in impairment), and the impact on results was a loss of 79.7 million Euro (see Note 42).

In 2018, a non-performing loan portfolio was sold, and the impact of this operation on the balance sheet resulted in a reduction of Euro 543.9 million in loans and advances to customers (Euro 1 529.9 million gross value and Euro 986.1 million of impairment), and the impact on profit or loss resulted in a loss of Euro 108.9 million (see Note 42).

Loans to customers are all recorded in the amortized cost portfolio.

As at 31 December 2019, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1 608.7 million (31 December 2018: Euro 1 877.2 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 Note 1 and 38). The liabilities associated with these securitization operations were recognized as Debt Securities (see Note 30).

As at 31 December 2019, the caption Loans and advances to customers include Euro 6 076.8 million of mortgage loans related to the issuance of covered bonds (31 December 2018: Euro 4 617.4 million) (see Note 30).

As at 31 December 2019, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations totals Euro 26 343 thousand (31 December 2018: Euro 28 912 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)

	31.12.2019	31.12.2018
Up to 3 months	1 773 496	2 244 430
From 3 months to 1 year	1 496 699	1 803 652
From 1 to 5 years	5 108 121	4 579 144
More than 5 years	17 566 217	16 546 473
Unlimited duration (Overdue Loans)	1 110 189	3 538 668
	27 054 722	**28 712 367**

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 2017				**5 631 498**
Impact of transition to IFRS 9				216 139
Balance as at 1 January 2018	**273 558**	**230 694**	**5 343 385**	**5 847 637**
Financial assets originated or acquired	2 359	-	-	2 359
Financial assets derecognised	(572)	(1 573)	(999 880)	(1 002 025)
Increases due to changes in credit risk	35 785	63 608	793 097	892 490
Decreases due to changes in credit risk	(54 298)	(68 382)	(506 310)	(628 990)
Utilization during the period	(94 287)	(2 189)	(1 015 434)	(1 111 910)
Other movements	102 808	(111 803)	(32 644)	(41 639)
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**

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Fixed rate	3 705 246	3 260 266
Variable rate	23 349 476	25 452 101
	27 054 722	**28 712 367**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Gross investment in finance leases receivable		
Up to 1 year	293 189	275 621
1 to 5 years	827 824	819 974
More than 5 years	663 672	720 998
	1 784 685	1 816 593
Unrealized finance income in finance leases		
Up to 1 year	35 558	37 344
1 to 5 years	91 219	97 615
More than 5 years	57 541	46 048
	184 318	181 007
Present value of minimum lease payments receivable		
Up to 1 year	257 631	238 277
1 to 5 years	736 605	722 359
More than 5 years	605 996	674 870
	1 600 232	1 635 506
Impairment	(202 575)	(289 405)
	1 397 657	**1 346 101**

NOTE 22 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

As at 31 December 2019 and 2018, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Hedging derivatives		
Assets	7 452	1 227
Liabilities	(58 855)	(36 150)
	(51 403)	**(34 923)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Loans and advances to customers (ver Nota 21)	52 540	33 835
	52 540	**33 835**

As at 31 December 2019 and 2018, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2019

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/ CIRS	Loans and advances 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

(in thousands of Euros)

31.12.2018

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/ CIRS	Loans and advances to customers	Interest and exchange rates	2 597 116	(34 923)	42 611	33 835	(39 419)
			2 597 116	**(34 923)**	**42 611**	**33 835**	**(39 419)**

(1) Attributable to hedged risk

(2) Includes accrued interest

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss.

As at 31 December 2019, the ineffective portion of the fair value hedging operations resulted in a gain of Euro 1.8 million that was recognised in the income statement (31 December 2018: cost of Euro 3.2 million). The Group periodically evaluates the effectiveness of the hedges.

As at 31 December 2019 and 2018, the analysis of derivatives held for risk management and hedging purposes, by maturity, may be analysed as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
3 months to 1 year	-	-	-	25 000	25 000	(436)
1 to 5 years	772 860	772 860	(14 413)	638 850	638 850	(12 021)
More than 5 years	874 816	874 816	(36 990)	634 708	634 708	(22 466)
	1 647 676	**1 647 676**	**(51 403)**	**1 298 558**	**1 298 558**	**(34 923)**

NOTE 23 – 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		Book value		Group profit / losses attributable to the Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
LOCARENT	2 967	2 967	50.00%	50,00%	19 612	18 688	1 325	1 451
GNB SEGUROS **a)**	-	3 749	-	25,00%	-	7 989	-	1 199
ESEGUR **a)**	-	9 634	-	44,00%	-	14 446	-	411
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40.00%	40,00%	61 786	63 571	(1 784)	(352)
EDENRED	4 984	4 984	50.00%	50,00%	1 992	1 641	513	295
UNICRE **b)**	11 497	11 497	17.50%	17,50%	24 640	26 284	2 624	3 541
Others	28 381	28 041			20 915	22 729	(1 208)	(919)
	194 598	**207 641**			**128 945**	**155 348**	**1 470**	**5 626**
Impairment					**(36 317)**	**(36 650)**		
					92 628	**118 698**		

a) Throughout the first semester of 2019 it was reclassified as discontinued operations (see Note 29)

b) Although the Group's shareholding is less than 20%, this entity was consolidated under the equity method as that the Group exercises significant influence over its activities.

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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
LOCARENT	285 608	260 816	247 005	224 061	38 603	36 755	66 882	74 061	2 649	2 901
GNB SEGUROS **a)**	-	121 987	-	90 033	-	31 954	-	64 770	-	4 800
ESEGUR **a)**	-	37 973	-	20 696	-	17 277	-	44 566	-	933
LINEAS - CONCESSÕES DE TRANSPORTES	314 608	263 684	227 063	170 688	87 545	92 996	2 272	12 294	(4 461)	(3 209)
EDENRED	74 183	73 336	63 978	63 832	10 205	9 504	7 713	9 095	1 026	589
UNICRE **b)**	398 278	350 610	257 476	200 414	140 802	150 196	156 270	162 274	14 995	20 234

Note: Data adjusted for consolidation purposes

a) Throughout the first semester of 2019 it was reclassified as discontinued operations (ver Nota 41)

b)) Although the Group's shareholding is less than 20%, this entity was consolidated under the equity method as that the Group exercises significant influence over its activities.

The movements in impairment losses for investments in associates are presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	118 698	146 251
Disposals and other reimbursements (see Note 1)	-	(1)
Share of profits / (losses) of associated companies	1 470	5 626
Impairment in associated companies	333	(28 401)
Fair value reserves of investments in associated companies	709	779
Dividends received	(5 371)	(6 090)
Foreign exchange differences and other (a)	(23 211)	534
Balance at the end of the exercise	**92 628**	**118 698**

(a) As at 31 December 2019 this includes 22 904 thousand euros related to the reclassification of GNB Seguros, ESEGUR and Multipessoal to discontinued operations (see Note 29)

The movements in impairment losses for investments in associates are presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the period	**36 650**	**8 251**
Charges	1	30 006
Reversals	(334)	(1 608)
Foreign exchange differences	-	1
Balance at the end of the period	**36 317**	**36 650**

NOTE 24 – TANGIBLE FIXED ASSETS

This caption as at 31 December 2019 and 2018 is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Real estate properties		
For own use	207 553	207 478
Improvements in leasehold properties	139 257	139 746
Assets under right-of-use	60 531	-
	407 341	**347 224**
Equipment		
Computer equipment	110 371	109 977
Fixtures	58 243	66 048
Furniture	71 061	73 311
Security equipment	24 829	27 124
Office equipment	8 230	8 341
Transport equipment	640	707
Assets under right-of-use	5 952	-
Other	1 195	1 307
	280 521	**286 815**
	687 862	**634 039**
Work in progress		
Improvements in leasehold properties	22	846
Real estate properties	67	160
Equipment	6	936
	95	**1 942**
	687 957	**635 981**
Accumulated impairment	(10 609)	(10 609)
Accumulated depreciation	(488 940)	(482 878)
	188 408	**142 494**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance at 31 December 2017	**375 700**	**294 904**	**2**	**560**	**671 166**
Acquisitions	607	12 814	-	2 855	16 276
Disposals / write-offs	(12 672)	(19 088)	-	-	(31 760)
Transfers **(a)**	(16 403)	(1 669)	-	(1 474)	(19 546)
Foreign exchange differences and other	(8)	(146)	(2)	1	(155)
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 **(b)**	491	950	-	(2 205)	(764)
IFRS 16 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**
Depreciation					
Balance at 31 December 2017	**235 963**	**266 452**	**132**	**-**	**502 547**
Depreciation	6 075	10 786	1	-	16 862
Disposals / write-offs	(12 672)	(18 809)	-	-	(31 481)
Transfers **(a)**	(4 077)	(1 690)	-	-	(5 767)
Foreign exchange differences and other	424	304	(11)	-	717
Balance at 31 December 2018	**225 713**	**257 043**	**122**	**-**	**482 878**
Depreciation	20 542	11 867	1	-	32 410
Disposals / write-offs	(5 998)	(21 292)	-	-	(27 290)
Transfers **(b)**	(210)	(74)	-	-	(284)
Foreign exchange differences and other	1 085	141	-	-	1 226
Balance at 31 December 2019	**241 132**	**247 685**	**123**	**-**	**488 940**
Impairment					
Balance at 31 December 2017	**11 122**	**-**	**-**	**-**	**11 122**
Transfers	(513)	-	-	-	(513)
Balance at 31 December 2018	**10 609**	**-**	**-**	**-**	**10 609**
Balance at 31 December 2019	**10 609**	**-**	**-**	**-**	**10 609**
Net book value at 31 December 2019	**155 600**	**32 836**	**(123)**	**95**	**188 408**
Net book value at 31 December 2018	**110 902**	**29 772**	**(122)**	**1 942**	**142 494**

(a) Includes Euro 30 501 thousand of fixed assets (real estate and equipment) and Euro 9 805 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

(b) 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.

NOTE 25 – INVESTMENT PROPERTIES

The movement in the caption Investment properties is presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**1 098 071**	**1 144 432**
Changes in consolidation perimeter	9 455	23 401
Acquisitions	-	13 720
Sales	(197 058)	(69 703)
Improvements	-	13
Changes in fair value	(216 119)	(16 518)
Other	6 395	2 726
Balance at the end of the exercise	**700 744**	**1 098 071**

The book value of investment properties is the fair value of the properties, as determined by a registered and independent appraiser with a recognised professional qualification and experience in the geographical location and category of the property being valued. Fair value is determined according to the accounting policy indicated in Note 2.23.

Investment properties comprise some assets held by Funds and Real Estate Societies, 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 2019, the decrease in the fair value of investment properties of Euro 216.1 million, (31 December 2018: reduction of Euro 16.5 million) (see Note 14), and the rental income from investment properties of Euro 15.0 million (31 December 2018: Euro 10.4 million) are recognised 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 42).

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 39).

NOTE 26 – INTANGIBLE ASSETS

This caption as at 31 December 2019 and 2018, is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Goodwill	**13 908**	**251 004**
Internally developed		
Software - Automatic data processing system	69 408	72 713
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	371 533	369 776
Other	4	4
	440 946	**442 494**
Work in progress	**17 464**	**2 618**
	472 318	**696 116**
Accumulated amortization	(432 032)	(440 130)
Impairment losses	(13 908)	(250 561)
	26 378	**5 425**

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 2017	**251 007**	**479 030**	**1 921**	**731 958**
Acquisitions				
Internally developed	-	-	1 446	1 446
Acquired from third parties	-	1 507	3 745	5 252
Disposals / write-offs	(3)	(37 829)	-	(37 832)
Transfers **(a)**	-	-	(4 494)	(4 494)
Foreign exchange differences and other	-	(214)	-	(214)
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**
Amortizations				
Balance as at 31 December 2017	**-**	**472 715**	**-**	**472 715**
Amortization for the period	-	5 287	-	5 287
Disposals / write-offs	-	(37 829)	-	(37 829)
Foreign exchange differences and other	-	(43)	-	(43)
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**
Impairment				
Balance as at 31 December 2017	**250 561**	**-**	**-**	**250 561**
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**
Net balance at 31 December 2019	**-**	**8 914**	**17 464**	**26 378**
Net balance at 31 December 2018	**443**	**2 364**	**2 618**	**5 425**

(a) Includes 4 971 thousands of Euros of discontinued investment projects that were allocated to costs.

Goodwill, recognised in accordance with the accounting policy described in Note 2.2, is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Subsidiaries		
GNB Vida	-	234 575
Imbassaí	13 526	13 526
ES Gestion	-	2 460
Other	382	443
	13 908	**251 004**
Impairment losses		
GNB Vida	-	(234 575)
Imbassaí	(13 526)	(13 526)
ES Gestion	-	(2 460)
Other	(382)	-
	(13 908)	**(250 561)**
	-	**443**

GNB Vida

In 2017, the Group launched an organised sale process of up to 100% of GNB Vida's share capital and as at 31 December 2017 all the assets and liabilities of the Company started to be presented as a discontinued operation, in a specific asset and liability line (see Note 29), being valued at the lowest between the accounting value or the fair value net of cost of sale. Thus, contrary to what happened in 31 December 2016, when the Bank used for the purposes of the Goodwill annual impairment test the above-mentioned independent valuation, in order to determine the fair value in 31 December 2017, the Bank used the indicative values of the non-binding proposals received at the end of 2017 for the purchase of this Company.

On 12 September 2018 a purchase and sale agreement for the share capital of GNB Vida was signed with Bankers Insurance Holdings, SA, a company of the Global Bankers Insurance Group, LLC. The derecognition of this participation occurred in September 2019, after the necessary regulatory authorizations (see Note 29).

NOTE 27 – 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 recognised 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 2019 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 1 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 1 January 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 2019 and 2018, 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 2019, NOVO BANCO Group recognised Banking Levy charges as a cost in the amount of Euro 27 091 thousand (31 December 2018: Euro 27 276 thousand). The cost recognised as at 31 December 2019 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.

The deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2019 and 2018 may be analysed as follows:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Current tax	**1 628**	**11 873**	**6 689**	**12 050**
Corporate tax recoverable	802	7 865	2 790	7 249
Other	826	4 008	3 899	4 801
Deferred tax	**898 467**	**6 107**	**1 196 525**	**6 403**
	900 095	**17 980**	**1 203 214**	**18 453**

The deferred tax assets and liabilities recognized in the balance sheet in this period are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial instruments	54 531	57 571	(137 302)	(32 502)	(82 771)	25 069
Impairment losses on loans and advances to customers	906 917	907 482	-	-	906 917	907 482
Other tangible assets	-	-	(8 377)	(8 552)	(8 377)	(8 552)
Provisions	48 560	81 815	-	-	48 560	81 815
Pensions	27 375	37 760	-	-	27 375	37 760
Long-term service bonuses	23	23	-	-	23	23
Debt securities issued	-	8 357	-	-	-	8 357
Other	5 364	5 677	(5 493)	(6 403)	(129)	(726)
Tax losses carried forward	762	138 894	-	-	762	138 894
Deferred tax asset / (liability)	**1 043 532**	**1 237 579**	**(151 172)**	**(47 457)**	**892 360**	**1 190 122**
Asset / liability set-off for deferred tax purposes	(145 065)	(41 054)	145 065	41 054	-	-
Net Deferred tax asset / (liability)	**898 467**	**1 196 525**	**(6 107)**	**(6 403)**	**892 360**	**1 190 122**

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	1 190 122	1 957 824
Recognised in Results for the exercise	(36 965)	(658 917)
Recognised in Fair value reserves	(105 943)	81 127
Recognised in Other reserves	(74)	(74)
Impact of the transition to IFRS 9 (in other reserves)	-	(47 993)
Conversion of Deferred taxes into Tax credits	(145 899)	(152 478)
Foreign exchange differences and other	(8 882)	10 633
Balance at the end of the exercise (Assets / (Liabilities))	**892 360**	**1 190 122**

The current and deferred taxes recognised in the income statement and in reserves, in 2019 and 2018, had the following origins:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	1 897	105 943	50 554	(84 254)
Impairment losses on loans and advances to customers	(135 968)	-	382 488	-
Other tangible assets	(175)	-	(183)	-
Investments in subsidiaries and associated companies	-	-	(1 058)	-
Provisions	33 255	-	(9 708)	-
Pensions	944	74	(17 694)	74
Long-term service bonuses	-	-	(1)	-
Debt securities issued	-	-	392	-
Other	(1 120)	-	2 968	-
Tax losses carried forward	138 132	-	251 159	-
Deferred taxes	**36 965**	**106 017**	**658 917**	**(84 180)**
Current taxes	8 804	(74)	8 790	254
Total tax recognised (income) / (expense)	**45 769**	**105 943**	**667 707**	**(83 926)**

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	%	Amount	%	Amount
Income before tax [(a)]		**(1 020 696)**		**(740 280)**
Tax rate of NOVO BANCO	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		**(214 346)**		**(155 459)**
Tax-exempt dividends	0.2	(1 759)	0.3	(2 106)
Impairment on investments in subsidiaries or associated companies subject to Participation Exemption	(2.2)	22 788	(2.6)	19 463
Rate differential on the generation / reversal of timing differences	(3.8)	38 344	(4.4)	32 363
Profits / losses in units with a more favorable tax regime	(0.1)	592	1.1	(8 211)
Taxes of Bank Branches and tax withheld abroad	(0.3)	3 391	(0.8)	5 580
Impairments and provisions for loans	22.1	(225 299)	(34.4)	254 374
Impairments for stocks	(0.1)	922	(3.3)	24 491
Provisions for other risks, costs and contingencies	0.6	(6 264)	0.7	(4 849)
Annulment of tax losses carried forward	(13.5)	138 030	(33.9)	251 000
Share of profits / (losses) of associated companies	(0.0)	426	0.2	(1 604)
Deffered tax assets not recognized under tax losses for the exercise	(24.9)	254 300	(28.3)	209 708
Other	(3.4)	34 644	(34.1)	42 957
Total tax recognized	**(4.5)**	**45 769**	**(90.2)**	**667 707**

[(a)] Includes the profit / (loss) of discontinued units

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available allowing for the utilization of the deductible temporary differences. The Group 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.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2019, exercise was made based on the business plan for the period 2019-2022. This evaluation led the Bank to the annulment of deferred tax assets generated by tax losses recognized in previous years in the amount during the last quarter of 2019 in the amount of Euro 138 030 thousand.

The reduction in the Group´s capacity to recover the deferred tax assets generated from tax liabilities, which was the reason for the abovementioned write down at the end of 2019, when compared to the amount estimated by the Executive Board of Directors at the end of 2018, is due, with the commitments between the Portuguese State and Directorate-General for Competition of the European Commission ("DGCOMP"), reviewed upon the partial sale of NOVO BANCO concluded by the end of October 2017 and formally announced to the Bank in December 2017, and due to a higher level of conservatism on the Portuguese macroeconomic projections for the medium and long term, bearing in mind the challenges and difficulties faced by NOVO BANCO, as well as the current expectations for the reference rates in the medium term, in particular after the measures announced by the ECB in the summer of 2019.

The plan incorporates also a greater focus on reducing non-performing assets, reflecting the requirements and commitments the Bank faces in the regulatory framework of the European Union, something that also contribute to this less favourable evolution when compared with the previous plan.

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:

- Growth of pre-tax income at a rate of 2.62% from 2022;
- Significantly unfavourable evolution of net interest income in relation to the projections presented in the previous Medium-term Plan (PMP), especially due to the effect of the reduction in interest rate benchmarks, according to the current macroeconomic estimates;
- Reduction of operating costs, reflecting the favourable effect of the decreases in the number of employees and branches and, generally, of the simplification and increased process efficiency; and
- Increase in credit impairment in line with the evolution of the Group's activity and based on the macroeconomic projections, especially bearing in mind the significant effort made in the last years in the provisioning of the loan portfolio.

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 1January 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 2019 and 2018, are as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Credit impairment	516 616	598 900
Employees' benefits	268	9 748
	516 884	**608 648**

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)

	2018	2017	2016	2015
Tax credit	161 974	136 403	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 28 – OTHER ASSETS

As at 31 December 2019 and 2018, the caption Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Collateral deposits placed	807 810	680 685
Derivative products	*631 994*	*468 442*
Collateral CLEARNET and VISA	*33 175*	*33 350*
Collateral deposits relating to reinsurance operations	*141 697*	*167 967*
Other collateral deposits	*944*	*10 926*
Recoverable government subsidies on mortgage loans	4 663	1 915
Public sector	459 752	325 968
Contingent Capital Agreement	1 037 013	1 149 295
Other debtors	611 802	849 835
Income receivable	36 319	11 211
Deferred costs	56 910	63 205
Precious metals, numismatics, medal collection and other liquid assets	9 555	9 384
Real estate properties [a)]	977 465	1 551 977
Equipment [a)]	3 130	22 157
Stock exchange transactions pending settlement	-	2 010
Other assets	138 881	194 963
	4 143 300	**4 862 605**
Impairment losses		
Real estate properties [a)]	(542 589)	(615 157)
Equipment [a)]	(2 404)	(19 479)
Other debtors - Shareholder loans, supplementary capital contributions	(126 452)	(141 605)
Other	(93 363)	(90 107)
	(764 808)	**(866 348)**
	3 378 492	**3 996 257**

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).

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 2018: Euro 21.4 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 2018: Euro 112.8 million, entirely provisioned), and
- Euro 246.7 million receivable in relation to the sale operation of non-performing loans (Project NATA I: Euro 135.9 million and NATA II: Euro 110.8 million) (31 December 2018: Euro 435.5 million in relation to NATA I) (see Note 42);
- Euro 29.0 million receivable in relation to the sale operation of real estate assets in 2019 (denominated "Sertorius Project"); and
- Euro 12.4 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").

As at 31 December 2019, the caption Deferred costs includes the amount of Euro 43 836 thousand (31 December 2018: Euro 47 299 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.

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.

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.

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). During 2018, the Group entered into a promissory contract to buy and sell a portfolio of real estate assets, called Project Viriato. The details of these operations can be found in Note 42.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**866 348**	**862 327**
Allocation for the exercise	309 572	270 009
Utilisation during the exercise	(370 341)	(261 036)
Write-back for the exercise	(28 259)	(25 209)
Foreign exchange differences and other	(12 512)	20 257
Balance at the end of the exercise	**764 808**	**866 348**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**1 551 977**	**1 989 477**
Additions	86 811	178 691
Sales	(657 235)	(610 135)
Other movements	(4 088)	(6 056)
Balance at the end of the exercise	**977 465**	**1 551 977**

The sales occured during 2019 include the operation Project Sertorius (in the year of 2018 include the operation Project Viriato) (See Note 42).

As at 31 December 2019 and 2018, the detail of the real estate properties included in Other assets, by type, is as follows:

(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	169 999	89 669	101 275
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	281 421	306 230	344 713
Other [(a)]	**5**	**24 070**	**47 886**	**(23 816)**	**(23 815)**
	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

(in thousands of Euros)

	31.12.2018				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	1 163	314 298	114 032	200 266	210 864
Rural	396	307 500	140 028	167 472	172 319
	1 559	621 798	254 060	367 738	383 183
Buildings under construction					
Commercial	3	115	14	101	128
Residential	5	1 195	449	746	944
Other	2	1 668	487	1 181	1 181
	10	2 978	950	2 028	2 253
Buildings constructed					
Commercial	829	321 748	177 109	144 639	163 375
Residential	2 965	309 224	61 583	247 641	271 307
Other	575	272 666	82 591	190 075	210 446
	4 369	903 638	321 283	582 355	645 128
Other [(a)]	**24**	**23 563**	**38 864**	**(15 301)**	**(14 195)**
	5 962	**1 551 977**	**615 157**	**936 820**	**1 016 369**

(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)

	31.12.2019				
	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	(2 481)	5 661	9 698	76 791	89 669
Residential	8 845	33 882	33 188	57 878	133 793
Other	8 887	10 398	11 180	52 303	82 768
	15 251	49 941	54 066	186 972	306 230
Other [a]	**(23 816)**	**-**	**-**	**-**	**(23 816)**
	1 560	**66 831**	**106 340**	**260 145**	**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

(in thousands of Euros)

	31.12.2018				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	23 428	52 122	25 092	99 624	200 266
Rural	13 627	24 819	48 303	80 723	167 472
	37 055	76 941	73 395	180 347	367 738
Buildings under construction					
Commercial	-	-	98	3	101
Residential	-	53	108	585	746
Other	-	-	1 168	13	1 181
	-	53	1 374	601	2 028
Buildings constructed					
Commercial	9 021	20 914	20 322	94 382	144 639
Residential	44 179	78 330	55 871	69 261	247 641
Other	22 996	26 663	41 171	99 245	190 075
	76 196	125 907	117 364	262 888	582 355
Other [a]	**(15 236)**	**-**	**-**	**(65)**	**(15 301)**
	98 015	**202 901**	**192 133**	**443 771**	**936 820**

(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 2019, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 16 569 thousand (31 December 2018: Euro 22 488 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 8 079 thousand (31 December 2018: Euro 9 494 thousand).

NOTE 29 – 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 2019 and 2018, net of consolidation adjustments, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Assets of discontinued operations		
Banco Internacional de Cabo Verde	1 299	1 299
Banco Well Link (former NB Ásia)	4 121	4 013
GNB Vida	-	4 286 538
Banco Delle Tre Venezie	9 633	9 633
Económico FI	3 060	3 060
Greendraive	856	3 374
NOVO AF	2 770	-
GNB Seguros	8 209	-
ESEGUR	14 499	-
Multipessoal	2 641	-
Nueva Pescanova	1 470	1 888
	48 558	**4 309 805**
Impairment losses		
GNB Vida	-	(210 576)
Banco Delle Tre Venezie	(7 333)	(3 608)
Greendraive	(856)	(3 374)
Económico FI	(114)	-
Other	-	(1)
	(8 303)	**(217 559)**
	40 255	**4 092 246**
Liabilities of discontinued operations		
GNB Vida	-	4 434 528
Greendraive	982	3 473
Novo AF	960	-
	1 942	**4 438 001**

As at 31 December 2019 and 2018, the results from discontinued operations is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Profit / (loss) generated by discontinued operations		
Greendraive	(761)	(342)
NOVO AF	(392)	-
GNB Seguros	1 533	-
ESEGUR	487	-
Multipessoal	201	-
Banco Internacional de Cabo Verde	-	(2 207)
Quinta dos Cónegos	-	2
GNB Vida	-	(38 540)
BES Vénétie	-	1 268
	1 068	**(39 819)**

The impairment movement for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	217 559	396 146
Allocation / reversals for the exercise	5 403	(72 092)
Utilizations	(214 658)	(106 496)
Exchange differences and other	(1)	1
Balance at the end of the exercise	**8 303**	**217 559**

The impairment determined as at 31 December 2018 of GNB Vida is presented as follows:

(in thousands of Euros)

	31.12.2018
	GNB Vida
Fair value net of selling costs	175 000
Net equity	385 576
Impairment	**(210 576)**

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.

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 September 12, 2018, the Bank 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).

BES Vénétie

As a result of the commitments assumed between the Portuguese State and the European Commission Competition Authority, the shareholding held in BES Vénétie was considered as non-strategic. The Bank classified this shareholding as a discontinued operation in 2016, given the advanced state of the negotiation sale process in that financial year. The fair value presented of Euro 48 million, resulting from an impairment loss of Euro 103 million registered in 2017, was based on a proposal received for the

acquisition of this entity. During May 2018, NOVO BANCO, S.A. Group celebrated with Promontoria MMB SAS, a company incorporated in France and subsidiary of Cerberus Capital Management, L.P. a sale and purchase agreement for the share capital of Banque Espírito Santo et de la Vénétie, S.A. and related assets. The conclusion of the transaction was dependent on the required approvals, a condition that occurred on 28 December 2018 (date of closing of the transaction).

The financial statements as at 31 December 2019 and 2018 of the discontinued units, when applicable, are presented in the Note 43.

NOTE 30 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 31 December 2019 and 2018 is analysed as follows:

(in tousands 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

(in tousands of Euros)

	31.12.2018			
	Fair value through profit and loss	Measured at amortised cost	Fair value changes *	Total
Deposits from banks	-	8 355 560	-	8 355 560
Due to customers	-	28 695 268	-	28 695 268
Debt securities issued, subordinated debt and liabilities associated to transferred assets	96 762	1 051 843	-	1 148 605
Other financial liabilities	-	233 826	-	233 826
	96 762	**38 336 497**	**-**	**38 433 259**

* 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)

	31.12.2019	31.12.2018
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	36 176	461
Other funds	6 087 000	6 410 000
	6 123 176	**6 410 461**
	6 123 176	**6 410 461**
Deposits from credit institutions		
Domestic		
Deposits	105 183	115 324
Other funds	12 827	41 890
	118 010	**157 214**
Foreign		
Deposits	780 583	833 858
Loans	634 557	660 338
Operations with repurchase agreements	2 168 488	237 178
Other resources	24 809	56 511
	3 608 437	**1 787 885**
	3 726 447	**1 945 099**
	9 849 623	**8 355 560**

As at 31 December 2019, the caption Other funds from the European System of Central Banks includes Euro 6 087 million, covered by Group financial assets pledged as collateral (31 December 2018: Euro 6 410 million) (see Note 35).

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 2019 and 2018, the analysis of Deposits from banks, by maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Deposits from Central Banks		
Up to 3 months	1 286 176	461
From 3 months to 1 year	3 210 000	-
From 1 to 5 years	1 627 000	6 410 000
	6 123 176	**6 410 461**
Deposits from Banks		
Up to 3 months	1 993 950	1 156 885
From 3 months to 1 year	98 131	168 639
From 1 to 5 years	1 089 749	252 532
More than 5 years	544 617	367 043
	3 726 447	**1 945 099**
	9 849 623	**8 355 560**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
International		
From 3 months to 1 year	1 306 243	237 178
From 1 to 5 years	862 245	-
	2 168 488	**237 178**

Due to customers

The balance of Deposits due to costumers is composed, as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Repayable on demand		
Demand deposits	12 159 032	11 023 476
Time deposits		
Time deposits	11 228 590	13 503 423
Other	253	205
	11 228 843	**13 503 628**
Savings accounts		
Retirement saving accounts	244 009	240 892
Other	4 494 220	3 701 783
	4 738 229	**3 942 675**
Other funds		
Other	195 240	225 489
	195 240	**225 489**
	28 400 127	**28 695 268**

As at 31 December 2019 and 2018, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Repayable on demand	**12 159 032**	**11 023 476**
Term deposits		
Up to 3 months	7 252 713	7 612 614
3 months to 1 year	5 930 567	6 898 305
1 to 5 years	2 598 190	2 691 429
More than 5 years	459 625	469 444
	16 241 095	**17 671 792**
	28 400 127	**28 695 268**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	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)	102 012	559 837	661 849	96 762	537 424	634 186
Bonds	-	45 855	45 855	-	55 066	55 066
	102 012	**605 692**	**707 704**	**96 762**	**592 490**	**689 252**
Subordinated debt						
Bonds	-	415 069	415 069	-	414 903	414 903
Financial liabilities associated to transferred assets						
Asset lending operations	-	44 450	44 450	-	44 450	44 450
	102 012	**1 065 211**	**1 167 223**	**96 762**	**1 051 843**	**1 148 605**

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 2019, amount to Euro 5 500 million (31 December 2018: Euro 4 200 million), being these covered bonds totally repurchased by the Group. The main characteristics of the outstanding issues as at 31 December 2019 and 2018 are as follows:

(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	07/10/2019	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)

31.12.2018

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	A3	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
	4 200 000	**-**							

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, 7 and 8 and Instruction No. 13 of Bank of Portugal.

As at 31 December 2019, the assets that collateralize these covered debt securities amount to Euro 6 076.8 million (31 December 2018: Euro 4 617.4 million) (see Note 21).

The changes in the financial years of 2019 and 2018 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2018	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.

(in thousands of Euros)

	Balance as at 31.12.2017	Issues	Redemptions b)	LME	Net purchases	Other movements a)	Balance as at 31.12.2018
Debt securities issued							
Euro Medium Term Notes (EMTN)	864 325	-	-	(250 717)	(355)	20 933	634 186
Bonds	352 455	-	(180 575)	-	(116 735)	(79)	55 066
	1 216 780	-	(180 575)	(250 717)	(117 090)	20 854	689 252
Subordinated debt							
Bonds	-	141 200	-	258 800	-	14 903	414 903
Financial liabilities associated to transferred assets							
Asset lending operations	44 450	-	-	-	-	-	44 450
	1 261 230	**141 200**	**(180 575)**	**8 083**	**(117 090)**	**35 757**	**1 148 605**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.
b) Throughout 2018 the totality of Class A of Lusitano SME No. 3 emission was reimbursed in advance.

On 29 June 2018, NOVO BANCO issued Euro 400 million of instruments of subordinated liabilities. This issuance was carried out jointly with tender and exchange offers addressed to holders of senior bonds of NOVO BANCO Group, having been prioritized the allocation of the new Tier 2 issuance to the investors participating in the exchange offer (65%), against the allocation to new investors (35%). The tender and exchange offers allowed the extinction of a balance sheet value of Euro 250.7 million of senior bonds.

In accordance with the accounting policy mentioned in the Note 2.7, in case of purchases of securities representatives of the Bank's liabilities, these securities are written off from liabilities and the difference between the purchase price and the respective book value is recognised in the income statement. Following the debt exchange operation addressed to holders of senior bonds of NOVO BANCO Group by subordinated liabilities (LME) and purchases made, the Group recognized, in the first half of 2018, a net loss of Euro 86.2 million from which Euro 81.8 million are related to operations of debt exchange by subordinated liabilities. During the financial year of 2019 the Group recognised a gain of Euro 0.5 million.

As at 31 December 2019 and 2018, the analysis of Debt securities issued and subordinated debt, by maturity, is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	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	-	2 237	2 237	-	2 218	2 218
More than 5 years	102 012	603 455	705 467	96 762	590 272	687 034
	102 012	**605 692**	**707 704**	**96 762**	**592 490**	**689 252**
Subordinated debt						
1 to 5 years	-	415 069	415 069	-	414 903	414 903
	-	**415 069**	**415 069**	**-**	**414 903**	**414 903**
Financial liabilities associated to transferred assets						
Undetermined maturity	-	44 450	44 450	-	44 450	44 450
	-	**44 450**	**44 450**	**-**	**44 450**	**44 450**
	102 012	**1 065 211**	**1 167 223**	**96 762**	**1 051 843**	**1 148 605**

The main characteristics of these liabilities, as at 31 December 2019 and 2018, are as follows:

(in thousands of Euros)

Entity	Description		Currency	Issue date	Carrying Book value	Maturity	Interest rate	Market
			31.12.2019					
Bonds								
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Class A		EUR	2007	44 355	2031 b)	Euribor 3m + 0.40%	Ireland
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Class B		EUR	2007	1 500	2031 b)	Euribor 3m + 0.60%	Ireland
Euro Medium Term Notes								
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	41 798	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	96 270	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	62 461	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	46 011	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC		EUR	2013	34 344	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	42 861	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	37 674	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	32 615	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	14 236	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	40 699	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	36 317	2052	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	10 703	2046	Zero Coupon	XLUX
NB Finance	EMTN 40	a)	EUR	2005	102 012	2035	Indexed to swap 12m	XLUX
NB Finance	EMTN 56		EUR	2009	11 498	2043	Zero Coupon	XLUX
NB Finance	EMTN 57		EUR	2009	3 745	2044	Zero Coupon	XLUX
NB Finance	EMTN 58		EUR	2009	5 677	2045	Zero Coupon	XLUX
NB Finance	EMTN 59		EUR	2009	14 859	2042	Zero Coupon	XLUX
NB Finance	EMTN 60		EUR	2009	15 716	2040	Zero Coupon	XLUX
NB Finance	EMTN 61		EUR	2009	10 116	2041	Zero Coupon	XLUX
NB Finance	EMTN 114		EUR	2011	2 237	2021	Fixed rate 6%	XLUX
Subordinated debt								
NOVO BANCO	NB 06/07/2028		EUR	2018	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

(in thousands of Euros)

Entity	Description		Currency	Issue date	Carrying Book value	Maturity	Interest rate	Market
			31.12.2018					
Bonds								
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Class A		EUR	2007	53 566	2031 b)	Euribor 3m + 0.40%	Ireland
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Class B		EUR	2007	1 500	2031 b)	Euribor 3m + 0.60%	Ireland
Euro Medium Term Notes								
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	41 225	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	95 411	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	61 704	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	45 447	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC		EUR	2013	32 452	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	Banco Esp San Lux ZC 12/02/49		EUR	2014	40 223	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	Banco Esp San Lux ZC 19/02/49		EUR	2014	35 324	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	Banco Esp San Lux ZC 27/02/51		EUR	2014	30 550	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 06/03/2051		EUR	2014	13 329	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 03/04/48		EUR	2014	37 968	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 09/04/52		EUR	2014	34 169	2052	Zero Coupon	XLUX
NB (Luxemburgo Branch)	BES Luxembourg ZC 16/04/46		EUR	2014	9 906	2046	Zero Coupon	XLUX
NB Finance	EMTN 40	a)	EUR	2005	96 762	2035	Indexed to swap 12m	XLUX
NB Finance	EMTN 56		EUR	2009	10 713	2043	Zero Coupon	XLUX
NB Finance	EMTN 57		EUR	2009	3 491	2044	Zero Coupon	XLUX
NB Finance	EMTN 58		EUR	2009	5 293	2045	Zero Coupon	XLUX
NB Finance	EMTN 59		EUR	2009	13 884	2042	Zero Coupon	XLUX
NB Finance	EMTN 60		EUR	2009	14 669	2040	Zero Coupon	XLUX
NB Finance	EMTN 61		EUR	2009	9 448	2041	Zero Coupon	XLUX
NB Finance	EMTN 114		EUR	2011	2 218	2021	Fixed rate 6%	XLUX
Subordinated debt								
NOVO BANCO	NB 06/07/2028		EUR	2018	414 903	2023 b)	8.5%	XDUB
					1 104 155			

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 (31 December 2018: Euro 96 762 thousand) (see Note 39). This compares with Euro 104 699 thousand related to the amount to be repaid at the maturity date of this issue.

The table below presents the fair value component attributable to the credit risk of the fair value through profit or loss:

(in thousands Euros)

	31.12.2019	31.12.2018
Fair value attributable to credit risk at the beginning of the exercise	50 806	77 529
Recognized in other comprehensive income		
Changes through other comprehensive income	(2 871)	1 202
Changes due to debt repurchases	-	(27 925)
Fair value attributable to credit risk at the end of the exercise	**47 935**	**50 806**

The change in fair value attributable to changes in issuance credit risk is calculated using the credit spread observed in recent similar debt issues, adjusted for subsequent changes in the CDS credit spread of senior debt issued by Group entities. As of 1 January 2018, in accordance with IFRS 9, this liability component has been reflected in Other comprehensive income (see Note 34).

The Group did not present capital or interest defaults on its debt issued in the financial years of 2019 and 2018.

NOTE 31 – PROVISIONS

As at 31 December 2019 and 2018, 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 2017	**91 992**	**146 474**	**105 100**	**-**	**73 104**	**416 670**
Impact of transition to IFRS 9	-	4 471	-	-	-	4 471
Balance as at 1 January 2018	**91 992**	**150 945**	**105 100**	**-**	**73 104**	**421 141**
Allocation / (write-backs) for the period	(21 086)	26 189	(2 222)	182 800	53 189	238 870
Utilization during the period	(61 125)	-	(29 902)	(143 935)	(19 292)	(254 254)
Foreign exchange differences and other	-	12 527	(99)	-	7 750	20 178
Balance as at 31 December 2018	**9 781**	**189 661**	**72 877**	**38 865**	**114 751**	**425 935**
Allocation / (write-backs) for the period	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)
Foreign exchange differences and other	24	(31 799)	(240)	1	15 470	(16 544)
Balance as at 31 December 2019	**24 044**	**97 086**	**41 334**	**-**	**145 353**	**307 817**

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 2017				**144 488**
Impact of transition to IFRS 9				4 548
Balance as at 1 January 2018	**14 196**	**7 948**	**126 892**	**149 036**
Increases due to changes in credit risk	14 199	10 209	79 126	103 534
Decreases due to changes in credit risk	(2 100)	(11 963)	(63 675)	(77 738)
Other movements	484	10 638	1 395	12 517
Balance as at 31 December 2018	**26 779**	**16 832**	**143 738**	**187 349**
New guarantees granted	312	6 729	37 973	45 014
Increases 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**

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 2017				**1 986**
Impact of transition to IFRS 9				(77)
Balance as at 1 January 2018	**1 328**	**581**	**-**	**1 909**
Increases due to changes in credit risk	1 290	399	-	1 689
Decreases due to changes in credit risk	(666)	(626)	(4)	(1 296)
Other movements	(85)	91	4	10
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**

At the end of 2015, the Executive Board of Directors of NOVO BANCO presented to the European Commission a Restructuring Plan that was prepared in strict collaboration with Bank of Portugal and involved a set of measures, highlighting the concentration of the retail and corporate banking activities in Portugal and Spain, the divestment in non-strategic assets and the reduction, in 2016, of Euro 150 million in recurring operating costs (excluding restructuring costs) associated with a decrease of 1 000 employees and a resizing of the distribution network to 550 branches. In the scope of IAS 37, during 2016 a provision for this restructuring was created in the amount of Euro 98.2 million, to cover the facilities' closure costs and the employee downsizing. The restructuring plan was executed during 2016, and in 31 December 2016 the employees reduction goal was met, and the distribution network was reduced as well as the operational costs recorded a surpassing decrease. As at 31 December 2019, the provision booked in the balance sheet amounted to Euro 0.8 million.

The goals agreed with the European Commission for 30 June 2017, included a Euro 230 million reduction on recurring operational costs (excluding restructuring costs) when compared to 2015. This cost reduction is due to a re-sizing to 5 908 employees at the Group level and the distribution network to 475 branches. In IAS 37 scope, in 2017 a provision for this restructure was created, in the amount of Euro 52.6 million, making up for the costs of shutting down facilities and reducing headcount. This new phase of the restructuring plan was executed, and as at 30 June 2017, the goal of downsizing employees and the distribution network was met and the operational costs recorded a decrease bigger than the established goal.

Under the sale process of NOVO BANCO, concluded in October 2017, additional commitments were made with the European Commission. As such, at the end of 2017 a restructuring provision was established in the amount of Euro 82.3 million in order to address the new objectives. This provision contemplates restructuring measures including the focus of the banking activity in Portugal and Spain and on the retail and corporate segments, the divestment of non-strategic assets, the reduction of the number of employees and the resizing of the distribution network. As at 31 December 2019, the book value of restructuring provisions constituted in 2017 amounted to Euro 2.8 million.

During the financial year of 2019, in order to comply with the objective of reduction of employees assumed with the European Commission, and the cost and headcount budget defined for the year 2019, a new provision for restructuring amounting to Euro 57.1 million was set up. As at 31 December 2019, the carrying amount of this provision amounted to Euro 20.5 million.

Provisions for commercial offers, in the amount of Euro 41.3 million (31 December 2018: Euro 72.9 million), are intended to cover costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers holding NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision to be adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by customers.

During 2018, the Group launched a program of early repayment of liabilities. In this regard, provisions of Euro 182.8 million were incorporated for the clients that adhered to this program, in return for a compensation for loss of capital revenue, from which were used approximately Euro 143.9 million still in 2018. During 2019, Euro 1.2 million were replaced and Euro 37.7 million were used, so the value of this provision at the end of the year was nil.

Other provisions amounting to Euro 145.4 million (31 December 2018: Euro 114.8 million) are intended to cover certain duly 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 32.2 million (31 December 2018: Euro 20.6 million);

- The remaining amount, of Euro 113.2 million (31 December 2018: Euro 94.2 million), is intended to cover for losses in connection to the Group's normal activities, such as, amongst others, fraud, theft and robbery, and ongoing legal lawsuits, among others, and also to the estimated losses from the sale of assets of the Spanish Branch (Project Albatros - see Note 42).

NOTE 32 – OTHER LIABILITIES

As at 31 December 2019 and 2018, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Public sector	33 110	56 974
Creditors for supply of goods	78 686	29 464
Other creditors	77 350	101 524
Non-controlling interests of Open Investment Funds (ver Nota 34)	99 394	111 763
Career bonuses (see Note 16)	7 106	6 486
Retirement pensions and health-care benefits (see Note 16)	153 073	27 440
Other accrued expenses	86 277	84 520
Deferred income	2 557	3 241
Foreign exchange transactions pending settlement	6 577	7 193
Other transactions pending settlement	41 936	78 185
	586 066	**506 790**

NOTE 33 – SHARE CAPITAL

Ordinary shares

In 2017 and following the acquisition of 75% of NOVO BANCO share capital 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 2019 and 2018, 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	
	31.12.2019	**31.12.2018**
Nani Holdings, SGPS, SA	75.00%	75.00%
Fundo de Resolução [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 27, 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 2018 will confer a shareholding of up to approximately 10.3% of the share capital of NOVO BANCO, which will only dilute, in accordance to the sale contract, the Resolution Fund stake.

NOTE 34 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES AND MINORITY INTERESTS (NON-CONTROLLING INTERESTS)

As at 31 December 2019 and 2018, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2019	31.12.2018
Other accumulated comprehensive income	**(702 311)**	**(790 884)**
Retained earnings	**(6 115 245)**	**(4 682 300)**
Other reserves	**5 942 501**	**4 872 841**
Originating reserve	2 098 188	2 234 440
Special reserve	606 547	470 295
Other reserves and Retained earnings	3 237 766	2 168 106
	(875 055)	**(600 343)**

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 2017	**-**	**-**	**-**	**245 129**	**-**	**(420 991)**	**(175 862)**
Impact of transition to IFRS 9	607	-	-	(476 346)	-	-	(475 739)
Balance as at 1 January 2018	**607**	**-**	**-**	**(231 217)**	**-**	**(420 991)**	**(651 601)**
Actuarial deviations	-	-	-	-	-	(70 805)	(70 805)
Fair value changes, net of taxes	-	-	-	(67 557)	-	-	(67 557)
Foreign exchange differences	-	-	-	-	(8 665)	-	(8 665)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	1 202	-	-	-	-	1 202
Impairment reserves of securities at fair value through other comprehensive income	604	-	(3 409)	-	-	-	(2 805)
Reserves of sales of securities at fair value through other comprehensive income	-	-	94	-	-	-	94
Other comprehensive income of associated companies	-	-	-	779	-	-	779
Other	-	-	-	-	8 474	-	8 474
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)**

The accumulated variation of the credit risk reserves of financial liabilities at fair value through profit or loss is, at 31 December 2019, Euro -1 669 thousand (at 31 December 2018: Euro 1 202 thousand).

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 analysed as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	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	**(293 622)**	**(4 373)**	**(297 995)**	**333 503**	**(88 374)**	**245 129**
Impact of transition to IFRS 9	-	-	-	(533 037)	56 691	(476 346)
Balance as at 1 January 2018	**(293 622)**	**(4 373)**	**(297 995)**	**(199 534)**	**(31 683)**	**(231 217)**
Changes in fair value	383 497	-	383 497	(52 107)	-	(52 107)
Foreign exchange differences	(6 678)	-	(6 678)	(17 980)	-	(17 980)
Sales in the exercise	(70 140)	-	(70 140)	(24 001)	-	(24 001)
Deferred taxes recognized in the exercise in reserves	-	(94 575)	(94 575)	-	27 310	27 310
Balance at the end of the exercise	**13 057**	**(98 948)**	**(85 891)**	**(293 622)**	**(4 373)**	**(297 995)**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Amortised cost of financial assets at fair value through other comprehensive income	8 837 309	7 985 680
Market value of financial assets at fair value through other comprehensive income	8 849 896	7 661 207
Unrealised gains / (losses) recognized in fair value reserve	12 587	(324 473)
Fair value reserves by the equity method	2 966	2 068
Fair value reserves of discontinued activities	-	31 780
Non-controlling Interests	(2 496)	(2 997)
Total fair value reserve	13 057	(293 622)
Deferred Taxes	(98 948)	(4 373)
Fair value reserve attributable to shareholders of the Bank	**(85 891)**	**(297 995)**

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 at the time, nominated by Bank of Portugal.

Special reserve

As mentioned in Note 33, 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 2018 and with reference to the elegible 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)		
	31.12.2019	31.12.2018
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	109 421	133 658
2018 (net loss of 2017)	150 044	167 726
2019 (net loss of 2018)	178 171	-
	606 547	**470 295**

Resulting from the credit tax certified by the Tax authority in 2015 and 2016, the amount of the Special Regime was adjusted, after correcting for the number of rights issued in favour of the Portuguese State.

Other reserves and retained earnings

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capitalization 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 2019 these assets had a net value of Euro 3.0 billion, mainly as a result of payments and recoveries as well as losses recorded (31 December 2018: net value of Euro 4.0 billion).

As a result of the losses recorded by NOVO BANCO on 31 December 2018 and 2017, the conditions determining the payment by Resolution Fund of Euro 1 149 295 thousand and Euro 791 695 thousand were meet and the payments occurred in May 2019 and 2018, respectively. In the financial year of 2019, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 1 037 013 thousand relating to the Contingent Capitalization 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)	31.12.2019			31.12.2018		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
NB Património [a)]	-	(7 189)	44.27%	-	4 778	45.23%
NB Açores	18 745	1 736	42.47%	16 586	1 518	42.47%
BES Vénétie	-	-	-	-	181	0.00%
Amoreiras	9 222	(166)	4.76%	9 419	94	5.84%
Other	8 657	(2 034)		9 341	(1 916)	
	36 624	**(7 653)**		**35 346**	**4 655**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 32)

The changes occurred in the caption Non-controlling interests may be analysed as follows:

(in thousands of Euros)	31.12.2019	31.12.2018
Non-controlling interests at the beginning of the exercise	**35 346**	**79 212**
Changes in consolidation perimeter and control percentages	(1 746)	(42 768)
Increases / (decreases) in share capital of subsidiaries	1 798	-
Changes in fair value reserves	225	(402)
Other	8 654	(5 351)
Net profit / (loss) for the period	(7 653)	4 655
Non-controlling interests at the end of the exercise	**36 624**	**35 346**

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2019 and 2018 are the following:

(in thousands of Euros)

	31.12.2019	31.12.2018
Contingent liabilities		
Guarantees and standby letters	2 993 785	3 358 589
Financial assets pledged as collateral	11 833 012	12 341 217
Open documentary credits	516 162	664 905
	15 342 959	**16 364 711**
Commitments		
Revocable commitments	6 845 430	5 155 118
Irrevocable commitments	411 378	455 264
	7 256 808	**5 610 382**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

As at 31 December 2019, 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 11.5 billion (31 December 2018: Euro 12.1 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 9.5 million (31 December 2018: Euro 9.0 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 73.1 million (31 December 2018: Euro 71.4 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 98.5 million (31 December 2018: Euro 155.4 million);
- Securities pledged as collateral relating to derivatives trading with a central counterparty amounting to 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.

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)

	31.12.2019	31.12.2018
Deposit and custody of securities and other items	36 644 517	30 625 948
Amounts received for subsequent collection	283 647	296 990
Securitized loans under management (servicing)	776 249	1 524 064
Other responsibilities related with banking services	2 582 526	2 552 909
	40 286 939	**34 999 911**

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 20h00 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 2019 (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 NOVO BANCO 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 2019, 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.

Significant 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 GROUP are, on this date, not susceptible of determination or quantification:

- 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;
- 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.;
- 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;
- NOVO BANCO was informed by the publication in the Official Journal of the European Union of 16 July 2018, of the existence of an appeal to the General Court by Banco Comercial Português, SA and other entities of the group seeking the annulment of the decision of the European Commission C (2017 / N) of 11 October 2017 which considers the Contingent Capitalization Agreement agreed between the Resolution Fund and the Lone Star Group in connection with the sale of NOVO BANCO, compatible with the internal market. Although NOVO BANCO is not a party to this proceeding, it has asked the General Court to intervene as a party and this request was granted;
- 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 2019, the periodic contribution made by the Group amounted to Euro 12 196 thousand (31 December 2018: Euro 10 995 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. 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..

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 the previous announcement of 28 September 2016 and the Portuguese Finance Ministry announcement issued at 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.

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 Capitalization 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 Capitalization 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 Capitalization Agreement and the Compensation Mechanism referred to in the previous paragraphs.

According to the announcement issued by the Resolution Fund on 1 March 2019, for the payment to be made to the NOVO BANCO under the Contingent Capitalization Agreement, the available financial resources will be used first, resulting from the contributions paid, directly or indirectly by the banking sector, and these resources are complemented by a loan agreed with the State in October 2017 with an annual maximum limit then defined of Euro 850 million.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Group's financial statements.

NOTE 36 – ASSETS UNDER MANAGEMENT (DISTRIBUTION)

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 2019 and 2018, the value of the assets under management by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Investment funds	1 344 949	1 123 369
Real estate investment funds	90 184	174 395
Pension funds	2 386 809	2 112 011
Bancassurance	-	381 839
Discretionary management	1 103 025	977 102
	4 924 967	**4 768 716**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 37 – 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 2019, the following transactions with Related Parties (credit and other types) were carried out:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euro)
BEST - Banco Electrónico de Serviço Total S.A.	Subsidiary	Bank guarantee	8 090 174
		Bank guarantee	41 359 876
		Bond Issue	1 300 000 000
Cristalmax - Indústria Vidros S.A.	Associate	Credit Limit - NB Express Bill	100 000
		Limits - NB Factoring (Confirming)	250 000
		MLT Funding	500 000
Enkrot - Gestão e Tratamento de Águas S.A.	Associate	Bank guarantee	77 000
		Bank guarantee	159 067
		Authorized overdraft	500 000
		Factoring	650 000
GNB Companhia de Seguros S.A.	Associate	Direct Debits Limits	81 200 000
GNB Companhia de Vida S.A.	Subsidiary	Op. Markets Rce	10 000 000
		Direct Debits Limits	80 100 000
Greendraive - Gestão e Exporação de Campos de Golf e Complexos Turísticos S.A.	Subsidiary	Leasing	45 500
		Bank guarantee	106 000
		Loan Account Cc_	175 000
		Shareholder loans	340 000
Grupo Esegur (Esegur - Soluções de Segurança S.A.)	Associate	Limits Credit Card	225 000
		Limits to Bank guarantee	1 000 000
Grupo Multipessoal (Multipessoal - Recursos Humanos SGPS S.A.)	Associate	Limits Credit Card	117 500
		Collateral Line Guarantees	1 750 000
		Credit limit - NB Express Bill	2 500 000
		Authorized overdraft	4 500 000
		Factoring	9 200 000
Locarent- Coompanhia Portuguesa Aluguer Viaturas S.A.	Associate	Limits Credit Card	10 000
		Loan Account Cc_	2 500 000
		Op. Markets Rce_	3 000 000
		Credit Plafond - Leasing	4 625 000
		AOV Contract - NB Vehicles	5 726 880
		Credit Plafond - Leasing	6 900 000
		Direct Debits Limits	40 000 000
		Credit Plafond - Leasing	41 500 000
LogiC Logística Integrada S.A.	Associate	Limits Credit Card	10 000
		Bank guarantee	90 240
		Loan Account Cc_	250 000
M N Ramos Ferreira Engenharia S.A.	Associate	Limits Credit Card	3 500
		Credit Limit - NB Express Bill	100 000
		Credit Limit - NB Express Bill Exclusive	200 000
		MLT Funding	275 000
Nacional Conta – Contabilidade, Consultadoria e Administração, Lda.	Director / Manager / Family	Loan Account Cc_	100 000
Nexxpro - Fábrica de Capacetes S.A.	Associate	Issuance of Credit Cards	182 387
		Factoring	750 000
Novo Banco Servicios Corporativos SL	Subsidiary	Shareholder loans	4 750 000
		Loan Account Cc_	45 000 000
Novo Vanguarda SL	Subsidiary	Loan Account Cc_	250 000
Righthour S.A.	Subsidiary	MLT Funding	13 451 386
		MLT Funding	1 962 826
Unicre - Cartão Internacional de Crédito S.A.	Associate	MLT Funding	25 000 000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation
BEST - Banco Electrónico de Serviço Total S.A.	Subsidiary	1. Mortgage Offer Agreement for BEST employees 2. Credit Intermediary Binding Agreement
GNB Sociedade Gestora Fundos Investimento Imobiliário S.A.	Subsidiary	Outsoursing Contract (Real Estate Asset Management Agreement)
GNB Sociedade Gestora Fundos Investimento Mobiliário S.A.	Subsidiary	Amendment to the Distribution Agreement
Esegur - Soluções de Segurança S.A.	Associate	1. Renewal of the Technical Assistance Contract for Security Equipment and Central Security Service 2. Contract for the Provision of Services of Transportation of Values and Treatment of Cash
NANI Holdings SGPS SA / LSF NANI Investments Sarl	Associate	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)

The Group Balance Sheet balances with related parties as at 31 December 2019 and 2018, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	31.12.2019					31.12.2018				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholders										
NANI HOLDINGS	-	153	-	332	-	-	153	-	390	-
FUNDO DE RESOLUÇÃO	1 037 013	-	-	-	12 196	1 149 295	-	-	-	10 995
Associated companies										
LINEAS	97 656	29 556	-	2 609	-	97 644	34 426	-	4 710	3
LOCARENT	122 802	376	-	1 176	4 215	31 304	1 295	-	1 323	5 607
GNB SEGUROS	-	14 390	-	2	1	380	9 079	-	10	2
ESEGUR	4 157	1 510	69	-	-	5 528	3 510	69	-	19
UNICRE	28 360	2 500	-	180	-	10 001	26	-	26	-
MULTIPESSOAL	3 520	35	273	22	-	3 074	40	251	52	-
BANCO DELLE TRE VENEZIE	-	11	-	-	-	-	31	-	-	-
EDENRED	4	57 300	-	-	22	9	62 400	26	6	128
ENKROTT	1 332	1	53	22	-	1 168	-	2	32	-
YUNIT	-	-	-	-	-	-	-	21	-	-
PNBC	-	-	-	-	1 477	-	-	-	-	-
	1 294 844	**105 832**	**395**	**4 343**	**16 434**	**1 298 403**	**110 960**	**369**	**6 549**	**16 754**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	2 767	-	-	-	-	5 444
NACIONAL CONTA LDA (*)	117	8	-	-	-	120	7	-	-	-
Other	**117**	**8**	**-**	**-**	**2 767**	**120**	**7**	**-**	**-**	**5 444**

(*) Companies controlled directly or indirectly by members of the corporate bodies.

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capitalization Agreement regarding the financial years 2019 and 2018.

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 Group's activity. The liabilities relate mainly to bank deposits taken.

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 4.5% (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 2019 and 2018, are as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Executive Board of Directors	**General and Supervisory Board**	**Total**	**Executive Board of Directors**	**General and Supervisory Board**	**Total**
Short-term employment benefits	2 812	980	3 792	2 265	993	3 258
Post-employment benefits	3	-	3	4	-	4
Other long-term benefits	43	21	64	33	26	59
Employment termination benefits	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-
	2 858	**1 001**	**3 859**	**2 302**	**1 019**	**3 321**

In the financial year of 2018, no variable remuneration costs were recorded in relation to the Management and Supervisory Bodies and no variable remuneration was paid or attributed in 2018. Still in 2018 and resulting from the commitment to take up a new Executive Director, Euro 320 thousand were recorded as a sign-on bonus, which were actually paid in 2019, before taking up his duties. With regard to the financial year of 2019, variable remuneration to the Management Bodies amounts to Euro 1,997 thousand, which relates to the remuneration that do 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 deferral and verification of certain conditions.

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.

As at 31 December 2018, 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 503 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives was Euro 1 thousand.

NOTE 38 – SECURITISATION OF ASSETS

As at 31 December 2019 and 2018 the outstanding securitisation transactions made by the Group were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2019	31.12.2018	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	-	182 361	Mortgage loans (subsidized scheme)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	-	185 120	Mortgage loans (general and subsidized scheme)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	-	291 087	Mortgage loans (general scheme)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	312 836	351 544	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	463 413	513 952	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	434 463	478 943	Mortgage loans (general scheme)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	-	8 371	Project Finance loan
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 090 124	1 199 264	Mortgage loans (general scheme)
Lusitano SME No.3	November 2016	630 385	88 937	197 985	Loans to small and medium-sized enterprises

The loans and advances to customers covered by the securitization operation Lusitano SME No. 3 was not derecognised from the balance sheet since the Group substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised 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, Lusitano Project Finance No. 1 FTC and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note1). During 2019, the Group proceeded to the early redemption of Lusitano Project Finance No. 1 FTC.

The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousand of Euros)

	31.12.2019	31.12.2018
Cash and deposits with banks	146 364	147 029
Loans and advances to customers (net of impairment losses)	1 608 684	1 877 235
Debt securities issued [(a)]	45 855	55 066

[(a)] see Note 30

Additionally, Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc, Lusitano Mortgages No. 3 plc, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual, as demonstrated below. During the financial year of 2019, the Group repurchased credits from securitization operation Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc with a total amount of Euro 593.1 million.

As at 31 December 2018, the following synthetic securitization operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of securitised credit	Current amount of securitised credit		Asset securitized
			31.12.2019	31.12.2018	
Lusitano Synthetic Limited	December 2012	1 000 000	-	354 311	Financing M/L Term (SMEs)

Lusitano Synthetic Limited was a synthetic loan securitization operation involving the contracting by the Group of a credit default swap (CDS) to eliminate credit risk associated with a portfolio of loans granted to companies. The loans associated to this portfolio continued to be recognized in the Group's balance sheet under the caption Loans and advances to customers. During the financial year of 2019, Lusitano Synthetic Limited was early terminated.

The main characteristics of these operations, as at 31 December 2019 and 2018, may be analysed as follows:

(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	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	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2018														
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.1 plc	Class A	915 000	87 504	-	-	December 2035	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	AA	Aa3	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Baa1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB+	B1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	99 505	-	-	December 2036	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	Aa3	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB-	Baa2	BBB-	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	B	B2	B	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	250 799	-	-	December 2047	AAA	Aaa	AAA	-	A	A1	A	-
	Class B	27 000	9 841	-	-	December 2047	AA	Aa2	AA	-	BBB+	Ba1	BB-	-
	Class C	18 600	6 780	-	-	December 2047	A	A2	A	-	BB+	Ba3	B	-
	Class D	14 400	5 249	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 400	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	272 930	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	A	-
	Class B	22 800	18 066	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BBB-	-
	Class C	19 200	15 214	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	19 017	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 529	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	406 872	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA-	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B1	BBB-	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa2	BB+	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC+	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	319 906	266 342	253 795	March 2060	AAA	Aaa	AAA	-	A-	Aa3	BBB+	-
	Class B	65 450	65 450	63 950	57 394	March 2060	AA	Aa3	AA	-	BB+	Baa1	BBB+	-
	Class C	41 800	41 800	41 800	31 497	March 2060	A	A3	A	-	B-	Ba3	BBB-	-
	Class D	17 600	17 600	17 600	11 945	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 511	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	8 833	8 833	8 789	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	749 529	749 529	681 379	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	294 500	264 702	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	180 500	152 195	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	-	-	-	December 2037	-	A3	-	AA	-	Aa3	-	AA
	Class B	62 700	31 058	31 058	30 782	December 2037	-	Baa3	-	BBB	-	Aa3	-	AAL
	Class C	62 700	62 700	62 700	61 061	December 2037	-	B1	-	B	-	A3	-	BBBH
	Class D	116 000	116 000	116 000	110 677	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	3 691	3 691	3 420	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	5 624	5 624	2 645	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	255 731	255 731	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	77 963	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-

NOTE 39 – 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.

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 organised 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 more than one provider and for which the instruments are listed on a stock exchange;

(vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / 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) OTC (over-the-counter) derivatives valued using observable market inputs; and

(iii) Unlisted shares valued through 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:

<u>Money market operations and loans and advances to customers</u>: 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 analysed.

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, which considers assumptions not observable in the market. 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 Group requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

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: their fair value is determined based on periodic valuations performed by independent entities specializing in this type of service (see accounting policy in Note 2.23).

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 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**

(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 2018				
Financial assets held for trading	**257 270**	**515 940**	**70 573**	**843 783**
Securities held for trading	257 270	-	-	257 270
Bonds issued by public entities	*257 269*	-	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*
Derivatives held for trading	-	515 940	396	516 336
Exchange rate contracts	-	*32 731*	-	*32 731*
Interest rate contracts	-	*436 375*	*396*	*436 771*
Credit default contracts	-	*9*	-	*9*
Other	-	*46 825*	-	*46 825*
Economic hedging derivatives	-	-	70 177	70 177
Interest rate contracts	-	-	*70 177*	*70 177*
Financial assets mandatorily at fair value through profit or loss	**78 549**	**46**	**1 487 630**	**1 566 225**
Bonds issued by other entities	*1*	*46*	-	*47*
Shares	*78 304*	-	*596 519*	*674 823*
Other variable income securities	*244*	-	*891 111*	*891 355*
Financial assets at fair value through profit or loss	**480**	**-**	**-**	**480**
Bonds issued by other entities	*480*	-	-	*480*
Financial assets at fair value through other comprehensive income	**7 587 936**	**27 558**	**45 713**	**7 661 207**
Bonds issued by public entities	*6 620 509*	-	-	*6 620 509*
Bonds issued by other entities	*951 085*	-	-	*951 085*
Shares	*16 342*	*27 558*	*45 710*	*89 610*
Other variable income securities	-	-	*3*	*3*
Derivatives - Hedge Accounting	**-**	***1 227***	**-**	**1 227**
Interest rate contracts	-	*1 227*	-	*1 227*
Investment properties	**-**	**-**	**1 098 071**	**1 098 071**
Assets at fair value	**7 924 235**	**544 771**	**2 701 987**	**11 170 993**
Financial liabilities held for trading	**-**	**490 229**	**2 724**	**492 953**
Derivatives held for trading	-	490 229	2 724	492 953
Exchange rate contracts	-	*32 748*	-	*32 748*
Interest rate contracts	-	*433 277*	*2 724*	*436 001*
Credit default contracts	-	*117*	-	*117*
Other	-	*24 087*	-	*24 087*
Financial liabilities at fair value through profit or loss	**-**	**96 762**	**-**	**96 762**
Debt securities issued	-	*96 762*	-	*96 762*
Derivatives - Hedge Accounting	**-**	**36 150**	**-**	**36 150**
Interest rate contracts	-	*36 150*	-	*36 150*
Liabilities at fair value	**-**	**623 141**	**2 724**	**625 865**

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 2019 and 2018, may be analysed as follows:

(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**
	Securities held for trading	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**

(in thousands of Euros)

	31.12.2018									
	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**
	Securities held for trading	Derivatives held for trading	Economic hedging derivatives						Derivatives held for trading	
Balance as at 31 December 2017	**81**	**448**	**103 779**	**29 563**	**-**	**2 070 262**	**1 144 432**	**3 348 565**	**2 440**	**2 440**
Impact of transition to IFRS 9	(81)	-	-	1 352 143	-	(2 019 781)	-	(667 719)	-	-
Balance as at 1 January 2018	**-**	**448**	**103 779**	**1 381 706**	**-**	**50 481**	**1 144 432**	**2 680 846**	**2 440**	**2 440**
Acquisitions	-	163	-	32 872	-	7 576	13 720	54 331	-	-
Attainment of maturity	-	-	-	(44 020)	-	(6 377)	-	(50 397)	-	-
Liquidation	-	-	-	(48 993)	-	(59)	-	(49 052)	-	-
Transfers in	-	-	70 177	-	-	-	23 401	93 578	-	-
Transfers out	-	-	(103 779)	-	-	-	-	(103 779)	-	-
Sales	-	-	-	-	-		(69 703)	(69 703)	-	-
Changes in value	-	(215)	-	166 065	-	(5 908)	(16 518)	143 424	284	284
Other movements	-	-	-	-	-	-	2 739	2 739	-	-
Balance as at 31 December 2018	**-**	**396**	**70 177**	**1 487 630**	**-**	**45 713**	**1 098 071**	**2 701 987**	**2 724**	**2 724**

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 2019 and 2018 were as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	682	682	-	(464)	(464)
Securities held for trading	-	-	-	-	-	-
Economic hedging derivatives	-	6 204	6 204	-	24 724	24 724
Financial assets mandatorily at fair value through profit or loss	-	(287 694)	(287 694)	-	(55 312)	(55 312)
Financial assets at fair value through other comprehensive income	11	-	11	(106 848)	-	(106 848)
Investment properties	-	(216 119)	(216 119)	-	(16 518)	(16 518)
	11	**(496 927)**	**(496 916)**	**(106 848)**	**(47 570)**	**(154 418)**

The following table presents, for 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	31.12.2019						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario Change	Unfavorable scenario Impact	Favorable scenario Change	Favorable scenario 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		37.2		-		-
Investment Properties	Valuation of the management company	Net assets value (c)	**700.7**		**-**		**-**
Total			**1 954.9**		**(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

(in millions of Euros)

Assets classified under level 3	31.12.2018						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario Change	Unfavorable scenario Impact	Favorable scenario Change	Favorable scenario Impact
Financial assets held for trading			**70.6**		**-**		**-**
Derivatives held for trading	Other	(a)	0.4		-		-
Economic hedging derivatives		(b)	70.2		-		-
Financial assets mandatorily at fair value through profit or loss			**1 487.6**		**(23.0)**		**30.1**
Shares			596.5		(23.0)		30.1
	Discounted cash flow model	Specific Impairment	*83.5*	*-50%*	*(23.0)*	*+50%*	*30.1*
	Other	(a)	*2.8*		-		-
	Valuation of the management company	Net assets value (c)	*510.3*		-		-
Outros títulos de rendimento variável			891.1		-		-
	Other	(a)	*0.2*		-		-
	Other		*27.4*		-		-
	Valuation of the management company	Net assets value (c)	*863.5*		-		-
Financial assets at fair value through other comprehensive income			**45.7**		**-**		**-**
Shares			45.7		-		-
	Other	(a)	*32.8*		-		-
	Other		*10.9*		-		-
	Valuation of the management company	Net assets value (c)	*2.1*		-		-
Investment Properties	Valuation of the management company	Net assets value (c)	**1 098.1**		**-**		**-**
Total			**2 702.0**		**(23.0)**		**30.1**

(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 31 December 2019 and 2018, 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:

(%)

	31.12.2019			31.12.2018		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.4560	1.6000	0.7500	-0.4200	2.4000	0.7650
1 month	-0.4380	1.7900	0.7650	-0.3630	2.7000	0.9050
3 months	-0.3830	1.9200	0.8650	-0.3090	2.8700	0.9500
6 months	-0.3240	1.9300	0.9000	-0.2370	2.9500	1.0700
9 months	-0.3174	1.9100	0.9450	-0.2295	3.0300	1.1600
1 year	-0.3161	1.7490	0.7419	-0.2250	2.7440	0.9898
3 years	-0.2380	1.6556	0.8243	-0.0650	2.5800	1.2193
5 years	-0.1205	1.6990	0.8844	0.2010	2.5780	1.3050
7 years	0.0160	1.7630	0.9406	0.4690	2.6210	1.3574
10 years	0.2110	1.8470	1.0172	0.8150	2.7110	1.4365
15 years	0.4670	1.9650	1.0968	1.1690	2.7890	1.5131
20 years	0.5990	2.0160	1.1206	1.3450	2.8190	1.5461
25 years	0.6370	2.0350	1.1130	1.3720	2.8190	1.5491
30 years	0.6310	2.0420	1.1082	1.4050	2.8110	1.5411

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 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
31 December 2018						
CDX USD Main	**30**	28.34	55.91	87.74	112.28	132.90
iTraxx Eur Main	**29**	-	54.76	88.08	111.06	131.23
iTraxx Eur Senior Financial	**29**	-	-	109.52	-	146.91

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2019			31.12.2018		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	12.71	18.87	48.83	16.48	11.25	33.95
3 years	22.74	39.23	57.73	32.17	22.87	-
5 years	33.51	36.57	64.04	48.20	27.29	58.01
7 years	40.12	39.25	67.79	57.42	28.35	61.25
10 years	46.46	34.71	70.87	63.34	30.20	-
15 years	51.03	-	-	64.69	-	-

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	**31.12.2019**	**31.12.2018**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,1234	1,1450	5,03	5,24	5,43	5,58	5,85
EUR/GBP	0,8508	0,8945	7,10	6,78	6,83	6,80	6,95
EUR/CHF	1,0854	1,1269	3,98	4,20	4,35	4,58	4,68
EUR/NOK	9,8638	9,9483	6,29	6,30	6,40	6,50	6,58
EUR/PLN	4,2568	4,3014	3,80	3,85	4,04	4,13	4,20
EUR/RUB	69,9563	79,7153	7,51	8,07	8,71	9,29	9,58
USD/BRL [a)]	4,0197	3,8812	10,45	10,58	10,57	10,65	10,73
USD/TRY [b)]	5,9501	5,2915	12,05	13,20	14,30	15,13	15,93

[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
	31.12.2019	**31.12.2018**	**% Change**	**1 month**	**3 months**	
DJ Euro Stoxx 50	3 745	3 001	-19.86%	11.15	11.68	-
PSI 20	5 214	4 731	-9.26%	9.67	10.42	-
IBEX 35	9 549	8 540	-10.57%	12.15	12.24	-
FTSE 100	7 542	6 728	-10.80%	13.21	11.90	11.26
DAX	13 249	10 559	-20.30%	10.70	12.12	12.59
S&P 500	3 231	2 507	-22.41%	7.32	9.53	11.14
BOVESPA	115 645	87 887	-24.00%	11.24	15.03	19.21

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)

		Fair Value			
	Assets / liabilities recorded at amortised cost	**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**

(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 2018					
Cash, cash balances at central bank and other demand deposits	977 672	-	977 672	-	977 672
Financial assets at amortised cost					
Debt securities	1 389 400	10 464	705 677	815 891	1 532 032
Loans and advances to banks	423 058	-	423 058	-	423 058
Loans and advances to customers	24 720 610	-	-	24 868 050	24 868 050
Financial assets	**27 510 740**	**10 464**	**2 106 407**	**25 683 941**	**27 800 812**
Financial liabilities measured at amortised cost					
Deposits from banks	8 355 560	-	8 360 378	-	8 360 378
Due to customers	28 695 268	-	-	28 695 268	28 695 268
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 051 843	1 137 312	-	98 160	1 235 472
Other financial liabilities	233 826	-	-	233 826	233 826
Financial liabilities	**38 336 497**	**1 137 312**	**8 360 378**	**29 027 254**	**38 524 944**

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, subordinated debt and financial liabilities associated to transferred assets

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 40 – ASSET 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 derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the 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 recognised 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	-	-	-	-	-
FIAE CAPITAL CRIATIVO PROMOÇÃO E TURISMO	131 013	131 056	43	133 927	-	133 927	-	133 927
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	376	332	(44)	507	-	507	-	507
	1 496 355	**1 492 637**	**(3 718)**	**1 431 155**	**119 516**	**1 550 671**	**(106 333)**	**1 444 337**

As at 31 December 2019, the Group's total exposure to securities associated with the assignment operations amounted to Euro 839.9 million (December 31, 2018: Euro 1 086.0 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 portfolio place to the impairment register. The detail is as follows:

(in thousands of Euros)

	31.12.2019						31.12.2018					
	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	259 646	180 646	34 824	(34 824)	-	14 807	270 627	225 478	34 824	(34 824)	-	14 807
FLIT SICAV	279 515	197 744	14 900	(14 900)	-	15 309	280 131	253 055	16 131	(16 131)	-	16 634
Discovery Portugal Real Estate Fund	256 847	213 217	-	-	-	7 193	253 423	255 224	-	-	-	11 262
Fundo Vallis Construction Sector	-	-	-	-	-	-	122 108 249	-	-	-	-	190
Fundo Recuperação, FCR	206 805	74 296	-	-	-	19 063	213 635	116 140	-	-	-	19 906
Fundo Reestruturação Empresarial	117 051	48 148	-	-	-	8 237	150 061	89 179	-	-	-	17 747
Fundo Aquarius	159 274	125 875	-	-	-	22 800	158 769	146 909	-	-	-	22 332
	1 279 138	**839 926**	**49 724**	**(49 724)**	**-**	**87 409**	**123 434 895**	**1 085 985**	**50 955**	**(50 955)**	**-**	**102 878**

The Group also maintains an indirect exposure to the assets ceded, considering its minority participation in the pool of assets ceded by other financial institutions, due to the minority participation subscribed in the parent companies. There was, however, an operation with the company FLITPTREL VIII in respect of which, as the acquiring company substantially holds assets transferred by the Group and taking into consideration the junior securities held, the variability test resulted in a substantial exposure to all the risks and rewards. Under this circumstance, the operation amounting to Euro 60 million remains recognised in the Group's balance sheet under Loans and advances to customers.

NOTE 41 – RISK MANAGEMENT

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 represents the potential financial loss arising from the failure of a borrower or counterparty to honor its contractual obligation established with the Group in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and other contingent liabilities. In credit default swaps (CDS), the net exposure between selling and buying positions in relation to each reference entity, is also considered a credit risk to NOVO BANCO Group. CDSs are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the valuation methodologies and tools used to evaluate and control risk, as well as in the procedures and decision making processes.

The risk profile of the Group is analysed on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses. Regular analyzes also include compliance with the approved credit limits and the correct operation of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas.

NOVO BANCO Group's maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Deposits with and loans and advances to banks	635 181	698 847
Derivatives for trading and fair value option derivatives	493 884	586 513
Securities held for trading	254 848	257 270
Securities at fair value through profit/loss	-	480
Securities at fair value through profit/loss - mandatory	57 590	47
Securities at fair value through other comprehensive income	8 764 004	7 570 381
Securities at amortised cost	1 622 545	1 389 400
Loans and advances to customers	25 202 227	24 754 445
Derivatives - hedge accounting	7 452	1 227
Other assets	802 530	824 161
Guarantees and standby letters provided	2 899 851	3 171 240
Documentary credits	516 162	664 905
Irrevocable commitments	7 253 656	5 608 070
Credit risk associated with the credit derivatives' reference entities	2 883	7 814
	48 512 813	**45 534 800**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. 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 described in Note 2.5. 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 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 table below displays the assets impaired, or overdue by not impaired:

(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

(in thousands of Euros)

	31.12.2018					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	400 113	-	374 474	774 587	(75 740)	698 847
Securities held for trading	257 270	-	-	257 270	-	257 270
Bonds issued by government and other public entities	*257 269*	-	-	*257 269*	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*	-	*1*
Securities at fair value through profit/loss	480	-	-	480	-	480
Bonds issued by other entities	*480*	-	-	*480*	-	*480*
Securities at fair value through profit/loss - mandatory	47	-	-	47	-	47
Bonds issued by other entities	*47*	-	-	*47*	-	*47*
Securities at fair value through other comprehensive income	7 526 094	-	45 500	7 571 594	(1 213)	7 570 381
Bonds issued by government and other public entities	*6 620 509*	-	-	*6 620 509*	*(816)*	*6 619 693*
Bonds issued by other entities	*905 585*	-	*45 500*	*951 085*	*(397)*	*950 688*
Securities at amortised cost	*1 437 167*	-	*147 019*	*1 584 186*	*(194 786)*	*1 389 400*
Bonds issued by government and other public entities	*503 123*	-	-	*503 123*	*(771)*	*502 352*
Bonds issued by other entities	*934 044*	-	*147 019*	*1 081 063*	*(194 015)*	*887 048*
Loans and advances to customers	22 416 810	15 628	6 279 929	28 712 367	(3 957 922)	24 754 445

Impairment 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 an individual assessment of impairment.

Exposures classified as non-impairing relate to (i) all exposures that do not show signs of significant deterioration of credit risk - exposures classified as stage 1; (ii) exposures that, with signs of a significant deterioration of credit risk, have no objective evidence of impairment or 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)

	31.12.2019					
	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**

(in thousands of Euros)

	31.12.2018					
	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	-	-	-	-	12 947	59 280
3 months to 1 year	-	11 000	-	-	1 121	391 646
1 to 3 years	-	72 697	-	-	1 360	1 204 380
3 to 5 years	-	97 775	-	-	73	1 149 411
More than 5 years	-	219	-	74	127	718 323
	-	**181 691**	**-**	**74**	**15 628**	**3 523 040**
Due						
Up to 3 months	-	3 880	-	-	-	231 491
3 months to 1 year	-	2 890	-	-	-	642 055
1 to 3 years	-	4 058	-	-	-	444 982
3 to 5 years	-	-	-	-	-	290 806
More than 5 years	-	-	-	374 400	-	1 147 555
	-	**10 828**	**-**	**374 400**	**-**	**2 756 889**
	-	**192 519**	**-**	**374 474**	**15 628**	**6 279 929**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2019				31.12.2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	381 501	-	381 501	-	374 400	74	374 474
Securities at fair value through other comprehensive income	-	-	45 520	45 520	-	-	45 500	45 500
Securities at amortised cost	-	-	104 475	104 475	-	-	147 019	147 019
Loans and advances to customers	944	14 701	2 958 914	2 974 559	6 015	157 208	6 132 334	6 295 557
	944	**396 202**	**3 108 909**	**3 506 055**	**6 015**	**531 608**	**6 324 927**	**6 862 550**

In relation to assets that are not overdue or impaired, the distribution by rating level is presented below. For debt instruments, the rating assigned by the Rating Agencies is considered; for the loans and advances to customers and cash and deposits with banks the rating and scoring models for the attribution of a credit rating are used, with these being reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(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

(in thousands of Euros)

	31.12.2018					
	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	-	1 020	27 907	20 507	350 679	400 113
Securities held for trading	-	-	257 269	-	1	257 270
Bonds issued by government and other public entities	*-*	*-*	*257 269*	*-*	*-*	*257 269*
Bonds issued by other entities	*-*	*-*	*-*	*-*	*1*	*1*
Securities at fair value through profit/loss	-	-	-	-	480	480
Bonds issued by other entities	*-*	*-*	*-*	*-*	*480*	*480*
Securities at fair value through profit/loss - mandatory	-	-	-	-	47	47
Bonds issued by other entities	*-*	*-*	*-*	*-*	*47*	*47*
Securities at fair value through other comprehensive income	1 081 656	2 088 725	3 977 041	-	378 672	7 526 094
Bonds issued by government and other public entities	*784 128*	*2 047 323*	*3 789 058*	*-*	*-*	*6 620 509*
Bonds issued by other entities	*297 528*	*41 402*	*187 983*	*-*	*378 672*	*905 585*
Títulos ao custo amortizado	-	-	-	533 577	903 590	1 437 167
Bonds issued by government and other public entities	*-*	*-*	*-*	*503 123*	*-*	*503 123*
Bonds issued by other entities	*-*	*-*	*-*	*30 454*	*903 590*	*934 044*
Loans and advances to customers	2 672 018	8 591 766	2 767 289	6 455 751	1 929 986	22 416 810

As at 31 December 2019 and 2018, 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	31.12.2019													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	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**

(in thousands of Euros)

Segment	31.12.2018													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	11 744 329	159 981	39 607	1 552	11 783 936	161 533	1 736 821	710 176	4 074 170	2 936 135	5 810 991	3 646 311	17 594 927	3 807 844
Mortgage loans	9 271 040	21 123	50 344	917	9 321 384	22 040	65 263	14 789	163 265	25 511	228 528	40 300	9 549 912	62 340
Consumer and other loans	1 233 946	400	8 697	528	1 242 643	928	180 376	5 895	144 509	80 915	324 885	86 810	1 567 528	87 738
Total	**22 249 315**	**181 504**	**98 648**	**2 997**	**22 347 963**	**184 501**	**1 982 460**	**730 860**	**4 381 944**	**3 042 561**	**6 364 404**	**3 773 421**	**28 712 367**	**3 957 922**

As at 31 December 2019 and 2018, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euros)

Year of production	31.12.2019											
	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**

(in thousands of Euros)

Year of production	31.12.2018											
	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	7 076	404 672	66 265	50 570	1 312 848	30 914	758 229	151 181	11 404	815 875	1 868 701	108 583
2005	1 465	159 938	31 114	9 580	430 394	2 110	19 145	20 105	674	30 190	610 437	33 898
2006	1 733	343 884	47 133	16 077	793 843	3 707	23 831	25 794	1 600	41 641	1 163 521	52 440
2007	2 208	500 710	90 495	25 994	1 217 984	5 724	33 344	33 051	1 816	61 546	1 751 745	98 035
2008	1 980	827 619	104 564	17 494	909 991	3 918	27 187	33 973	1 355	46 661	1 771 583	109 837
2009	1 770	702 954	204 950	11 703	625 950	3 009	24 291	42 401	3 093	37 764	1 371 305	211 052
2010	2 116	749 019	298 113	10 581	626 045	3 126	29 119	57 909	2 294	41 816	1 432 973	303 533
2011	1 908	558 724	127 234	5 893	288 555	1 506	29 394	34 978	1 432	37 195	882 257	130 172
2012	2 381	1 594 847	994 506	3 467	136 581	1 162	36 517	42 463	3 355	42 365	1 773 891	999 023
2013	4 009	1 006 143	336 861	4 174	208 675	1 384	33 044	71 750	12 911	41 227	1 286 568	351 156
2014	4 925	1 227 192	428 132	2 858	162 234	709	30 284	51 008	1 786	38 067	1 440 434	430 627
2015	7 233	1 534 222	306 119	3 835	252 123	696	38 944	172 117	23 618	50 012	1 958 462	330 433
2016	8 713	1 974 241	480 954	7 478	540 541	1 241	58 254	171 062	14 068	74 445	2 685 844	496 263
2017	11 393	2 297 086	141 198	11 094	924 331	1 556	63 878	269 867	6 367	86 365	3 491 284	149 121
2018	21 760	3 713 676	150 206	11 716	1 119 817	1 578	66 707	389 869	1 965	100 183	5 223 362	153 749
Total	**80 670**	**17 594 927**	**3 807 844**	**192 514**	**9 549 912**	**62 340**	**1 272 168**	**1 567 528**	**87 738**	**1 545 352**	**28 712 367**	**3 957 922**

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 2019 and 2018, 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)

	31.12.2019					
	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 thousands of Euros)

	31.12.2018					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	5 634 590	3 628 850	11 960 337	178 994	17 594 927	3 807 844
Mortgage loans	6 965	847	9 542 947	61 493	9 549 912	62 340
Consumer and other loans	270 710	57 088	1 296 818	30 650	1 567 528	87 738
Total	**5 912 265**	**3 686 785**	**22 800 102**	**271 137**	**28 712 367**	**3 957 922**

(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

The loans and advances analysed by the Impairment Committee, for which the impairment amount automatically determined by the model was not changed, are included and presented in the "Collective assessment".

As at 31 December 2019 and 2018, 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)

	31.12.2019					
	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 thousands of Euros)

	31.12.2018					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	4 383 016	2 611 728	19 985 053	237 138	24 368 069	2 848 866
Luxembourg	13 000	13 000	53 952	240	66 952	13 240
United Kingdom	4 330	2 160	187 088	1 033	191 418	3 193
Spain	551 972	261 685	1 607 369	21 145	2 159 341	282 830
Cayman Island	-	-	617	12	617	12
Ireland	346 245	334 473	15 300	88	361 545	334 561
Other	613 702	463 739	950 723	11 481	1 564 425	475 220
Total	**5 912 265**	**3 686 785**	**22 800 102**	**271 137**	**28 712 367**	**3 957 922**

* 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 are secured, namely with mortgages or pledges. The fair value of those guarantees is determined on the date of the loan disbursement, being revalued periodically. The gross amount of the loans to customers and the respective fair value of the collateral, limited to the amount of the associated loans, are as follows:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	10 083 366	10 065 713	9 403 659	9 385 839
Pledges	82 044	81 368	60 033	59 648
Not collateralized	98 865	-	86 220	-
	10 264 275	**10 147 081**	**9 549 912**	**9 445 487**
Individuals - Other				
Mortgages	268 964	263 156	280 404	268 346
Pledges	342 268	210 696	381 993	236 924
Not collateralized	947 184	-	905 131	-
	1 558 416	**473 852**	**1 567 528**	**505 270**
Corporate				
Mortgages	2 915 576	2 572 755	3 491 159	3 148 547
Pledges	5 017 404	2 585 665	6 394 421	2 820 883
Not collateralized	7 299 051	-	7 709 347	-
	15 232 031	**5 158 420**	**17 594 927**	**5 969 430**
Total	**27 054 722**	**15 779 353**	**28 712 367**	**15 920 187**

The differential between the amount of the loans and advances to customers and the fair value of the collateral represents the total loans' exposure that exceeds the value of the collateral. This value is not impacted by collaterals with a fair value in excess of the loan to which they are linked.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

Colateral intervals [a]	31.12.2019							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	210 236	9 878 305	5 398	228 186	8 605	408 838	224 239	10 515 329
>= 0,5M€ e <1,0M€	235	138 719	45	16 666	2 132	242 563	2 412	397 948
>= 1,0M€ e <5,0M€	46	48 689	18	18 304	6 416	705 489	6 480	772 482
>= 5,0M€ e <10,0M€	-	-	-	-	692	323 224	692	323 224
>= 10,0M€ e <20,0M€	-	-	-	-	3 267	303 545	3 267	303 545
>= 20,0M€ e <50,0M€	-	-	-	-	222	518 961	222	518 961
>=50M€	-	-	-	-	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

(in thousands of Euros)

Colateral intervals [a]	31.12.2018							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	185 611	9 216 814	5 136	220 736	8 681	438 147	199 428	9 875 697
>= 0,5M€ e <1,0M€	224	127 415	60	23 151	2 306	293 432	2 590	443 998
>= 1,0M€ e <5,0M€	36	41 610	25	24 459	3 352	831 329	3 413	897 398
>= 5,0M€ e <10,0M€	-	-	-	-	635	414 388	635	414 388
>= 10,0M€ e <20,0M€	-	-	-	-	1 260	379 255	1 260	379 255
>= 20,0M€ e <50,0M€	-	-	-	-	161	453 519	161	453 519
>=50M€	-	-	-	-	1 603	338 477	1 603	338 477
	185 871	**9 385 839**	**5 221**	**268 346**	**17 998**	**3 148 547**	**209 090**	**12 802 732**

[a] The allocation by intervals was based on the total amount of collateral per credit agreement

The amounts of the collateral – mortgages, presented above, represent the maximum coverage value of the assets collateralised, i.e. which are considered up to the gross amount of the individual loans collateralised.

The assessment of the risk of an operation or set of operations considers the associated credit risk mitigation elements, according to the internal rules and procedures implemented.

Relevant collaterals are essentially the following:

- Real estate properties, where the value considered is that which corresponds to the latest available valuation;

- Financial pledges, where the value considered corresponds to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the Group stipulated several procedures applicable to collateral (namely the financial and real estate properties collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the risks of liquidity and volatility."

The real estate properties revaluation process is conducted by valuation experts registered with the CMVM, and is based on the methodology described in Note 2.11.

The analysis of risk exposure by sector of activity, as at 31 December 2019 and 2018, is presented as follows:

(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 Electrical Devices	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)**

(in thousands of Euros)

	31.12.2018													
	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	580 642	(212 154)	-	87	-	-	-	10 870	-	-	-	14 061	(6 706)
Mining	95 377	(3 508)	-	-	-	-	-	102	-	-	-	5 407	(111)
Food, Beverages and Tobacco	523 878	(27 172)	-	10 475	-	-	-	9 601	(2)	23 460	(2 516)	54 391	(381)
Textiles and Clothing	317 046	(18 593)	-	79	-	-	-	-	-	2 495	-	11 728	(1 035)
Leather and Shoes	62 486	(3 003)	-	23	-	-	-	-	-	1 000	-	1 731	(101)
Wood and Cork	106 487	(8 644)	-	284	-	-	-	-	-	7 497	(12)	7 950	(50)
Paper and Printing Industry	195 362	(19 274)	-	-	-	-	-	22 150	(14)	1 498	-	7 538	(44)
Refining of Petroleum	8 105	(111)	-	-	-	-	-	-	-	-	-	11 371	-
Chemicals and Rubber	339 091	(18 355)	-	1 917	-	-	-	25 323	(38)	3 980	(8)	39 651	(251)
Non-metallic Minerals	185 874	(40 089)	-	-	-	-	-	4 014	(3)	23 344	(26)	15 303	(261)
Metallurgical Industries and Metallic Products	355 218	(13 677)	-	211	-	-	-	9 572	(8)	6 248	(11)	44 489	(674)
Production of Machinery, Equipment and Electrical Devices	142 113	(10 096)	-	2 086	-	-	-	37 880	(19)	-	-	81 344	(341)
Production of Transport Material	84 671	(2 533)	-	-	-	-	-	13 225	(10)	-	-	10 915	(113)
Other Transforming Industries	162 832	(17 002)	-	6	-	-	-	-	-	1 006	(1)	25 527	(1 795)
Electricity, Gas and Water	530 551	(39 438)	-	35 853	-	-	-	28 893	(24)	162 804	(496)	93 868	(75)
Construction and Public Works	1 655 049	(398 173)	-	83 229	-	-	-	-	-	206 384	(36 559)	939 364	(73 309)
Wholesale and Retail Trade	1 569 335	(285 866)	-	1 237	-	-	-	30 803	(22)	24 857	(131)	289 946	(44 194)
Tourism	1 037 442	(37 643)	-	712	-	-	-	144	-	-	-	95 592	(5 915)
Transport and Communication	1 051 654	(95 377)	-	110 358	-	-	-	107 920	(75)	33 285	(53)	428 379	(9 773)
Financial Activities	567 125	(104 554)	1	309 939	480	1 479 900	1 227	613 325	(102)	34 308	(17 890)	324 127	(1 245)
Real Estate Activities	2 373 015	(505 201)	-	6 947	-	2 751	-	38 034	(21)	104 549	(18 010)	255 768	(20 548)
Services Provided to Companies	3 705 324	(1 415 862)	-	18 433	-	71 245	-	188 969	(39)	435 290	(114 345)	435 197	(11 370)
Public Administration and Services	820 696	(59 170)	257 269	1 562	-	-	-	6 378 929	(788)	503 123	(771)	21 882	(1 241)
Other activities of collective services	1 094 294	(472 254)	-	3 075	-	12 329	-	73 359	(40)	9 058	(3 957)	117 199	(1 480)
Mortgage Loans	9 549 912	(62 340)	-	-	-	-	-	-	-	-	-	68	-
Consumers Loans	1 567 528	(87 738)	-	-	-	-	-	-	-	-	-	6 423	(322)
Others	31 260	(95)	-	-	-	-	-	68 094	(8)	-	-	19 370	(6 014)
TOTAL	**28 712 367**	**(3 957 922)**	**257 270**	**586 513**	**480**	**1 566 225**	**1 227**	**7 661 207**	**(1 213)**	**1 584 186**	**(194 786)**	**3 358 589**	**(187 349)**

The Group identifies and marks loan agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of an agreement in respect of which the customer defaulted, or it is foreseeable that this will come to happen, in respect to a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favorable than those applied to other customers with the same risk profile.

The unmarking of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no principal or interest past due; and (iii) there was no new loan restructuring during that period.

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2019 and 2018, are as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Corporate	2 388 446	4 435 754
Mortgage loans	135 361	148 670
Consumer and other loans	205 795	248 350
Total	**2 729 602**	**4 832 774**

The details of the restructuring measures applied to loans restructured up to 31 December 2019 and 2018 are the following:

(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**

(in thousands of Euros)

Solution	31.12.2018								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	32	48 180	5 137	208	316 163	225 067	240	364 343	230 204
Assets received in partial settlement of loan	12	141	4	10	2 997	2 183	22	3 138	2 187
Capitalization of interest	19	5 449	111	227	566 141	466 469	246	571 590	466 580
New loan in total or partial payment of existing loan	1 864	145 490	4 264	801	833 633	524 928	2 665	979 123	529 192
Extension of repayment period	996	372 691	7 691	1 526	1 117 753	603 326	2 522	1 490 444	611 017
Introduction of grace period of principal or interest	674	91 015	2 567	264	392 730	250 854	938	483 745	253 421
Decrease in the interest rates	116	29 441	1 089	79	306 547	94 241	195	335 988	95 330
Changes of the lease payment plan	192	72 339	2 512	120	68 615	25 386	312	140 954	27 898
Changes in the interest paymen	14	10 438	160	27	239 300	166 710	41	249 738	166 870
Other	2 885	99 339	1 884	1 418	114 372	61 041	4 303	213 711	62 925
Total	**6 804**	**874 523**	**25 419**	**4 680**	**3 958 251**	**2 420 205**	**11 484**	**4 832 774**	**2 445 624**

The changes occurred to the restructured loans during financial years 2019 and 2018 were as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	4 832 774	7 098 757
Loans and advances restructured during exercise	609 428	580 682
Loans and advances reclassified to performing	(229 312)	(908 706)
Loans and advances written off	(1 055 863)	(372 682)
Others	(1 427 425)	(1 565 277)
Total	**2 729 602**	**4 832 774**

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 unrealised 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)

	31.12.2019				31.12.2018			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	3 876	2 223	2 412	1 204	599	2 257	3 096	4 168
Interest rate risk	42 292	29 127	50 203	11 231	9 870	10 525	18 566	6 163
Shares and commodities	295	333	207	784	199	324	414	305
Volatility	314	470	78	180	141	169	185	173
Credit spread	1 771	3 547	3 401	3 821	1 614	1 471	52	67
Diversification effect	(4 393)	(5 512)	(4 383)	(3 742)	(1 176)	(3 139)	(2 126)	(3 124)
Total	**44 155**	**30 188**	**51 918**	**13 478**	**11 246**	**11 607**	**20 186**	**7 753**

NOVO BANCO Group has a VaR of Euro 44 155 thousand (31 December 2018: Euro 11 246 thousand) in respect of its trading positions. The increase is mainly explained by the increase in the 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)

	31.12.2019						
	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)**

(in thousands of Euros)

	31.12.2018						
	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	1 470 977	215 462	858 477	15 360	6 153	4 468	371 057
Loans and advances to customers	28 730 239	33 835	15 297 966	5 125 759	2 501 480	4 766 197	1 005 002
Securities	11 822 116	2 937 419	825 026	913 541	482 866	4 000 518	2 662 746
Total			**16 981 469**	**6 054 660**	**2 990 499**	**8 771 183**	**4 038 805**
Deposits from banks	8 352 162	-	1 457 375	72 409	95 311	6 727 000	67
Due to customers	28 865 412	-	12 099 667	3 163 941	5 521 559	7 893 992	186 253
Debt securities issued	1 071 462	-	147 152	-	-	2 215	922 095
Total			**13 704 194**	**3 236 350**	**5 616 870**	**14 623 207**	**1 108 415**
Balance sheet GAP (Assets - Liabilities)	547 580		3 277 275	2 818 310	(2 626 371)	(5 852 024)	2 930 390
Off-Balance sheet	-		1 629 988	741 001	(36 513)	(1 112 953)	(1 221 523)
Structural GAP	**547 580**		**4 907 263**	**3 559 311**	**(2 662 884)**	**(6 964 977)**	**1 708 867**
Accumulated GAP			**4 907 263**	**8 466 574**	**5 803 690**	**(1 161 287)**	**547 580**

In 2019, the values of Loans and advances to customers started to be considered net of impairment, for NPL (Non Performing Loans) contracts.

The Bank performs sensitivity analyses of the interest rate risk of the banking portfolio, based on the current difference of the discounted interest rate mismatch at current rates and the discounted value of the same cash flows simulating 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 (assuming linear regulatory floors between -1% and 0%, in comparison with the single regulatory floor of 0% in 2018).

(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

(in thousands of Euros)

	31.12.2018					
	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	(160 845)	93 431	77 608	(165 232)	(252 901)	111 954
Exercise average	(169 481)	112 112	83 922	(178 864)	(270 616)	120 207
Exercise maximum	(88 295)	151 369	101 446	(160 253)	(252 901)	125 787
Exercise minimum	(216 900)	60 213	75 131	(215 993)	(286 995)	111 954

Following the communication sent by the ECB, to the Banks considered to be systemic in the country in which they operate, on the measures adopted or to be adopted to face the discontinuation of the IBOR's market benchmarks and the future use of risk-free interest rates, the Bank carried out an identification of all its balance sheet and derivative operations indexed to market rates, as well as its valuation and risk analysis processes, based on the following scenario:

- On 2 October 2019, the ECB would launch the new risk-free interest rate, €STR, which would be lower than the EONIA by 8.5 bp and being disclosed in T + 1;
- From 3 October 2019 until 3 January 2022, EONIA would be calculated as €STR added by 8.5 bp and released by EMMI also in T + 1. As of January 3, 2022, EONIA would be discontinued;
- Euribor could be discontinued as of the beginning of 2024;
- Libors would cease from the beginning of 2022.

Despite the uncertainties that still existed regarding the indexes that can replace EURIBOR and the various Libor, it was concluded that the potential impacts on the operating account would not be significant.

The following table presents the average interest rates for the Group's major financial asset and liability categories, as at 31 December 2019 and 2018, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	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	1 441 545	19 357	1,32%	2 609 680	22 087	0,85%
Loans and advances to customers	28 557 937	592 057	2,04%	30 722 342	629 475	2,05%
Securities and other	10 344 022	124 997	1,19%	8 952 481	86 545	0,97%
Financial assets and differentials	**40 343 504**	**736 411**	**1,80%**	**42 284 503**	**738 107**	**1,75%**
Monetary Liabilities	8 931 365	16 817	0,19%	8 470 062	21 621	0,26%
Due to customers	27 949 264	97 286	0,34%	28 835 937	194 327	0,67%
Differential liabilities	2 383 273	8 573	0,00%	3 880 757	4 014	0,00%
Financial liabilities and differentials	**40 343 504**	**195 798**	**0,48%**	**42 284 503**	**283 765**	**0,67%**
Net interest income		**540 613**	**1,32%**		**454 342**	**1,06%**

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2019 and 2018, is analysed as follows:

(in thousands of Euros)

		31.12.2019				31.12.2018			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(965 967)	1 007 651	(16 381)	25 303	(1 683 634)	1 677 510	(5 933)	(12 057)
GBP	GREAT BRITISH POUND	3 298	3 076	6 878	13 252	26 131	(21 867)	-	4 264
BRL	BRAZILIAN REAL	103 672	(52 218)	-	51 454	822	3 528	(4 287)	63
MOP	MACAO PATACA	4 414	-	-	4 414	4 360	-	-	4 360
JPY	JAPANESE YEN	(152)	311	-	159	(3 308)	3 359	5 947	5 998
CHF	SWISS FRANC	(8 133)	12 981	(208)	4 640	(8 801)	11 381	-	2 580
SEK	SWEDISH KRONE	47 140	(47 019)	-	121	(11 826)	11 624	(1 080)	(1 282)
NOK	NORWEGIAN KRONE	48 672	(47 344)	976	2 304	(12 193)	12 635	2 260	2 702
CAD	CANADIAN DOLLAR	(20 391)	44 657	-	24 266	(41 516)	42 967	984	2 435
ZAR	SOUTH AFRICAN RAND	550	(491)	-	59	(1 066)	1 167	-	101
AUD	AUSTRALIAN DOLLAR	3 349	10 753	-	14 102	(8 463)	8 724	-	261
VEB	VENEZUELAN BOLIVAR	1	-	-	1	5	-	-	5
PLN	POLISH ZLOTY	36 794	(5 988)	-	30 806	(8 216)	8 741	-	525
MAD	MOROCCAN DIRHAN	(2 748)	2 708	-	(40)	(3 196)	2 656	-	(540)
MXN	MEXICAN PESO	(318)	608	-	290	393	(261)	-	132
AOA	ANGOLAN KWANZA	13 053	-	-	13 053	19 828	-	-	19 828
CVE	CAPE VERDEAN ESCUDO	(65)	-	-	(65)	(99)	-	-	(99)
HKD	HONG-KONG DOLLAR	(2)	-	-	(2)	(3 082)	3 390	-	308
CZK	CZECH KORUNA	9 218	960	-	10 178	(321)	645	-	324
DZD	ALGERIAN DINAR	7 338	-	-	7 338	-	-	-	-
CNY	YUAN REN-MIN-BI	9 211	946	-	10 157	(3 531)	3 767	-	236
	OTHER	266	3 023	-	3 289	2 988	2 964	3 977	9 929
		(710 800)	**934 614**	**(8 735)**	**215 079**	**(1 734 725)**	**1 772 930**	**1 868**	**40 073**

Note: assets / (liabilities)

Exposure to sovereign debt of "peripheral" Eurozone countries

As at 31 December 2019 and 2018, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(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)

(in thousands of Euros)

	31.12.2018					
	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	766 306	257 269	(109)	3 674 410	502 352	5 200 228
Spain	54 243	-	-	1 980 394	-	2 034 637
Ireland	-	-	-	60 398	-	60 398
Italy	-	-	-	83 037	-	83 037
	820 549	**257 269**	**(109)**	**5 798 239**	**502 352**	**7 378 300**

[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)

	31.12.2019					
	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 up to 1 year	-	-	-	-	-	-
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**	**-**

(in thousands of Euros)

31.12.2018	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**3 231 229**	**3 629 157**	**45 253**	**3 674 410**	**-**	**27 425**
Maturity up to 1 year	610 644	614 224	2 793	617 017	-	377
Maturity exceeding 1 year	2 620 585	3 014 933	42 460	3 057 393	-	27 048
Spain	**1 832 372**	**1 950 455**	**29 939**	**1 980 394**	**-**	**16 930**
Maturity up to 1 year	30 027	30 895	583	31 478	-	282
Maturity exceeding 1 year	1 802 345	1 919 560	29 356	1 948 916	-	16 648
Ireland	**60 000**	**59 845**	**553**	**60 398**	**-**	**(7)**
Maturity exceeding 1 year	60 000	59 845	553	60 398	-	(7)
Italy	**80 000**	**82 644**	**393**	**83 037**	**-**	**2 011**
Maturity exceeding 1 year	80 000	82 644	393	83 037	-	2 011
	5 203 601	**5 722 101**	**76 138**	**5 798 239**	**-**	**46 359**
Securities held for trading	**233 000**	**254 161**	**3 108**	**257 269**	**-**	**-**
Portugal	233 000	254 161	3 108	257 269	-	-
	233 000	**254 161**	**3 108**	**257 269**	**-**	**-**
Securities at amortised cost						
Portugal	**501 022**	**570 587**	**2 085**	**502 352**	**771**	**-**
Maturity exceeding 1 year	501 022	570 587	2 085	502 352	771	-
	501 022	**570 587**	**2 085**	**502 352**	**771**	**-**

Liquidity risk

Liquidity risk derives from the potential inability, current or future, of an institution satisfying its commitments as they mature, without incurring excessive losses.

Liquidity risk can be divided into two types:

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

Banks are subject to liquidity risk as an inherent consequence of the business of transforming maturities (long-term lenders and short-term deposit takers), with the prudent management of liquidity risk being therefore crucial.

As at 31 December 2019, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 15.3 billion (31 December 2018: Euro 14.6 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 3.4 billion.

During the financial year 2019, gross financing with the ECB decreased Euro 287 million to a total of Euro 6.1 billion.

The liquidity of NOVO BANCO Group is managed in a centralised manner, at the Headoffice, 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 2019 and 2018, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2019						
	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**

(in thousands of Euros)

	31.12.2018						
	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)	306 941	2 247	4 593	-	-	-	300 101
Liabilities from guaranteed lending operations and operations associated to financial markets	6 740 104	961	237 143	-	-	40 000	6 462 000
Behavioral output from deposits	31 085 656	330 138	241 827	300 477	402 236	714 964	29 096 014
Exchange swaps and derivatives	1 209 865	55 912	156 064	401 248	65 847	89 050	441 744
Other output	398 229	-	-	-	-	-	398 229
Total Output	**39 740 795**	**389 258**	**639 627**	**701 725**	**468 083**	**844 014**	**36 698 088**
INPUT							
Secured lending operations and operations associated to financial markets	11 760	2 010	9 750	-	-	-	-
Behavioral inputs from loans and advances	25 999 835	159 719	64 096	144 379	220 770	430 989	24 979 882
Exchange swaps and derivatives	1 190 062	57 034	151 022	389 962	67 239	77 087	447 718
Own portfolio securities maturing and other entries	9 967 029	-	55 492	28 692	990 752	509 914	8 382 179
Total Input	**37 168 686**	**218 763**	**280 360**	**563 033**	**1 278 761**	**1 017 990**	**33 809 779**
Net contractual deficit	(2 572 110)	(170 495)	(359 267)	(138 693)	810 678	173 976	(2 888 309)
Accumulated net contractual deficit	**-**	**(170 495)**	**(529 762)**	**(668 455)**	**142 223**	**316 199**	**(2 572 110)**
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	155 859						
Deployable reserves from the central bank	279 178	(279 178)					
Negotiable and non-negotiable assets eligible for the central bank	8 942 827	(36 510)	36 521	(263 447)	(430 452)	(612 820)	(7 541 496)
Authorized facilities and not utilized received	-	-	-	-	-	-	-
Net variation of capacity to adjustment	-	(315 688)	36 521	(263 447)	(430 452)	(612 820)	(7 541 496)
Accumulated capacity to readjustment	**9 377 864**	**9 062 176**	**9 098 697**	**8 835 250**	**8 404 798**	**7 791 978**	**250 482**

The one-year cumulative liquidity gap moved from Euro 316 million on 31 December 2018 to Euro 5 656 million on 31 December 2019. This decrease results from the fact that the financing with the ECB of EUR 6 410 million came within less than 1 year. The one-year counterbalancing capacity as at 31 December 2019 was Euro 10 224 million, Euro 2 432 million higher than the figure recorded at 31 December 2018 (Euro 7 792 million).

To anticipate possible constraints, internal stress scenarios in terms of liquidity are carried out, which are representative of the types of crises that can occur, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank) and market scenarios.

In addition, given the importance of liquidity risk management, 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 the resilience of banks to short-term liquidity risk by ensuring they hold enough high-quality liquid assets to survive a severe stress scenario over a 30-day period, whilst the NSFR aims to ensure banks maintain a stable funding for their assets and off-balance sheet operations, for one year.

In accordance with current regulatory legislation, the Bank is required 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 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)

Assets	31.12.2019			
	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)

Assets	31.12.2018			
	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	**11 368 163**	**n/a**	**32 793 333**	**n/a**
Equity instruments	-	-	2 711 237	2 711 237
Debt securities	872 238	872 238	8 356 522	8 356 522
Other assets	10 495 925	n/a	21 725 574	n/a

(in thousands of Euros)

Collateral received	31.12.2019		31.12.2018	
	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	**-**	**-**	**-**	**10 870**
Equity instruments	-	-	-	-
Debt securities	-	-	-	10 870
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**-**	**-**

(in thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2019		31.12.2018	
	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	8 715 669	13 323 906	7 334 369	11 368 164

The encumbered assets are represented mainly by loans and securities used in funding operations with the ECB, in repo operations, in coverage bond issues and in securitisations. There are also assets given as collateral to cover the Bank's counterparty risk in derivative transactions.

Operational risk

Operational Risk reflects, typically, the probability of the occurrence of events with negative impacts, on net income or equity, resulting from inadequacies or weaknesses in procedures and in information systems, staff behavior or external events, including legal risks. Operational risk is, therefore, understood to be the sum of the following risks: operational, information systems, compliance and reputational.

To manage operational risk, a system was developed that standardizes, systematizes and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organizational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the 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 NOVO BANCO Group - 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 NOVO BANCO Group objectives.

The capital ratios of NOVO BANCO 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 NOVO BANCO Group 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 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 NOVO BANCO Group 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.

The summary of own funds, risk weighted assets and capital ratios capital of NOVO BANCO Group as at 31 December 2019 and 2018 are presented in the following table:

(in million Euros)

		31.12.2019	31.12.2018
Realised ordinary share capital, issue premiums and own shares		5 900	5 900
Reserves and Retained earnings		(869)	(569)
Net income for the year attributable to shareholders of the Bank		(1 058)	(1 428)
Non-controlling interests (minorities)		18	16
A - Equity (prudential perspective)		**3 992**	**3 919**
Non-controlling interests (minorities)		(11)	(10)
Adjustments of additional valuation		(13)	(12)
Transitional period to IFRS9		225	251
Goodwill and other intangibles		(34)	(14)
Insufficiency of provisions given the expected losses		(85)	(34)
Deferred tax assets and shareholdings in financial companies		(9)	(226)
Outros		(68)	(68)
B - Regulatory adjustments to equity		**4**	**(111)**
C - Own principal funds level 1 - CET I (A+B)		**3 996**	**3 808**
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)		**3 998**	**3 809**
Subordinated liabilities elegeible for Tier II		398	398
Other elements elegible for Tier II		124	131
Regulatory adjustments for Tier II		(45)	(10)
F - Level 2 own funds - Tier II		**478**	**519**
G - Eligible own funds (E+F)		**4 475**	**4 328**
Credit risk		26 243	27 473
Market risk		1 857	895
Operational risk		1 479	1 506
H - Risk Weighted Assets		**29 579**	**29 874**
Solvability ratio			
CET I ratio	**(C/H)**	**13.5%**	**12.8%**
Tier I ratio	**(E/H)**	**13.5%**	**12.8%**
Solvability ratio	**(G/H)**	**15.1%**	**14.5%**
Leverage ratio[1]		**8.4%**	**8.2%**

[1] The leverage ratio results from spliting Tier 1 for the exposure measure in accordance to the terms of the CRR

As at 31 December 2019 the NOVO BANCO Group complied with the minimum capital requirements for every capital typology.

NOTE 42 – RELEVANT TRANSACTIONS OCCURRED IN THE FINANCIAL YEARS OF 2019 AND 2018

2019 Exercise

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 balance sheet resulted in a reduction of net assets of 145.9 million euro (gross assets: 1 202.1 million Euro, of which 1,180.7 million Euro of credit to customers; impairment: 1 056.2 million Euro, of which 1 038.8 million Euro in customer loans). In terms of the Group's income statement, the following impacts were noted:

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Net interest income	69
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	1 703
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-80 773
Impact on Net Income	**-79 001**

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, with the following impacts on the income statement for the financial year of 2019:

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Other operational income	-34 980
Impairment on othe assets net of reversals	-191 494
Non-controlling interests	2 725
Impact on Net Income	**-229 199**

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. In terms of the Group's income statement, the following impacts were noted:

(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	-7 493
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-53 300
Impairment on other assets net of reversals	26 902
Impact on Net Income	**-33 891**

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. In terms of the Group's income statement, the following impact was noted:

(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**

2018 Exercise

Sale of Non-Performing Loans portfolio (called Project NATA I)

During 2018, NOVO BANCO and BEST, entered into a sale and purchase contract of a non-performing loans portfolio and related assets, named Project NATA I, with a consortium of funds managed by KKR Credit Advisors (US) L.L.C and LX Investment Partners II S.À.R.L.

This operation impacted the balance sheet with a decrease on the loans and advances to customers in the amount of Euro 543.9 million (Euro 1 529.9 million of gross amount and Euro 986.1 million of impairment), a decreased in the securities portfolio in the amount of Euro 1.8 million (Euro 76.5 million of gross amount and Euro 74.7 million of impairment), and an increase on Other Assets in the amount of Euro 435.5 million. The operation had the following impacts on the Group’s income statement:

(in thousands of Euros)

Impact on Income Statement	31.12.2018
Net interest income	5 652
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	-208 305
Impairment net of reversals of financial assets not designated at fair value through profit or loss	92 520
Impact on Net Income	**-110 133**

Sale of Real Estate portfolio (called Project Viriato)

The Group entered into a promissory sale and purchase agreement with several entities indirectly held by investment funds managed by Anchorage Capital Group L.L.C, to sell a real estate portfolio composed by approximately 9 thousand real estate properties, named Project Viriato, with the following impacts in the income statement:

(in thousands of Euros)

Impact on Income Statement	31.12.2018
Other operational income	10 810
Impairment on othe assets net of reversals	-169 833
Non-controlling interests	-486
Impact on Net Income	**-158 537**

NOTE 43 – NON-CURRENT ASSETS HELD FOR SALE - DISCONTINUED OPERATIONS

The financial statements as at 31 December 2019 and 2018 of the discontinued units, mentioned in Note 29 and when applicable, are as follows:

BALANCE SHEET AS AT 31 DECEMBER OF 2019 AND 2018

(in thousands of Euros)

	NOVO AF	Greendraive	
	31.12.2019	31.12.2019	31.12.2018
Assets			
Cash, cash balances at central banks and other demand deposits	782	114	22
Financial assets at fair value through other comprehensive income	1	-	-
Financial assets at amortised cost	7 106	-	-
Loans and advances to credit institutions	7 106	-	-
Tangible assets	81	309	325
Tangible fixed assets	81	309	325
Intangible assets	122	-	10
Tax assets	618	-	-
Current Tax Assets	207	-	-
Deferred Tax Assets	411	-	-
Other assets	1 920	453	474
Total Assets	**10 630**	**876**	**831**
Liabilities			
Tax liabilities	187	-	-
Current Tax liabilities	187	-	-
Other liabilities	865	1 726	3 568
Total Liabilities	**1 052**	**1 726**	**3 568**
Equity			
Capital	10 000	60	60
Other Capital	-	4 190	1 200
Retained earnings	(90)	(4 424)	(3 605)
Profit or loss attributable to parent company shareholders	(332)	(676)	(392)
Total Equity	**9 578**	**(850)**	**(2 737)**
Total Liabilities and Equity	**10 630**	**876**	**831**

INCOME STATEMENT
FOR THE YEAR ENDED IN 31 DECEMBER OF 2019 AND 2018

(in thousands of Euros)

	NOVO AF	Greendraive	
	31.12.2019	31.12.2019	31.12.2018
Interest Income	9	-	-
Interest Expenses	-	(65)	-
Net Interest Income	**9**	**(65)**	**-**
Fee and comission income	6 016	-	-
Fee and comission expenses	(3 849)	-	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(180)	-	-
Other operating income	190	3 524	3 403
Other operating expenses	(211)	(289)	(238)
Operating Income	**1 975**	**3 170**	**3 165**
Administrative expenses	(2 617)	(3 741)	(3 388)
Staff expenses	(1 510)	(1 732)	(1 659)
Other administrative expenses	(1 107)	(2 009)	(1 729)
Depreciation	(68)	(96)	(88)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	1	-	-
Profit or loss before tax from continuing operations	**(709)**	**(667)**	**(311)**
Tax expense or income related to profit or loss from continuing operations			
Current tax	*377*	*(9)*	*(81)*
Profit or loss for the period	**(332)**	**(676)**	**(392)**

NOTE 44 – 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 exposures

(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	892 409	1 852 607	1 808 623	1 808 623	-44 307	-1 061 904	1 054 429	515 857
Central banks	0	0	0	0	0	0	0	0
General governments	6 370	7	7	7	-233	-5	5 362	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	5 565	114 077	114 077	114 077	-7	-49 908	62 200	58 089
Non-financial corporations	750 883	1 526 957	1 502 210	1 502 210	-42 878	-909 616	816 537	406 880
Households	129 590	211 566	192 329	192 329	-1 189	-102 375	170 330	50 888
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	24 410	10 162	10 098	10 162	0	0	0	0
Total	**916 819**	**1 862 769**	**1 818 721**	**1 818 786**	**-44 307**	**-1 061 904**	**1 054 429**	**515 857**

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
Loans and advances	**25 675 231**	**25 567 270**	**107 960**	**3 445 821**	**1 773 820**	**137 660**	**192 060**	**355 126**	**619 437**	**342 549**	**25 170**	**2 974 329**
Central banks	**1 408 908**	1 408 908	0	**0**	0	0	0	0	0	0	0	0
General governments	**475 863**	475 725	138	**571**	138	0	0	425	7	0	0	450
Credit institutions	**318 718**	318 718	0	**381 501**	381 501	0	0	0	0	0	0	0
Other financial corporations	**294 236**	294 145	91	**176 492**	83 393	25	35	23	76 376	6 909	9 732	176 406
Non-financial corporations	**11 853 276**	11 792 080	61 196	**2 426 948**	1 089 154	103 839	154 454	311 629	466 731	291 079	10 060	2 392 429
Of which SMEs	***6 459 019***	*6 403 118*	*55 901*	***1 297 193***	*644 767*	*60 453*	*91 734*	*170 765*	*151 692*	*167 722*	*10 060*	*1 266 254*
Households	**11 324 230**	11 277 694	46 536	**460 311**	219 634	33 797	37 571	43 049	76 322	44 561	5 378	405 044
Debt securities	**10 464 030**	**10 464 030**	**0**	**149 995**	**0**	**0**	**6 770**	**11 000**	**132 225**	**0**	**0**	**104 475**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**7 571 809**	7 571 809	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**672 120**	672 120	0	**45 520**	0	0	3 880	11 000	30 640	0	0	45 520
Other financial corporations	**96 827**	96 827	0	**0**	0	0	0	0	0	0	0	0
Non-financial corporations	**2 123 274**	2 123 274	0	**104 475**	0	0	2 890	0	101 585	0	0	104 475
Off-balance-sheet exposures	**10 208 536**			**558 622**								**516 063**
Central banks	0			0								0
General governments	104 683			13								13
Credit institutions	586 589			18 643								0
Other financial corporations	73 960			7 750								7 750
Non-financial corporations	8 426 424			523 245								500 875
Households	1 016 880			8 971								7 426
Total	**46 347 796**	**36 031 300**	**107 960**	**4 154 439**	**1 773 820**	**137 660**	**198 830**	**366 126**	**751 662**	**342 549**	**25 170**	**3 594 867**

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			
Loans and advances	**25 675 231**	**20 115 316**	**3 888 380**	**3 445 821**	**471 130**	**2 974 329**	**-179 093**	**-69 463**	**-109 630**	**-1 764 056**	**-80 808**	**-1 683 249**	**-530 522**	**14 685 555**	**925 997**
Central banks	1 408 908	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	475 863	342 275	133 588	571	120	450	-1 644	-449	-1 195	-129	0	-129	0	34 546	315
Credit institutions	318 718	48 945	6 785	381 501	381 501	0	-788	-788	0	-76 300	-76 300	0	0	1 622	0
Other financial corporations	294 236	222 677	71 680	176 492	86	176 406	-3 100	-603	-2 497	-74 334	-1	-74 333	-146 100	196 002	88 227
Non-financial corporations	11 853 276	9 252 045	2 601 472	2 426 948	34 398	2 392 429	-153 649	-62 632	-91 018	-1 427 115	-2 405	-1 424 710	-382 891	4 128 815	630 578
Of which SMEs	6 459 019	4 863 887	1 595 132	1 297 193	30 817	1 266 254	-63 997	-14 101	-49 896	-656 835	-2 341	-654 494	-86 763	2 982 941	431 644
Households	11 324 230	10 249 375	1 074 855	460 311	55 026	405 044	-19 912	-4 992	-14 919	-186 178	-2 101	-184 077	-1 530	10 324 570	206 876
Debt securities	**10 464 030**	**10 068 534**	**337 906**	**149 995**	**0**	**149 995**	**-61 908**	**-7 852**	**-54 056**	**-102 422**	**0**	**-102 422**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	7 571 809	7 571 809	0	0	0	0	-5 231	-5 231	0	0	0	0	0	0	0
Credit institutions	672 120	624 780	0	45 520	0	45 520	-238	-238	0	0	0	0	0	0	0
Other financial corporations	96 827	83 525	3 052	0	0	0	-353	-41	-312	0	0	0	0	0	0
Non-financial corporations	2 123 274	1 788 420	334 854	104 475	0	104 475	-56 086	-2 342	-53 744	-102 422	0	-102 422	0	0	0
Off-balance-sheet exposures	**10 208 536**	**7 929 739**	**2 278 797**	**558 622**	**42 559**	**516 063**	**18 787**	**13 927**	**4 860**	**78 309**	**1 339**	**76 970**		**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	104 683	32 134	72 549	13	0	13	7	6	1	0	0	0		0	0
Credit institutions	586 589	547 446	39 143	18 643	18 643	0	398	329	69	35	35	0		0	0
Other financial corporations	73 960	63 711	10 248	7 750	0	7 750	98	47	51	699	0	699		0	0
Non-financial corporations	8 426 424	6 324 587	2 101 837	523 245	22 370	500 875	16 947	12 432	4 514	77 074	988	76 087		0	0
Households	1 016 880	961 861	55 019	8 971	1 545	7 426	1 338	1 112	226	501	317	184		0	0
Total	**46 347 796**	**38 113 589**	**6 505 083**	**4 154 439**	**513 689**	**3 640 387**	**-222 213**	**-63 388**	**-158 825**	**-1 788 170**	**-79 469**	**-1 708 701**	**-530 522**	**14 685 555**	**925 997**

Performing and non-performing exposures and related provisions

(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	**39 735 077**	**3 595 816**	**3 124 324**	**39 677 487**	**-2 107 479**		**0**
Portugal	30 281 892	2 793 540	2 710 698	30 021 871	-1 771 029		0
Spain	4 197 223	145 192	142 732	4 192 153	-79 027		0
Other countries	5 255 961	657 084	270 893	5 463 462	-257 423		0
Off-balance-sheet exposures	**10 767 158**	**558 622**	**516 063**			**97 096**	
Portugal	8 532 518	480 685	458 995			81 300	
Spain	1 559 040	58 171	56 070			15 000	
Other countries	675 600	19 766	998			795	
Total	**50 502 235**	**4 154 439**	**3 640 387**	**39 677 487**	**-2 107 479**	**97 096**	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	379 407	45 089	47 551	379 407	-18 194	0
Mining and quarrying	83 621	38 204	37 249	83 621	-14 389	0
Manufacturing	2 537 479	249 189	242 140	2 537 479	-133 323	0
Electricity, gas, steam and air conditioning supply	363 750	32 472	32 472	363 750	-22 461	0
Water supply	143 526	14 249	14 249	143 526	-11 112	0
Construction	1 708 550	431 525	429 698	1 708 550	-281 807	0
Wholesale and retail trade	1 512 436	157 537	156 606	1 512 436	-89 862	0
Transport and storage	1 032 219	99 079	99 079	1 032 219	-79 761	0
Accommodation and food service activities	944 328	80 950	79 692	944 328	-40 595	0
Information and communication	243 720	26 495	25 786	243 720	-21 721	0
Financial and insurance activities	1 293 949	229 471	229 471	1 293 949	-161 647	0
Real estate activities	1 769 674	323 914	312 965	1 769 674	-167 165	0
Professional, scientific and technical activities	1 073 138	301 268	301 268	1 073 138	-173 986	0
Administrative and support service activities	318 349	29 521	29 521	318 349	-19 653	0
Public administration and defence, compulsory social security	2 178	53	19	2 178	-14	0
Education	40 108	3 329	2 603	40 108	-1 246	0
Human health services and social work activities	252 324	50 054	50 054	252 324	-23 213	0
Arts, entertainment and recreation	211 345	85 461	85 461	211 345	-57 677	0
Other services	370 124	229 088	152 301	370 124	-262 938	0
Total	**14 280 223**	**2 426 948**	**2 328 186**	**14 280 223**	**-1 580 764**	**0**

Collateral valuation – loans and advances

(in thousands of Euros)

	Loans and advances											
		Performing		Non-performing								
						Past due > 90 days						
			Of which past due > 30 days <=90 days		Unlikely to pay that are not past due or are 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	**29 121 052**	25 675 231	107 960	**3 445 821**	1 773 820	**1 672 002**	137 660	192 060	355 126	619 437	352 280	15 438
Of which secured	**19 142 278**	17 234 874	85 467	**1 907 404**	943 818	**963 587**	105 872	104 046	223 184	250 418	270 994	9 072
Of which secured with immovable property	**14 683 436**	13 373 069	80 437	**1 310 366**	672 814	**637 553**	78 050	96 684	80 710	212 894	133 224	35 992
Of which instruments with LTV higher than 60% and lower or equal to 80%	**5 188 635**	5 008 001		**180 635**	82 291	98 344						
Of which instruments with LTV higher than 80% and lower or equal to 100%	**2 179 566**	1 968 716		**210 851**	105 166	105 685						
Of which instruments with LTV higher than 100%	**1 682 753**	922 745		**760 009**	380 789	379 219						
Accumulated impairment for secured assets	**-939 657**	-93 305	-3 439	**-846 352**	-348 572	**-497 780**	-43 175	-46 158	-136 157	-115 917	-152 025	-4 348
Collateral												
Of which value capped at the value of exposure	**15 149 179**	14 230 040	79 834	**919 138**	481 341	**437 797**	61 063	55 575	82 612	129 094	104 979	4 474
Of which immovable property	**13 679 268**	12 943 978	78 413	**735 289**	384 282	**351 007**	53 540	51 283	51 470	104 176	86 316	4 221
Of which value above the cap	**20 803 150**	17 987 624	50 406	**2 815 526**	761 959	**2 053 567**	485 451	78 550	854 664	327 576	275 135	32 191
Of which immovable property	**15 343 133**	14 467 473	47 676	**875 660**	485 739	**389 921**	49 941	64 177	43 679	130 696	71 583	29 845
Financial guarantees received	**462 373**	455 515	1 305	**6 858**	4 347	**2 511**	451	967	347	299	448	0
Accumulated partial write-off	**-530 522**	-331	-305	**-530 191**	-8 143	**-522 047**	-3 292	-51 366	-82 520	-352 261	-28 383	-4 225

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	6 772 180
Inflows to non-performing portfolios	574 381
Outflows from non-performing portfolios	-3 900 739
Outflow to performing portfolio	-330 646
Outflow due to loan repayment, partial or total	-389 078
Outflow due to collateral liquidation	0
Outflow due to taking possession of collateral	-71 833
Outflow due to sale of instruments	-1 374 753
Outflow due to risk transfer	0
Outflow due to write-off	-1 697 154
Outflow due to other situations	-37 275
Outflow due to reclassification as held for sale	0
Final stock of non-performing loans and advances	3 445 821

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	**586 073**	**-270 427**
Residential immovable property	168 348	-39 503
Commercial Immovable property	395 591	-224 359
Movable property (auto, shipping, etc.)	2 676	-2 331
Equity and debt instruments	14 843	0
Other	4 615	-4 234
Total	**586 073**	**-270 427**

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	**571 230**	**-270 427**	**104 177**	**-29 579**	**226 501**	**-110 690**	**240 552**	**-130 158**	**7 291**	**-6 565**
Residential immovable property	168 348	-39 503	45 681	-8 359	57 784	-11 957	64 883	-19 187	0	0
Commercial immovable property	395 591	-224 359	58 043	-21 148	168 717	-98 733	168 831	-104 478	0	0
Movable property (auto, shipping, etc.)	2 676	-2 331	0	0	0	0	2 676	-2 331	2 676	-2 331
Equity and debt instruments	0	0	0	0	0	0	0	0	0	0
Other	4 615	-4 234	453	-72	0	0	4 162	-4 162	4 615	-4 234
Total	**571 230**	**-270 427**	**104 177**	**-29 579**	**226 501**	**-110 690**	**240 552**	**-130 158**	**7 291**	**-6 565**

NOTE 45 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Applicable for 2019

The following standards and interpretations became effective for annual periods beginning on or after 1 January 2019:

IFRS 16 – Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees: (1) leases of 'low-value' assets (e.g., personal computers) and (2) short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15 Revenue from Contracts with Customers.

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted.

Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

Modification or exchange of a financial liability that does not result in derecognition

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of

a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

The IASB stated specifically that the clarification on modification or exchange of financial liabilities relates to the application of IFRS 9. As such, it would appear that this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

Determining the current service cost and net interest

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using:
  - the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
  - the discount rate used to remeasure that net defined benefit liability (asset).

A plan amendment, curtailment or settlement may reduce or eliminate a surplus in a defined benefit plan, which may cause the effect of the asset ceiling to change.

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces

a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.

Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Annual improvements for the cycle 2015-2017

In the annual improvements for the 2015-2017 cycle, the IASB has introduced improvements in four standards summarized bellow:

IFRS 3 Business Combinations - Previously held Interests in a joint operation

- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.
- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IFRS 11 Joint Arrangements - Previously held Interests in a joint operation

- A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
- An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity

- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 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.

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

At the date of approval of these financial statements, the standards and interpretations endorsed by the European Union, but whose mandatory application occurs in future years, are as follows:

Definition of Material - Amendments to IAS 1 and IAS 8

The purpose of this amendment was 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 periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Note: The definition of material in the Conceptual Framework and IFRS Practice Statement 2: Making Materiality Judgements were amended to align with the revised definition of material in IAS 1 and IAS 8.

The Conceptual Framework for Financial Reporting

The conceptual framework sets out a comprehensive set of concepts for:

- Financial reporting;
- Standard setting;
- Guidance for preparers in developing 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 recognition criteria for assets and liabilities; and
- clarifies some important concepts.

It is organized 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.

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 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).

<u>The amendments to IFRS 9</u>

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.

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.

Standards and Interpretations issued by the IASB, but not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, were not, until the date of approval of these financial statements, adopted (endorsed) by the European Union:

Definition of a Business - 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 develop or 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)).

IFRS 17 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.

NOTE 46 – SUBSEQUENT EVENTS

- Following the recent news about the case “Luanda Leaks”, despite being an event known in 2020, NOVO BANCO incorporated in the 2019 accounts the impacts that resulted from the analysis of this specific case in line with the accounting standards in force. NOVO BANCO will continue to monitor developments in this process during fiscal year 2020;
- From January 2020, the COVID-19 outbreak has been spreading beyond China's borders, impacting financial markets and economic activity.

  NOVO BANCO is closely monitoring developments, which, on the date of production of this report, are still on a preliminary stage, and, as such, in constant change and with great uncertainty. As an example, the national state of emergency is in force since March 19 decreed for a period of 15 days, with the possibility of prolongation. On this date, the Portuguese Government announced an aid package covering several lines of funding, totalling EUR 3 billion including state guarantees, particularly for the tourism, food and entertainment, textile and clothing, footwear and wood and derivatives sectors.

  On the other hand, and on that same date, the ECB announced the implementation of the Pandemic Emergency Purchase Programme (PEPP), a programme for the acquisition of public and private sector assets, amounting to EUR 750 billion which could be increased. Purchases under this programme will run until the end of 2020 and will include all classes of assets eligible since the sovereign debt crisis (the amount of which had already been increased by EUR 120 billion). Also noteworthy are the monetary policy actions that have already been adopted by the Central Bank of China with the reduction of interest rates for 1 and 5 years.

  NOVO BANCO is also monitoring the potential impacts and, where relevant, is taking decisions that defend the interests of different stakeholders, including employees, depositors, customers and shareholders. The main impacts on the NOVO BANCO’s financial statements may come as a result of increased credit risk increased volatility in financial and non-financial assets and from business constraints due to the measures enacted to contain the spread of the virus.

  In view of these very recent facts, in constant progress and, as such, not yet definitive, NOVO BANCO, in the current fiscal year, will consider and include in its forecasts scenarios with different levels of severity, including also events resulting from the pandemic that are not yet fully known – as may be eventual payment holidays on the loans, and their impacts on impairment of assets, credit quality, assessment of significant increase in credit since inception, forbearance, estimated credit losses according to IFRS9, impacts on capital, among others, material and immaterial. This estimate is not quantifiable at this date.

  With regard to the fair value of the portfolio of financial assets measured at fair value, which as of December 31, 2019 amounted to 11 802 855 thousand Euro, as disclosed in Note 20, there has been increased volatility in the interest rate market, but, considering the measures announced by the ECB, it is not possible to reliably access the full impact of the pandemic.

Finally, regarding non-financial assets, NOVO BANCO holds a portfolio of real estate assets of 294 876 thousand Euro, as presented in note 26. The value of these assets may be affected by a decrease in occupancy rates that have been reported in the tourism sector, a decrease in economic activity in general and a reduction in the market's ability to transact these assets, all as a result of the impacts of Covid-19. On this date, management is not in a position to quantify the potential impacts of Covid-19 on the fair value or recoverable amount of these assets.

As a result of the evolution of the pandemic in Portugal, NOVO BANCO implemented the following measures:

Adaptating the banking and financial offer to cope with the COVID-19 outbreak:

- Corporate clients:

NOVO BANCO has made available to its clients and to the national businesses a set of solutions to support treasury and corporate finances to support sectors of the national economy whose activity is affected by the resulting economic effects of covid-19, always taking into account the appropriate risk criteria. The support ranges from prorogation of capital repayments up to 12 months, extension of 90 days in factoring, advance of social security payments for eventual lay-off or access to the “Capitalizar” credit line.

- Retail clients:

NOVO BANCO has launched a package of products and services tailored to the needs exacerbated by the COVID 19 pandemic and aimed at reducing the risks of contagion. This package includes the temporary exemption of commissions on a set of essential transactions through digital channels (from interbank transfers, payment of services, cash-advance and MBWay payments, to the exemptions of the 1st annuity on new debit and prepaid cards or replacements).

To meet the foreseeable increase in the use of digital channels, NOVO BANCO has also strengthened technological support for transactions made through electronic means of payment.

These measures will have temporary effect and aim to drastically reduce the need to touch the terminals and the physical exchange of money which are little advised in this period.

Protection of Employees and Customers:

- Promotion and dissemination of recommended hygiene practices and availability of recommended sanitary products in buildings and branches of NOVO BANCO;
- Availability of dedicated isolation rooms, in all central buildings and branches, for the confinement of employees suspected of infection;
- Plan for the evacuation and disinfection of buildings and branches in case of confirmed infection of a team member;
- Self-isolation/quarantine and telework measures for employees who have traveled to one of the affected countries or regions or who have been in close contact with someone who has been confirmed to be infected;

- Prohibition of all non-critical business trips and recommendation to all employees to reduce personal travel to a minimum;
- Restriction of non-critical face-to-face internal meetings or with suppliers or partners, which are replaced by digital means (video and conference call or other team collaboration tools) and reduced to a minimum number of participants;
- Replacement of face-to-face meetings with customers with remote alternatives whenever possible, with greater restrictions in the affected areas;
- Implementation of telework plans and division of teams between various locations for critical and non-critical functions, in order to ensure the ability to maintain service levels without disruption;
- Evaluation with our main suppliers and partners of their business continuity plans for COVID-19 to ensure minimization of business impact through third-party supplies.

Customer Service:

The customer phone service team has been strengthened to cope with a potential increase in demand.

Also, the communication to customers about the means to conduct transactions, contracting and digital contact was strengthened and implemented an exemption on commissions for the generality of transactions carried out through digital channels.

With regard to the availability of face-to-face service, NOVO BANCO's branches will remain open to the public in a conditioned manner. The conditionality is reflected solely in the restriction on the number of customers who can simultaneously be inside the branch, which will be limited to 4 customers.

However, the following exceptions are foreseen for availability in face-to-face care:

- In situations where customers who had visited the facilities and who subsequently tested positive for the COVID-19 virus, the service will be carried out exclusively by telephone during the period of 14 days;

- In situations of branches with up to 3 employees, which will close during lunch time between 12:00 and 13:00;

- In situations where there is a positive case of COVID-19 infection, the affected branch will be closed for the quarantine period.

Whenever the period of operation or closure of a branch changes, this information will be posted in the storefront of the branch, customers of these branches will be informed by email or SMS, and information about the closed branches or with service limitations will always be up-to-date on the www.novobanco.pt website.

These measures may have an impact on NOVO BANCO's activity, however, given the possibility of using remote and digital channels, NOVO BANCO does not expect these to be relevant through the mitigation measures implemented.

However, risks of a longer overall impact, arising from any trigger that undermines confidence, are not yet completely ruled out.

It is also the conviction of the Board of Directors a continuous support from its shareholders, we, thus, consider adequate that the financial statements of NOVO BANCO continue to be prepared in a going concern basis, as described in note 2.1.

- On February 11, 2020, Novo Banco, S.A. - Spanish Branch was informed by a former employee that he had performed several allegedly fraudulent acts involving several clients, relating to the management of a client portfolio of a given agency of the Spanish Branch, in parallel and in non-compliance with the internal procedures defined by the Bank. NOVO BANCO immediately took several steps to verify the veracity of the facts and to quantify the potential damages and identification of customers that may be at stake, which are still in progress. On the present date, there is no visibility as to the existence of NOVO BANCO's liability and, if confirmed, its effects or the amounts that could potentially be at stake, so the eventual liability of NOVO BANCO is, for the moment, insusceptible determined or quantified.

7.2 Annex – Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations on the Transparency of Information and the Valuation of Assets

(Bank of Portugal's Circular Letters no. 97/2008/DSB of 3 December and no. 58/2009/DSB of 5 August)

In its Circular Letter no. 58/2009/DSB of 5 August 2009, the Bank of Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/2008/DSBDR of 15 July 2008 and no. 97/2008/DSB of 3 December 2008.

The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations.

This chapter aims to ensure compliance with the Bank of Portugal's recommendations, including references to where the information provided may be found within the Management Report or in the Notes to the Financial Statements for fiscal years 2019 and 2018.

I. BUSINESS MODEL

1. Description of the business model

A description of the Group's business model is provided in point 1 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note 4[9].

2. Strategy and objectives

A description of the Group's strategy and objectives is provided in point 2 of the Management Report. The securitisation transactions are detailed in Note38.

3., 4. and 5. Activities developed and contribution to the business

Point 3 of the Management Report and Note 4 contain information about the activity and contribution to the business.

[9] The numbering refers to the Notes to the Consolidated Financial Statements.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of the risks incurred

Point 3.10 of the Management Report describes how the risk management function is organised within the Group.

Note 41 contains diverse information that together enables the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8., 9., 10., and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the NOVO BANCO sale process was concluded, following the acquisition of the majority (75%) of the Bank's share capital by Nani Holdings, SGPS, S.A., a company owned by 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. This sale was preceded by the completion of a Liability Management Exercise (LME) over bonds with a book value of approximately Euro 3 billion.

12. Decomposition of realised and non-realised write-downs

The profit and loss of assets and liabilities held for trading, assets and liabilities at fair value through profit or loss, assets and liabilities at fair value through profit or loss mandatory, and assets and liabilities at fair value through comprehensive income are detailed by financial instrument in Notes 9 and 10. In addition, unrealised gains and losses on securities at fair value through other comprehensive income are detailed in Notes 21 and 34, while the most significant positions are broken down in Note 21.

13. Financial turmoil and the share price

NOVO BANCO does not have listed shares.

14. Maximum loss risk

Point 3.10 of the Management Report and Note 41 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 39 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF FINANCIAL TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

As at 31 December 2019 exposure to Portuguese sovereign debt totalled Euro 4 115 million (2018: Euro 4 434 million), exposure to Spanish sovereign debt totalled Euro 2 186 million (2018: Euro 3 855 million), exposure to Italian sovereign debt totalled Euro 119 million (2018: Euro 83 million) and exposure to Irish sovereign debt totalled Euro 228 million (2018: Euro 60 million).

The information about the Group's exposures is provided in Note 41.

19. Movement in exposures between periods

Note 41 contains diverse information comparing the exposures and results in 2019 and 2018. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non-consolidated exposure

All the structures related to securitisation operations originated by the Group are presented in Note 38. None of the SPEs (Special Purpose Entities) were consolidated due to the market turbulence.

21. Exposure to monoline insurers and quality of the assets insured

The Group has no exposure to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Summary of Significant Accounting Policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 38.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Annex. Notes 2 and 39 refer to the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

NOVO BANCO Group, within the context of accounting and financial information disclosure, aims to comply with all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Bank aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Bank's shareholders, clients, employees, supervisory entities and the public in general, the Management Report, the Financial Statements and the respective Notes, the information on Corporate Governance and the Sustainability Accounts deserve a note.

The Management Reports and Financial Statements, released on a half-yearly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The information on Corporate Governance disclosure in point 4 of the Management Report, presents the most relevant topics about the governing structure of the Group.

The Sustainability Accounts convey the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

7.3 Separate Financial Statements of NOVO BANCO as at 31 December 2019

NOVO BANCO, S.A.

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
Interest Income	4	765 259	762 633
Interest Expenses	4	(219 109)	(316 392)
Net Interest Income		**546 150**	**446 241**
Dividend income	5	17 313	17 864
Fee and comission income	6	333 362	329 201
Fee and comission expenses	6	(48 049)	(49 395)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	59 377	(175 182)
Gains or losses on financial assets and liabilities held for trading	8	(60 446)	(22 625)
Gains or losses on financial assets mandatorily at fair value through profit or loss	9	(372 645)	(10 094)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	9	(102)	-
Gains or losses from hedge accounting	10	(2 261)	(46 910)
Exchange differences	11	38 599	42 759
Gains or losses on derecognition of non-financial assets	12	7 996	19 943
Other operating income	13	62 522	124 327
Other operating expenses	13	(112 664)	(164 006)
Operating Income		**469 152**	**512 123**
Administrative expenses		(413 977)	(440 258)
Staff expenses	14	*(242 098)*	*(244 104)*
Other administrative expenses	16	*(171 879)*	*(196 154)*
Depreciation	23 and 24	(36 681)	(21 314)
Provisions or reversal of provisions	29	(101 844)	(239 973)
Commitments and guarantees given		*60 467*	*(26 161)*
Other provisions		*(162 311)*	*(213 812)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	20	(631 044)	(298 792)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	22	(36 040)	(47 605)
Impairment or reversal of impairment on non-financial assets	26 and 27	(298 424)	(236 460)
Profit or loss before tax from continuing operations		**(1 048 858)**	**(772 279)**
Tax expense or income related to profit or loss from continuing operations		(38 726)	(660 596)
Current tax		(2 541)	(2 714)
Deferred tax		(36 185)	(657 882)
Profit or loss after tax from continuing operations		**(1 087 584)**	**(1 432 875)**
Profit or loss before tax from discontinued operations		-	-
Profit or loss for the period		**(1 087 584)**	**(1 432 875)**
Attributable to Shareholders of the parent	17	(0,11)	(0,15)
Attributable to non-controlling interests	17	(0,11)	(0,15)
Basic earnings per share of continuing activities (in Euros)	17	(0,11)	(0,15)
Diluted earnings per share of continuing activities (in Euros)	17	(0,11)	(0,15)

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
Net profit / (loss) for the period		(1 087 584)	(1 432 875)
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***(104 596)***	***(71 701)***
Actuarial gains / (losses) on defined benefit plans	a)	(106 026)	(69 951)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	4 301	(2 952)
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	(2 871)	1 202
Items that may be reclassified to results		***223 579***	***(24 441)***
Foreign exchange differences	a)	-	(2 549)
Financial assets at fair value through other comprehensive income	a)	223 579	(21 892)
Total other comprehensive income/(loss) for the period		**(968 601)**	**(1 529 017)**

a) See Statement of Changes in the Equity

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

BALANCE SHEET
AS AT 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
ASSETS			
Cash, cash balances at central banks and other demand deposits	18	1 674 826	802 330
Financial assets held for trading	19	748 836	925 544
Non-trading financial assets mandatorily at fair value through profit or loss	20	3 044 724	2 949 597
Financial assets at fair value through other comprehensive income	20	8 758 131	7 567 290
Financial assets at amortised cost	20	26 042 243	25 651 402
Debt securities		2 392 843	2 302 765
Loans and advances		495 252	558 652
(of which, Repurchase Agreement)		*8*	*9 774*
Loans and advances		23 154 148	22 789 985
Derivatives – Hedge accounting	21	7 992	1 721
Fair value changes of the hedged items in portfolio hedge of interest rate risk	21	49 884	31 571
Investments in subsidiaries, joint ventures and associates	22	231 425	645 871
Tangible assets		194 753	135 731
Tangible fixed assets	23	194 753	135 731
Intangible assets	24	26 043	4 781
Tax assets	25	892 713	1 182 481
Current Tax Assets		680	3 209
Deferred Tax Assets		892 033	1 179 272
Other assets	26	3 333 586	3 745 772
Non-current assets and disposal groups classified as held for sale	27	21 273	186 508
TOTAL ASSETS		**45 026 429**	**43 830 599**
LIABILITIES			
Financial liabilities held for trading	19	544 400	493 403
Financial liabilities measured at amortised cost	28	39 924 564	38 925 605
Deposits from banks		10 542 549	9 119 139
(of which, Repurchase Agreement)		*2 168 488*	*237 178*
Due to customers		27 980 577	28 439 075
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 044 445	1 135 128
Other financial liabilities		356 993	232 263
Derivatives – Hedge accounting	21	58 854	36 150
Provisions	29	371 744	423 883
Tax liabilities	25	9 239	9 112
Current Tax liabilities		9 239	9 112
Other liabilities	30	471 626	343 167
TOTAL LIABILITIES		**41 380 427**	**40 231 320**
EQUITY			
Capital	31	5 900 000	5 900 000
Accumulated other comprehensive income	32	(632 033)	(751 016)
Retained earnings	32	(6 115 245)	(4 682 368)
Other reserves	32	5 580 864	4 565 538
Profit or loss attributable to Shareholders of the parent		(1 087 584)	(1 432 875)
TOTAL EQUITY		**3 646 002**	**3 599 279**
TOTAL LIABILITIES AND EQUITY		**45 026 429**	**43 830 599**

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(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 2017 *		**5 900 000**	**(272 313)**	**(2 526 486)**	**3 403 352**	**(2 155 648)**	**4 348 905**
Impact of transition to IFRS 9		-	(399 450)	-	17 380	-	(382 070)
Balance as at 1 January 2018		**5 900 000**	**(671 763)**	**(2 526 486)**	**3 420 732**	**(2 155 648)**	**3 966 835**
Corrections to the impact of transition to IFRS 9		-	14 342	(234)	(1 697)	-	12 411
Other Increase / (Decrease) in Equity		**-**	**2 547**	**(2 155 648)**	**1 146 503**	**2 155 648**	**1 149 050**
*Appropriation to retained earnings of net profit / (loss) of the previous period **		-	-	*(2 155 648)*	-	*2 155 648*	-
Reserve of Contingent Capital Agreement		-	-	-	*1 149 295*	-	*1 149 295*
Other movements		-	*2 547*	-	*(2 792)*	-	*(245)*
Total comprehensive income for the period		**-**	**(96 142)**	**-**	**-**	**(1 432 875)**	**(1 529 017)**
Changes in fair value, net of tax		-	*(21 892)*	-	-	-	*(21 892)*
Foreign exchange differences, net of tax		-	*(2 549)*	-	-	-	*(2 549)*
Remeasurement of defined benefit plans, net of tax		-	*(69 951)*	-	-	-	*(69 951)*
Credit risk changes of financial liabilites at fair value, net of tax		-	*1 202*	-	-	-	*1 202*
Reserves of impairment of securities at fair value through OCI		-	*605*	-	-	-	*605*
Reserves of sales of securities at fair value through OCI		-	*(3 557)*	-	-	-	*(3 557)*
Net profit / (loss) for the period		-	-	-	-	*(1 432 875)*	*(1 432 875)*
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	32	-	-	-	*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	32	-	*228 454*	-	-	-	*228 454*
Remeasurement of defined benefit plans, net of tax	15	-	*(106 026)*	-	-	-	*(106 026)*
Credit risk changes of financial liabilites at fair value, net of tax	32	-	*(2 871)*	-	-	-	*(2 871)*
Reserves of impairment of securities at fair value through OCI	32	-	*4 301*	-	-	-	*4 301*
Reserves of sales of securities at fair value through OCI	32	-	*(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**

* - restated by the amount of the activation of the Contingent Capital Agreement recognized in Other reserves

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(in thousands of Euros)

	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Interest received		751 730	776 272
Interest paid		(222 520)	(320 307)
Fees and commissions received		333 902	329 767
Fees and commissions paid		(48 049)	(50 841)
Recoveries on loans previously written off		30 230	41 971
Contributions to the pension fund		-	(92 863)
Cash payments to employees and suppliers		(399 539)	(387 908)
		445 754	**296 091**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(297 651)	4 742
Financial assets mandatorily at fair value through profit or loss		(839 719)	124 074
Financial assets designated at fair value through profit or loss		164 896	(331 227)
Financial assets at fair value through other comprehensive income		(907 485)	(2 039 793)
Financial assets at amortised cost		(1 172 699)	(30 140)
Debt securities		*(29 161)*	*(122 121)*
Loans and advances to banks		*63 182*	*198 083*
Loans and advances to customers		*(1 206 720)*	*(106 102)*
Financial liabilities at amortised cost		1 263 360	(1 786 027)
Deposits from banks		*1 716 126*	*(169 638)*
Due to customers		*(452 766)*	*(1 616 389)*
Derivatives - Hedge accounting		(1 880)	13 121
Other operating assets and liabilities		1 097 685	(243 033)
Net cash from operating activities before corporate income tax		**(247 739)**	**(3 992 192)**
Corporate income taxes paid		(30 308)	(30 262)
Net cash from operating activities		**(278 047)**	**(4 022 454)**
Cash flows from investing activities			
Dividends received		17 313	17 864
Acquisition of tangible fixed assets		(17 130)	(14 543)
Sale of tangible fixed assets		16 387	315
Acquisition of intangible assets		(26 137)	(5 202)
Net cash from investing activities		**(9 567)**	**(1 566)**
Cash flows from financing activities			
Contingent Capital Agreement		1 149 295	791 695
Reimbursement of bonds and other debt securities		467	(74 768)
Issue of subordinated liabilities		-	141 200
Net cash from financing activities		**1 149 762**	**858 127**
Net changes in cash and cash equivalents		**862 148**	**(3 165 893)**
Cash and cash equivalents at the beginning of the period		**544 199**	**3 710 092**
Net changes in cash and cash equivalents		862 148	(3 165 893)
Cash and cash equivalents at the end of the period		**1 406 347**	**544 199**
Cash and cash equivalents include:			
Cash	18	174 156	149 266
Deposits with Central Banks	18	1 408 908	546 023
(of which, Restricted balances)		(268 479)	(258 131)
Deposits with banks	18	91 762	107 041
Total		**1 406 347**	**544 199**

The accompanying explanatory notes are an integral part of these individual financial statements

NOVO BANCO

Notes to the Separate Financial Statements as at 31 December 2019

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

NOTE 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)) , 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 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 by 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 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 Capitalization 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.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

As at 31 December 2019, NOVO BANCO has a retail network comprising 368 branches in Portugal and abroad (31 December 2018: 383 branches), branches in Spain and Luxembourg and 4 representative offices in Switzerland (31 December 2018: 5 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.

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 Bank of Portugal, the separate financial statements from NOVO BANCO, S.A. were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2019.

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 2019. 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 2018, except in what concerns with the new standards issued. These changes are presented below.

Changes in accounting policies

<u>New and amended standards</u>

As described in Note 44, in the preparation of its separate financial statements as at 31 December 2019 the Bank adopted the accounting standards issued by the IASB and the IFRIC interpretations with mandatory effect as from 1 January 2019. The accounting policies used by the Bank in preparing the separate financial statements, described in this note, were adopted accordingly.

In these financial statements, the Bank first applied IFRS 16, which is mandatory for periods beginning on or after 1 January 2019. The Bank did not early adopt any other regulation or interpretation.

IFRS 16 Leases

The Bank first adopted IFRS 16 Leases as at 1 January 2019 and the comparative information presented for 2018 has not been restated, so it is presented, as previous reported, in accordance with IAS 17 and related interpretations.

According to IFRS 16:

- as a lessee, the standard introduces a single accounting model with the recognition of rights-of-use assets representative of their rights of use of the underlying assets and lease liabilities representative of their obligations to make lease payments;
- as a lessor, accounting remains the same as existing accounting policies and leases may be classified as financial or operating.

In the transition to IFRS 16, the Bank recognized assets under right of use and lease liabilities, with the following impact in the consolidated financial statements:

	(in thousands of Euros)
Assets under right-of-use presented in Other tangible assets	94 035
Lease liabilities	94 035

Lease Definition

The Bank first adopted IFRS 16 through the modified retrospective approach, so no impact was recognized in equity, since there were no differences between the right-of-use asset and the lease liability in the initial recognition on 1 January 2019.

In the transition to IFRS 16, the Bank opted to apply the "practical expedient" allowed by the standard to support the assessment of which transactions are leases. The Bank has only applied IFRS 16 in contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not revalued to determine whether they were leases. Therefore, the definition of lease in accordance with IFRS 16 has been applied only to contracts that entered into force or have changed as of or after 1 January 2019 (including).

Previously, the Bank classified real estate leases as operational leases in accordance with IAS 17. Leases typically take place over periods of up to 5 years. Some of them include an option to renew the lease for additional periods that vary between 1 month and 20 years after the end of the non-cancellable period. Some leases also provide for additional rent payments due to changes in local index prices.

In the transition, for leases classified as operating leases in accordance with IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental financing rate on 1 January 2019. The right-of-use assets are measured at the amount equivalent to the lease liability, adjusted by the amount of any advance or accumulated lease payments.

Practical expedients

The Bank has adopted some practical expedients provided for in the standard in applying IFRS 16 to leases previously classified as operating leases in accordance with IAS 17.

- Apply the exception 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 of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- Do not separate lease components from non-lease components.

For leases that were classified as finance leases in accordance with IAS 17, the accounting amount of assets under lease use and the liability of the lease as at 1 January 2019 was determined at the accounting amount of the lease asset and the lease liability, according to IAS 17 immediately prior to that date.

The accounting standards and interpretations recently issued, but not yet effective and which the Bank has not yet applied in the preparation of its financial statements, can be analysed in Note 40.

The separate financial statements 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 financial statements in accordance with IFRS requires the Bank to make judgements and estimates and use assumptions that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions or differences when compared to the reality may impact the current estimates and judgements. The areas involving a higher level of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are analysed in Note 3.

The Separate financial statements and the Management Report of 31 December 2019 were approved at the Executive Board of Directors' meeting held on 25 March 2020 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 recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into 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 recognised in other comprehensive income.

2.3. Derivative financial instruments and hedge accounting

Classification

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

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 26 and 30) 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

(iv) 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:

Hedging instruments and hedged items are eligible for the hedge relationship;

(i) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

(ii) There is an economic relationship between the hedged item and the hedging instrument;

(iii) The effect of credit risk does not dominate the changes in value that result from this economic relationship;

(iv) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

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 recognised 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 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 recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

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

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 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 recognised 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 recognised in the income statement.

2.4. Other financial assets: placements with credit institutions, customer loans and securities

From 1 January 2018, 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);
- 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 recognised 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.

In accordance with its documented strategy for risk management, the Bank contracts derivative financial instruments to hedge certain risks pertaining to a specific part of the loan portfolio, without, however, resorting to hedge accounting as described in Note 2.3. In these situations, the initial recognition of the loan is made measurement fair value through profit or loss. In this manner, measurement consistency is achieved between the loans and the derivatives for risk management purposes (accounting mismatch).

Initial recognition and measurement and derecognition

These financial assets are initially recognised at fair value plus transaction costs, except for financial assets at fair value through profit or loss, where transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the Bank's contractual rights to its cash flows have expired, (ii) the Bank has transferred substantially all the risks and rewards with its holding, or (iii) retained part, but not substantially all the risks and rewards associated with their detention, control over the assets has been transferred. When a financial asset measured at fair value through OCI is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. In the specific case of equity instruments, the cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss and is transferred between equity captions.

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 recognised 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.

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 recognised in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognised 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 recognised in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognised 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, and dividends are recognised 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 recognised in the income statement.

The fair value of listed financial assets is based on bid-prices, the bid price of the last transaction or on the bid known. In the absence of a price an active market, the Bank estimates fair value using (i) valuation techniques, including the use of recent similar arm’s length transactions, discounted cash flow techniques and option pricing models customized to reflect the specificities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters that are not observable in the market, the Bank carries out, when applicable, a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value.

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.

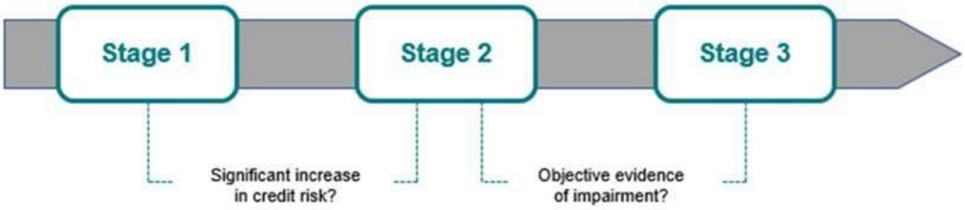
Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

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[10] (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:

[10] Parameters used to determine recoveries vary, mainly depending on the risk profile / nature of the exposure.



<u>Stage 3</u>

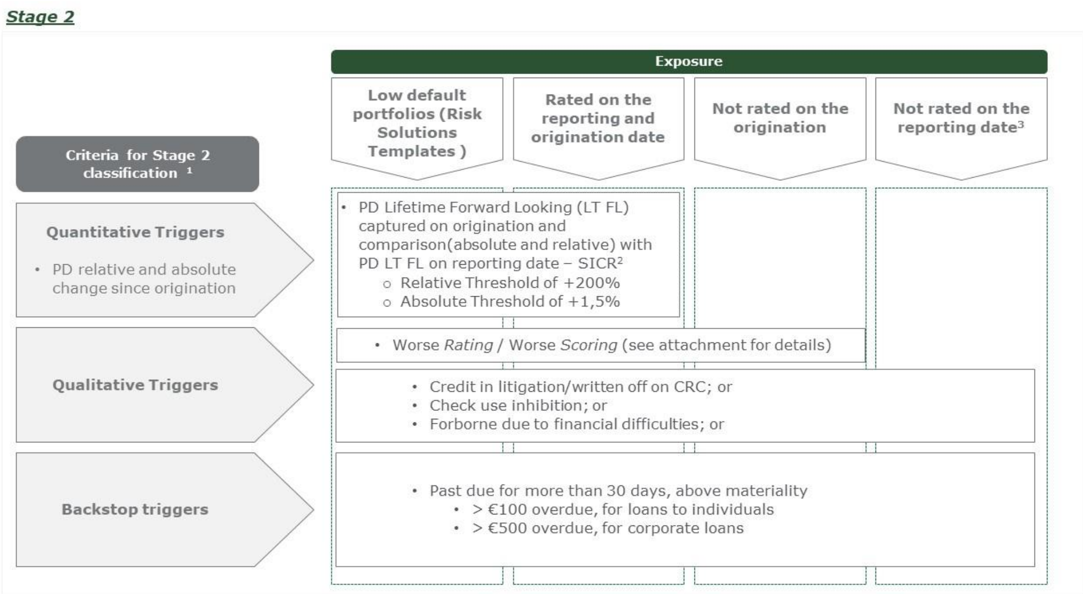
The process of assigning Stage to an exposure starts by checking if the Stage 3 criteria applies. If the exposure is classified as Default - according to the current internal definition[11] - this exposure is classified as Stage 3.

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.

<u>Stage 2</u>

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 d with the exposure, criteria are analysed 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 concepts 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.

[11] The internal definition of Default is aligned with article 178 of CRD IV, providing criteria of material past due for more than 90 days and for unlikely to pay.

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 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

A classificação de exposições em Stage 1 depende:

(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 Bank assesses collective and individual impairment. In the collective assessment model, the impairment calculation is based on an initial classification of the credit risk level – Stage 1, 2 or 3; in the individual analysis the calculation is based on a going concern or gone concern approach.

If for a particular loan there is no objective evidence of impairment in an individual level, the loan is grouped together with other loans that have similar credit risk characteristics (loan portfolio) and assessed collectively through the application of estimated risk factors for exposure segment - collective assessment of impairment. If an impairment loss is identified on an individual basis, the amount of the impairment loss determined prevails over the collective impairment.

Individual assessment is carried out for the following exposures:

- All borrowers classified as defaulted (stage 3), or classified in stage 2 and with no internal grade assigned, with exposure above Euro 1 million;
- All borrowers classified in stage 2, with exposure above Euro 5 million;
- All borrowers classified in stage 1 and with no internal grade assigned, with credit exposure above Euro 5 million;
- All real estate entities and financial holdings with credit exposure above Euro 5 million;
- All other low-risk borrowers (stage 1) with exposure above Euro 25 million; and
- Additionally, the following borrowers are selected for individual analysis:
    - identified by the Committee based on other justified criteria (e.g.: sector of activity)
    - exposures that in the past were subject to an individual impairment recognition;
    - exposures that based on new events which may impact the impairment calculation, might be elected for analysis by one of the Impairment Committee members or by another body/committee.

For purposes of the collective assessment of impairment, loans are grouped on a 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 purposes of the collective assessment of impairment, loans are allocated to risk sub-segments in accordance with the following definitions in the table bellow:

<table>
<tr><td rowspan="2">1st Segmentation</td><td colspan="2">Client type</td></tr>
<tr><td>Corporate</td><td>Individuals</td></tr>
<tr><td rowspan="2">2nd Segmentation</td><td>Risk segment</td><td>Product type</td></tr>
<tr><td>Large companies
Real Estate
Medium companies
Small companies
Start-Ups
Financial Institutions
Sovereign</td><td>Mortgage
Consumer loans
Credit cards
Other individuals</td></tr>
<tr><td>3rd Segmentation</td><td>Rating notation</td><td>Scoring notation</td></tr>
<tr><td rowspan="2">4th Segmentation</td><td colspan="2">Collaterals – LTV</td></tr>
<tr><td>Typically, Corporate segments consider the value of collateral for segmentation purposes</td><td>The mortgage segment considers the value of the financed asset for the purposes of segmentation</td></tr>
</table>

<u>Scenarios</u>

As required by IFRS 9, the impairment assessment should reflect different expectations of macroeconomic developments, i.e., it should incorporate 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 must 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).

The macroeconomic scenarios and projections available also have a probability of occurrence. In the case of the base scenario, since it is the most representative, it has a 60% probability of occurrence. The other two alternative scenarios, considered to be variations of the central scenario, have probabilities of occurrence of 25% for the less favorable alternative scenario compared to the base scenario and 15% for the more favorable alternative scenario compared to the base scenario.

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.

So, when reviewing / updating the scenarios – at least once a year – the respective probabilities of execution are also reviewed. Once updated the scenarios, the values of the risk parameters are also updated for subsequent consideration on impairment calculation. The final impairment assessment will result from the addition of the impairment in each scenario weighted by the respective probability of execution.

It is still relevant to mention the existence of specific portfolios where the internal credit risk grades incorporate, by its attribution process, forward-looking information. We refer to the commonly referred known Low Default Portfolios for which the attribution of an internal credit risk grade is based on a medium and long-term perspective and incorporating all the forward-looking information available.

Therefore, for this universe of portfolios the incorporation of the forward-looking information is guaranteed.

Write-offs

Write-off is defined as the derecognition of a financial asset from the Bank'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.

Or additionally, if it is considered more beneficial to sell the credit to a third party. At the time of sale, the difference between the sale amount and the balance sheet amount must be fully impaired, and at the time of sale the credit will be derecognized in exchange of the funds/assets received.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries.

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 derecognised from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognised in the balance sheet, 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 derecognised 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 recognised in the balance sheet.

Short sales correspond to securities sold that are not included in the Bank's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognised directly in the income statement.

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 derecognised 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 Bank assumes the obligation of reimbursement and/or the payment of dividends.

These financial liabilities are recognised (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities at fair value through profit or loss when:

- 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 abovementioned 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 recognised 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 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 recognised in the income statement.

If the Bank repurchases debt securities issued, these are derecognised from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognised in the income statement.

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 recognised in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognised on initial recognition and (ii) the amount of any financial obligation arising as 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 recognised at the contract date is equal to the amount of the commission initially received, which is recognised in the income statement over the period to which it relates. Subsequent periodic fees are recognised in the income statement in the period to which they relate.

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 recognised 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 recognised 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 recognised 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 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 it is expectable that 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. When the carrying book value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to level 3.

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. For mortgage loans, the Bank executes the collateral and receives the real estate properties. The Bank also receives real estate properties through foreclosing. 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 Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans or through collaterals execution, 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. The valuation reports are analysed internally to assess the adequacy of the assumptions, comparing the historical sale 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 analyzes on the assumptions used, which may imply additional adjustments to their fair value.

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
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	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

According to IFRS 16:

- as a lessee, the standard defines a single accounting model with the recognition of rights-of-use assets representative of their rights of use of the underlying assets and lease liabilities representative of their obligations to make lease payments;
- as a lessor, accounting depends on the classification as financial or operating.

The Bank adopted IFRS 16 using the Modified Retrospective approach, so there was no impact on its net worth as there are no differences between the right to use the asset and the lease liability at the time of initial recognition on 1 January 2019.

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.

For leases in which the Bank is a lessee, it was decided not to separate the non-lease components and to account the lease and non-lease components as a single lease component.

B. As lessee

Finance 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 recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Bank leases various assets, including real estate, vehicles and IT equipment.

As lessee, the Bank initially classified leases as operating leases or finance leases based on the overall assessment of whether the lease substantially transfers all risks and rewards associated with ownership of the underlying assets. 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.

However, 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). The Bank recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

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.

For leases that were classified as finance leases in accordance with IAS 17, the accounting amount of assets under lease use and the liability of the lease as at 1 January 2019 was determined at the accounting amount of the lease asset and the lease liability, according to IAS 17 immediately prior to that date.

Practical expedients

The Bank has adopted some practical expedients provided for in the standard in applying IFRS 16 to leases previously classified as operating leases in accordance with IAS 17.

- Apply the exception 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 of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- Do not separate lease components from non-lease components.

C. As lessor

Financial leases

Assets leased out are recorded in the balance sheet as loans granted, at an amount equal to the net investment made in the leased assets, together with any estimated unguaranteed residual value. Interest included in instalments charged to customers is recorded as interest income, whilst repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

Operating leases

Payments made by the Bank under operating leases are charged to the income statement in the period to which they relate.

Until 31 December 2018, the Bank classified leasing operations as finance leases or operating leases, according to their substance and not their legal form, meeting the criteria set out in IAS 17 - Leases. Transactions in which the risks and rewards incidental to ownership of an asset are substantially transferred to the lessee are classified as finance leases. All other lease transactions are classified as operating leases. The accounting policies applicable to the Bank as lessor in the comparative period are not different from those policies applicable under IAS 17.

2.14. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement (“Acordo Colectivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 16, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of 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 recognised 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 recognised 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 Bank 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 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.

Until 1 February 2017, the Bank's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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.

The calculation and recognition of the Bank's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonus and Career bonus

In accordance with the previous ACT ("Acordo Colectivo de Trabalho") for the Banking Sector, in force until July 2016, the Bank had the commitment to pay active employees who completed 15, 25 and 30 years of service in the Bank, long-term service bonuses corresponding to one, two and three times, respectively, their monthly salary paid at the date the bonuses were paid.

At the date of early retirement due to disability or presumed disability, employees had the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

The long-term service bonuses were accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits. The Bank's liability with these long-term service bonuses were periodically estimated by the Bank 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.

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Bank paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

Under the new ACT, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Bank, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognized in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

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.

Employees' variable remuneration

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 goodwill, non-deductible for tax purposes, differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit, and that do not result from a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 NOVO BANCO.

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.

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.

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 probable, 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, excluding derivatives held for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated and is classified under net gains / (losses) from financial assets and liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives held for risk management purposes is recognized under interest and similar income or interest expense and similar charges.

2.18. 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.

2.19. Recognition of dividend income

Dividend income is recognized when the right to receive the dividend payment is established.

2.20. Segment reporting

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.

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 annually 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 2.4 – 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 significant increase of its credit risk, though IFRS 9 does not objectively define what 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;
- 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, summarised in Note 36.

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 25.

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

The Bank recognises provisions intended to cover costs arising from the implementation of offers, which by commercial reasons were presented and accepted by customer groups. 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 29.

3.6. Foreclosed properties and non-current assets held for sale

Foreclosed properties and non-current assets held for sale are measured at the lower of net book value and fair value less selling costs.

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 analysed 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

As at 31 December 2019 and 2018, the breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019				31.12.2018			
	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	575 696	-	-	575 696	610 551	-	-	610 551
Interest from deposits with and loans and advances to banks	22 360	3 118	-	25 478	28 187	10	777	28 974
Interest from securities	136 330	-	18 939	155 269	96 358	-	13 919	110 277
Interest from derivatives held for risk management purposes	-	523	6 854	7 377	-	422	10 363	10 785
Other interest and similar income	1 439	-	-	1 439	2 046	-	-	2 046
	735 825	**3 641**	**25 793**	**765 259**	**737 142**	**432**	**25 059**	**762 633**
Interest Expenses								
Interest on debt securities issued	35 807	-	-	35 807	44 620	-	-	44 620
Interest on amounts due to customers	95 088	-	-	95 088	191 127	-	-	191 127
Interest on deposits from Central Banks and other banks	32 018	1 864	-	33 882	35 226	5 342	4 068	44 636
Interest on subordinated liabilities	34 166	-	-	34 166	16 742	-	-	16 742
Interest on derivatives held for risk management purposes	-	4 114	9 237	13 351	-	2 903	11 850	14 753
Other interest and similar expenses	6 668	147	-	6 815	4 514	-	-	4 514
	203 747	**6 125**	**9 237**	**219 109**	**292 229**	**8 245**	**15 918**	**316 392**
	532 078	**(2 484)**	**16 556**	**546 150**	**444 913**	**(7 813)**	**9 141**	**446 241**

Interest on deposits with and loans and advances to banks, due to customers and deposits from banks include as at 31 December 2019, respectively, the amounts of Euro -2 thousand, Euro 16 375 thousand and Euro 2 453 thousand related to repurchase agreement operations (31 December 2018: Euro 756 thousand of interest on deposits with and loans and advances to banks, Euro 576 thousand in interest on funds from customers and Euro 1 850 thousand in interest on deposits from Banks).

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)

	31.12.2019	31.12.2018
Financial assets mandatorily at fair value through profit or loss		
Shares	3 365	2 374
Participation units	3 656	4 538
Others	137	-
Financial assets at fair value through other comprehensive income		
Shares	1 777	1 586
Participation units	8 378	9 366
	17 313	**17 864**

During 2019, dividend income amounts to Euro 17 313 thousand, which includes dividends received from Unicre in the amount of Euro 4 165 thousand, from GNB Seguros in the amount of Euro 1 500 thousand, from Soluções Arrendamento in the amount of Euro 1 767 thousand, from Euronext in the amount of Euro 1 348 thousand, from NB Açores in the amount of Euro 1 083 thousand and from Sealion LTD A in the amount of Euro 989 thousand (31 December 2018: Euro 17 864 thousand, which includes dividends received from Unicre in the amount of Euro 2 765 thousand, from BEST in the amount of Euro 2 712 thousand, from Explorer III (FIQ) in the amount of Euro 3 027 thousand, from Locarent in the amount of Euro 1 727 thousand, from GNB

Seguros in the amount of Euro 1 422 thousand, from Euronext in the amount of Euro 1 514 thousand and from Haitong FCR in the amount of Euro 1 251 thousand).

NOTE 6 – NET FEE AND COMMISSION INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Fee and commission income		
From banking services	226 517	223 130
From guarantees provided	46 314	52 529
From transaction of securities	4 780	5 327
From commitments to third parties	8 913	11 462
From transactions carried out on behalf of third parties - cross-selling	36 379	32 135
Other fee and commission income	10 459	4 618
	333 362	**329 201**
Fee and commission expenses		
With banking services rendered by third parties	35 514	37 508
With guarantees received	1 960	1 567
With transaction of securities	5 508	5 698
Other fee and commission income	5 067	4 622
	48 049	**49 395**
	285 313	**279 806**

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)

	31.12.2019			31.12.2018		
	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	65 735	2 021	63 714	52 153	18 411	33 742
Issued by other entities	2 443	443	2 000	644	712	(68)
	68 178	**2 464**	**65 714**	**52 797**	**19 123**	**33 674**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	2 050	-	2 050	4 221	1	4 220
Loans	23 610	31 997	(8 387)	40 392	253 468	(213 076)
	25 660	**31 997**	**(6 337)**	**44 613**	**253 469**	**(208 856)**
	93 838	**34 461**	**59 377**	**97 410**	**272 592**	**(175 182)**

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)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	26 480	10 963	15 517	6 032	1 100	4 932
Issued by other entities	-	-	-	2	119	(117)
Financial Derivatives						
Foreign exchange rate contracts	24 603	26 380	(1 777)	36 542	36 947	(405)
Interest rate contracts	756 013	829 825	(73 812)	444 503	483 139	(38 636)
Equity / Index contracts	93 119	92 296	823	65 570	63 000	2 570
Credit default contracts	78 241	78 622	(381)	47 055	52 180	(5 125)
Other	2 036	2 852	(816)	15 775	1 619	14 156
	980 492	**1 040 938**	**(60 446)**	**615 479**	**638 104**	**(22 625)**

In accordance with the accounting policies followed by the Bank, 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 Bank 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 Banks access to the wholesale market.

As at 31 December 2019, the gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 3 114 thousand (31 December 2018: Euro 6 914 thousand).

NOTE 9 - 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)

	31.12.2019			31.12.2018		
	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	8 337	10 625	(2 288)	58 758	6 037	52 721
Shares	34 584	90 862	(56 278)	31 239	4 148	27 091
Other variable income securities	17 482	331 561	(314 079)	30 235	147 443	(117 208)
	60 403	**433 048**	**(372 645)**	**120 232**	**157 628**	**(37 396)**
Other financial assets						
Loans to customers	-	-	-	27 302	-	27 302
	-	**-**	**-**	**27 302**	**-**	**27 302**
	60 403	**433 048**	**(372 645)**	**147 534**	**157 628**	**(10 094)**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	102	(102)	-	-	-
	-	**102**	**(102)**	**-**	**-**	**-**
	60 403	**433 150**	**(372 747)**	**147 534**	**157 628**	**(10 094)**

NOTE 10 – GAINS OR LOSSES FROM HEDGE ACCOUNTING

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Fair value changes of hedging instruments						
Interest rate contracts	51 063	67 846	(16 783)	124 964	131 615	(6 651)
Fair value changes of hedging item attributable to hedged risk	36 358	21 836	14 522	20 481	60 740	(40 259)
	87 421	**89 682**	**(2 261)**	**145 445**	**192 355**	**(46 910)**
Compensations for hedging operations interruptions (see Note 14)	461	-	461	46 714	-	46 714
Amount net of compensations	**87 882**	**89 682**	**(1 800)**	**192 159**	**192 355**	**(196)**

NOTE 11 – EXCHANGE DIFFERENCES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	1 052 576	1 013 977	38 599	935 986	893 227	42 759
	1 052 576	**1 013 977**	**38 599**	**935 986**	**893 227**	**42 759**

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 2.2.

NOTE 12 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Real Estate	6 732	32 152
Equipment	(490)	51
Other	1 754	(12 260)
	7 996	**19 943**

NOTE 13 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Other operating income		
Gains / (losses) on recoveries of loans	30 230	41 971
Non-recurring advisory services	1 299	814
Other income	30 993	81 542
	62 522	**124 327**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 28)	(465)	(69 405)
Direct and indirect taxes	(9 602)	(8 264)
Contributions to the Deposit Guarantee Fund	(40)	(43)
Contributions to the Resolution Fund	(11 996)	(10 803)
Contributions to the Single Resolution Fund	(22 412)	(20 621)
Contribution to the Banking Sector (see Note 25)	(26 647)	(26 800)
Membership subscriptions and donations	(1 616)	(1 290)
Charges with Supervisory entities	(2 456)	(2 360)
Contractual indemnities (SPE)	(297)	(4 844)
Other expenses		(19 576)
	(112 664)	**(164 006)**
Other operating income / (expenses)	**(50 142)**	**(39 679)**

As at 31 December 2018, Other operating income includes the amount of Euro 46 714 thousand, received as part of the early repayment of a fixed rate financing agreement, corresponding to the amount of the early reimbursement of the credit risk contract interest rate, the loss of which was recorded under the caption Gains or losses in hedge accounting. As at 31 December 2019, the amount received for compensation for interruption of hedging operations amounts to Euro 461 thousand (see Note 10).

NOTE 14 – STAFF EXPENSES

The breakdown of staff expenses is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Wages and salaries	181 792	178 231
Remuneration	180 943	177 713
Long-term service / Career bonuses (see Note 15)	849	518
Mandatory social charges	55 651	56 524
Costs with post-employment benefits (see Note 15)	-	734
Other costs	4 655	8 615
	242 098	**244 104**

The provisions and costs related to the restructuring process are presented in Note 29.

As at 31 December 2019 and 2018, the breakdown by professional category of the number of employees of the Bank is as follows:

	31.12.2019	31.12.2018
Directive functions	400	466
Management functions	541	489
Specific functions	2 169	1 997
Administrative and other functions	1 318	1 626
	4 428	**4 578**

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 respective Union, having the Bank made (until February 2017) annual contributions to SAMS amounting to 6.50% of the total annual remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy. The measurement and recognition of the Bank liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

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 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.

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 Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and 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, only the pension fund liabilities arising from the Executive Committee Complementary Plan were splited, with a part (described above) remaining in BES and the remaining responsibilities related to the Executive Committee Complementary Plan being transferred to NOVO BANCO, together with the liabilities of the Pension Fund regarding the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of the Board of Directors of the 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, after deducting the amounts already paid. The split performed on these terms resulted, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission, at that time, that was equal for each of the associates of the Fund (NOVO BANCO and BES).

However, up to the present date, the formalization of the effective splitting of the liabilities / assets of BES and NB has not yet occurred, with both formally continuing to be members of the same Pension Fund, currently designated *Fundo de Pensões NB*.

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.

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2019		31.12.2018	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	1.35%	6.82%	2.10%	-1.57%
Discount rate	1.35%	-	2.10%	-
Pension increase rate	0.50%	0.49%	0.50%	0.06%
Salary increase rate	0.25%	1.20%	0.75%	1.00%
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 2019 and 2018 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

The pension plan participants have the following breakdown:

	31.12.2019	31.12.2018
Employees	4 399	4 507
Pensioners and survivors	6 761	6 709
TOTAL	**11 160**	**11 216**

The application of IAS 19 in terms of liabilities and coverage levels as at 31 December 2019 and 2018 is as follows:

(in thousands of euros)

	31.12.2019	31.12.2018
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 811 526)**	**(1 641 964)**
Pensioners	(1 275 193)	(1 122 761)
Employees	(536 333)	(519 203)
Coverage		
Fair value of plan assets	**1 659 246**	**1 615 249**
Net assets / (liabilities) in the balance sheet (See Notes 28 and 32)	**(152 280)**	**(26 715)**
Accumulated actuarial deviations recognized in other comprehensive income	**583 396**	**477 370**

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 Euro 30.4 million (31 December 2018: Euro 26.7 million) related to NOVO BANCO’s share of the deficit of the complementary plan CE. With respect to the base and complementary net liabilities, the Bank has already made the contribution.

As at 31 December 2019 and 2018, the sensitivity analysis to a 0.25% increase in the rate of the assumptions and to a one-year increase in the mortality table results in the following changes in the present value of the liabilities determined for past services:

Assumptions	Change in the amount of liabilities due to the change: (in thousands of Euros)			
	31.12.2019		31.12.2018	
	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	(68 028)	72 833	(60 769)	59 795
Salary increase rate	27 028	(18 679)	19 489	(23 828)
Pension increase rate	53 868	(49 940)	46 296	(46 124)
	of +1 year	of -1 year	of +1 year	of -1 year
Mortality table	(63 877)	64 542	(54 690)	51 631

The evolution of liabilities for pensions and health-care benefits can be analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Retirement pension liabilities at beginning of exercise	**1 641 964**	**1 629 305**
Current service cost	-	550
Interest cost	31 121	33 126
Plan participants' contribution	2 605	2 639
Contributions from other entities	281	198
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	-	(68)
- Changes in financial assumptions	122 794	(359)
- Experience adjustments (gains) / losses	63 084	18 400
Pensions paid by the fund / transfers and once-off bonuses	(68 896)	(63 250)
Early retirement	15 670	28 688
Foreign exchange differences and other	2 903	(7 265)
Retirement pension liabilities at end of exercise	**1 811 526**	**1 641 964**

The evolution of the value of the pension funds during 2019 and 2018 can be analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Fair value of fund assets at beginning of exercise	**1 615 249**	**1 614 543**
Net return from the fund	107 384	(21 037)
- Share of the net interest on the assets	27 496	31 138
- Return on assets excluding net interest	79 888	(52 175)
Group contributions	-	92 863
Plan participants' contributions	2 605	2 639
Pensions paid by the fund / transfers and once-off bonuses	(68 896)	(63 250)
Foreign exchange differences and other	2 904	(10 509)
Fund balance at the end of the year	**1 659 246**	**1 615 249**

The assets of the pension funds can be analysed as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Quoted	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Equity instruments	162 928	59 309	222 237	131 613	56 732	188 345
Debt instruments	1 000 530	-	1 000 530	859 101	-	859 101
Investment funds	201 927	52 836	254 763	214 115	50 953	265 068
Structured debt	5 984	7 733	13 717	9 183	9 518	18 701
Derivative instruments	-	1	1	-	-	-
Real estate properties	-	107 166	107 166	-	103 942	103 942
Cash and cash equivalents	-	60 832	60 832	-	180 092	180 092
Total	**1 371 369**	**287 877**	**1 659 246**	**1 214 012**	**401 237**	**1 615 249**

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)

	31.12.2019	31.12.2018
Real estate properties	75 851	58 083
Total	**75 851**	**58 083**

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the exercise	**477 370**	**407 419**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Demographic assumptions	-	(68)
- Financial assumptions	122 794	(359)
- Plan assets return (excluding net of interests)	(16 804)	70 575
Other	36	(197)
Accumulated actuarial losses recognized in other comprehensive income at the end of the exercise	**583 396**	**477 370**

The cost with retirement pensions and health-care benefits during 2019 and 2018, can be analysed as follows:

(in thousand of Euros)

	31.12.2019	31.12.2018
Current service cost	-	550
Net interest	3 625	1 988
Other	-	184
Cost with post-employment benefits	**3 625**	**2 722**

During 2019, the value of early retirements amounted to Euro 15.7 million (2018: Euro 28.7 million), which are related to the Bank restructuring process, and as such, were recognised against the restructuring provision (see Note 29).

The evolution of net assets/ (liabilities) on balance sheet may be analysed, during 2019 and 2018 as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
At the beginning of the exercise	**(26 715)**	**(14 762)**
Cost for period	(3 625)	(2 722)
Actuarial gains / (losses) recognized in other comprehensive income	(106 026)	(69 951)
Contributions made in the period	-	92 863
Other	(15 914)	(32 143)
At the end of the exercise	**(152 280)**	**(26 715)**

The summary of the liabilities and balance of the funds, as well as the experience gains and losses is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Retirement pension liabilities	(1 811 526)	(1 641 964)	(1 629 305)	(1 542 016)	(1 513 154)
Funds balance	1 659 246	1 615 249	1 614 543	1 523 694	1 481 484
(Under) / overfunding of liabilities	**(152 280)**	**(26 715)**	**(14 762)**	**(18 322)**	**(31 670)**
(Gains) / losses on experience adjustments in retirement pension liabilities	63 084	18 400	14 859	11 667	(2 835)
(Gains) / losses on experience adjustments in plan assets	(79 888)	52 175	(91 005)	42 118	16 161

The weighted average maturity of the liabilities of the defined benefit plans is approximately 16 years (31 December 2018: approximately 16 years). The table below presents the temporal breakdown of the estimated benefits payable:

(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	66 852	67 162	203 035	1 907 637

Career bonuses

As at 31 December 2019, the liabilities assumed by the Bank amounted to Euro 6 981 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 2.14 – Employee benefits (31 December 2018: Euro 6 376 thousand) (see Note 30).

As at 31 December 2019, the costs recognised with career bonuses were Euro 849 thousand (31 December 2018: Euro 518 thousand) (see Note 14).

NOTE 16 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Rentals	3 125	28 649
Advertising	7 448	8 130
Communication	10 214	11 316
Maintenance and repairs expenses	9 625	8 114
Travelling and representation	3 182	3 128
Transportation of valuables	4 076	4 048
Insurance	2 666	3 478
IT services	47 957	45 365
Independent work	3 015	4 418
Temporary work	1 549	1 429
Electronic payment systems	9 773	9 326
Legal costs	8 756	14 341
Consultancy and audit fees	26 954	17 620
Water, energy and fuel	3 693	4 901
Consumables	1 524	2 066
Other costs	28 322	29 825
	171 879	**196 154**

The caption Other administrative expenses includes, amongst others, training and costs with services rendered by Joint Ventures (Agrupamentos Complementares de Empresas (ACE)) in which NOVO BANCO has a stake.

The fees invoiced during financial years 2019 and 2018 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)

	31.12.2019	31.12.2018
Statutory audit of annual accounts	1 471	500
Other reliability assurance services	947	497
Total value of billable services	**2 418**	**997**

NOTE 17 – 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.

(In thousands of Euros)

	31.12.2019	31.12.2018
Net profit / (loss) attributable to shareholder of the Bank	**(1 087 584)**	**(1 432 875)**
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)	**(0.11)**	**(0.15)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**(0.11)**	**(0.15)**

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 18 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 31 December 2019 and 2018, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Cash	**174 156**	**149 266**
Demand deposits with Central Banks		
Bank of Portugal	1 387 250	531 664
Other Central Banks	21 658	14 359
	1 408 908	**546 023**
Deposits in other credit institutions in the country		
Repayable on demand	11 850	7 495
Uncollected checks	50 915	59 055
	62 765	**66 550**
Deposits with banks abroad		
Repayable on demand	28 997	40 491
	28 997	**40 491**
	1 674 826	**802 330**

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 237.8 million (31 December 2018: Euro 243.8 million), which the objective to satisfy the legal requirements regarding the constitution of minimum cash available. 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 2019, the average interest rate on these deposits was 0.00% (31 December 2018: 0.00%).

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 2019 was included in the observation period running from 18 December 2019 to 28 January 2020.

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 19 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2019 and 2018, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Financial assets held for trading		
Securities		
Securities held for trading		
Bonds and other fixed income securities		
Issued by government and public entities	254 848	257 269
Issued by other entities	-	1
	254 848	**257 270**
Derivatives		
Derivatives held for trading with positive fair value	419 895	520 135
Fair value option derivatives with positive fair value	74 093	148 139
	493 988	**668 274**
	748 836	**925 544**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	544 400	493 403
	544 400	**493 403**

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 at 31 December 2019 and 2018, the analysis of the securities held for trading, by maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Up to 3 months	-	50 029
3 months to 1 year	-	2 007
1 to 5 years	117 227	157 434
More than 5 years	137 621	47 800
	254 848	**257 270**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 36.

Derivatives

As at 31 December 2019 and 2018, the breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Notional	Fair value		Notional	Fair value	
		Asset	Liabilities		Asset	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- acquisition	702 690	5 307	5 574	517 448	4 920	6 297
- sales	704 147			517 243		
Currency Swaps						
- acquisition	1 060 009	1 230	540	1 743 604	2 586	991
- sales	1 065 566			1 747 500		
Currency Interest Rate Swaps						
- acquisition	22 951	21 875	21 870	23 417	21 036	21 029
- sales	22 947			23 413		
Currency Options						
- acquisition	219 866	6 240	5 836	256 052	5 235	5 279
- sales	192 493			156 257		
		34 652	**33 820**		**33 777**	**33 596**
Interest rate contracts						
Interest Rate Swaps						
- acquisition	7 391 231	349 152	499 562	7 033 268	439 070	435 363
- sales	7 392 292			7 076 925		
Swaption - Interest Rate Options						
- acquisition	400 000	2 821	1 177	-	-	-
- sales	-			-		
Interest Rate Caps & Floors						
- acquisition	93 846	966	893	54 352	583	600
- sales	91 073			57 105		
Interest Rate Futures [a)]						
- acquisition	-	-	-	-	-	-
- sales	-			50 000		
		352 939	**501 632**		**439 653**	**435 963**
Stock / index contracts						
Equity / Index Swaps						
- acquisition	152 294	3 988	3 739	116 752	13 058	13 061
- sales	152 294			116 752		
Equity / Index Options						
- acquisition	710 616	28 315	5 167	1 018 950	33 638	10 666
- sales	742 699			1 130 016		
Equity / Index Futures [a)]						
- acquisition	-	-	-	1 330	-	-
- sales	-			-		
		32 303	**8 906**		**46 696**	**23 727**
Default risk contracts						
Credit Default Swaps						
- acquisition	2 883	1	42	7 814	9	117
- sales	2 883			7 814		
		1	**42**		**9**	**117**
		419 895	**544 400**		**520 135**	**493 403**
Economic hedge derivatives						
Interest rate contracts						
Interest Rate Swaps						
- acquisition	171 371	74 093	-	171 370	70 176	-
- sales	171 371			171 370		
		74 093	**-**		**70 176**	**-**
Default risk contracts						
Credit Default Swaps						
- acquisition	-	-	-	77 963	77 963	-
- sales	-			77 963		
		74 093	**-**		**148 139**	**-**

a) Derivatives traded on organized markets, the market value of which is settled daily against 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 2.6, 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 the financial year of 2019, the Bank recognized a gain of Euro 1.1 million related to the CVA of derivative instruments (31 December 2018: gain of Euro 13.9 million).

As at 31 December 2019 and 2018, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Derivatives held for negotiation						
Up to 3 months	2 094 166	1 923 639	(647)	2 651 657	2 603 006	(495)
From 3 months to 1 year	1 053 257	843 825	16 408	1 465 725	1 542 860	(4 321)
From 1 to 5 years	2 110 078	2 097 178	1 526	1 697 248	1 706 734	14 310
More than 5 years	5 498 885	5 501 752	(141 792)	4 958 357	5 030 425	17 238
	10 756 386	**10 366 394**	**(124 505)**	**10 772 987**	**10 883 025**	**26 732**
Fair value option derivatives						
More than 5 years	171 371	171 371	74 093	249 333	249 333	148 139
	171 371	**171 371**	**74 093**	**249 333**	**249 333**	**148 139**

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 20 – 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 2019 and 2018, these captions are analysed as follows:

(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 21)

(in thousands of Euros)

	31.12.2018				
	Mandatorily at fair value through profit and loss	**Fair value through other comprehensive income**	**Amortised cost**	**Fair value changes ***	**Total**
Securities	2 949 597	7 567 290	2 302 765	-	12 819 652
Loans and advances to banks	-	-	558 652	-	558 652
Loans and advances to customers	-	-	22 789 985	31 571	22 821 556
	2 949 597	**7 567 290**	**25 651 402**	**31 571**	**36 199 860**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 21)

Securities

As at 31 December 2019 and 2018, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	694 667	329 948
Shares	601 613	673 299
Other securities with variable income	1 748 444	1 946 350
	3 044 724	**2 949 597**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	7 027 343	6 537 547
From other issuers	1 661 538	951 085
Shares	69 248	78 655
Other variable income securities	2	3
	8 758 131	**7 567 290**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	459 260	503 123
From other issuers	2 093 737	1 991 967
Impairment	(160 154)	(192 325)
	2 392 843	**2 302 765**
	14 195 698	**12 819 652**

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 2.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information or analyzes that are considered to have an impact on the fair value of the participation units. In the second half of 2019, the Bank undertook a detailed analysis of the historical performance of these funds, as well as an analysis of the liquidity of the participation units held by the Bank, having concluded that, given their complexity and limitations inherent to their liquidity it should consider an adjustment to the net book value reported by the Management Companies based on historical market metrics. Additionally, the Bank is conducting an analysis of the valuation of all assets held by these funds.

As at 31 December 2019 and 2018, 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	**6 705 039**	**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.

(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	**6 483 327**	**56 067**	**(1 847)**	**6 537 547**	**(807)**
Residents	3 566 419	25 641	(612)	3 591 448	(381)
Non residents	2 916 908	30 426	(1 235)	2 946 099	(426)
From other issuers	**934 722**	**24 490**	**(8 127)**	**951 085**	**(397)**
Residents	28 613	20 600	(54)	49 159	(22)
Non residents	906 109	3 890	(8 073)	901 926	(375)
Shares	**429 667**	**13 969**	**(364 981)**	**78 655**	**-**
Residents	353 683	12 197	(304 500)	61 380	-
Non residents	75 984	1 772	(60 481)	17 275	-
Other securities with variable income	**2**	**1**	**-**	**3**	**-**
Residents	2	-	-	2	-
Non residents	-	1	-	1	-
Balance as at 31 December 2018	**7 847 718**	**94 527**	**(374 955)**	**7 567 290**	**(1 204)**

(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 2017*				**1 651 578**
Impact of transition to IFRS 9				(1 650 979)
Balance as at 1 January 2018	**599**	**-**	**-**	**599**
Increases due to changes in credit risk	9 024	23	12	9 059
Decreases due to changes in credit risk	(7 603)	(1)	(12)	(7 616)
Utilization during the period	(850)	-	-	(850)
Other movements	12	-	-	12
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**

* The amount corresponds to accumulated impairment losses on available-for-sale securities at 31 December 2017, recorded in accordance with IAS 39.

During the financial year of 2019, the Bank sold Euro 3 730.0 million of financial instruments classified at fair value through other comprehensive income (31 December 2018: Euro 9 208.3 million), with a gain of Euro 65.7 million (31 December 2018: gain of Euro 33.7 million), and a loss of Euro 4.9 million that were transferred from revaluation reserves to sales reserves (31 December 2018: loss of Euro 3.6 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 2017	**-**	**-**	**-**	**-**
Impact of transition to IFRS 9				213 147
Balance as at 1 January 2018	**3 266**	**3 784**	**206 097**	**213 147**
Increases due to changes in credit risk	13 137	242 031	558	255 726
Decreases due to changes in credit risk	(10 576)	(235 057)	(918)	(246 551)
Utilization during the period	(1 857)	(2 105)	(74 665)	(78 627)
Other movements	-	48 630	-	48 630
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**

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.

As at 31 December 2019 and 2018, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Securities at fair value through profit or loss - mandatory		
Up to 3 months	-	1
From 3 months to 1 year	7	-
From 1 to 5 years	57 535	9 969
More than 5 years	637 126	319 979
Unlimited duration	2 350 056	2 619 648
	3 044 724	**2 949 597**
Securities at fair value through other comprehensive income		
Up to 3 months	164 095	153 776
From 3 months to 1 year	179 917	618 397
From 1 to 5 years	4 311 899	4 185 852
More than 5 years	4 032 970	2 530 607
Unlimited duration	69 250	78 658
	8 758 131	**7 567 290**
Securities at amortised cost (*)		
Up to 3 months	927 397	734 468
From 3 months to 1 year	131 372	125 633
From 1 to 5 years	48 500	33 519
More than 5 years	1 445 728	1 601 470
	2 552 997	**2 495 090**
	14 355 852	**13 011 977**

(*) Gross value before impairments

The detail of the securities portfolio by fair value hierarchy is presented in Note 36.

The portfolio securities pledged by the Bank are analysed in Note 33.

Loans and advances to banks

As at 31 December 2019 and 2018, the detail of Loans and advances to banks is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Loans and advances to banks in Portugal		
Very short-term placements	8 902	64 517
Deposits	135 411	135 870
Loans	34 013	20 051
Other loans and advances	3	3
	178 329	**220 441**
Loans and advances to banks abroad		
Deposits	10 851	28 075
Loans	1 645	1 700
Operations with reverse repurchase agreements	8	9 774
Other loans and advances	381 553	374 332
	394 057	**413 881**
Outstanding applications	-	74
	572 386	**634 396**
Impairment losses	**(77 134)**	**(75 744)**
	495 252	**558 652**

Loans and advances to banks are all recorded in the amortised cost portfolio.

As at 31 December 2019 and 2018, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Up to 3 months	49 834	132 820
From 3 months to 1 year	109 277	106 613
From 1 to 5 years	407 175	14 471
More than 5 years	6 100	380 418
Undetermined (Overdue Loans)	-	74
	572 386	**634 396**

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 2017				**71 157**
Impact of transition to IFRS 9				8 009
Balance as at 1 January 2018	**285**	**78 563**	**318**	**79 166**
Increases due to changes in credit risk	316	3 389	426	4 131
Decreases due to changes in credit risk	(727)	(10 183)	(119)	(11 029)
Utilizations	-	-	(13)	(13)
Other movements	303	3 374	(188)	3 489
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)
Other movements	(2)	1 421	2	1 421
Balance as at 31 December 2019	**367**	**76 341**	**426**	**77 134**

Loans and advances to customers

As at 31 December 2019 and 2018, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Domestic loans and advances		
Corporate		
Current account loans	1 362 889	1 415 825
Loans	8 345 875	8 407 358
Discounted bills	119 241	140 197
Factoring	709 747	865 656
Overdrafts	3 042	36 064
Financial leases	1 523 226	1 547 978
Other loans and advances	29 477	30 432
Individuals		
Residential Mortgage loans	7 370 060	6 655 696
Consumer credit and other loans	1 042 745	975 335
	20 506 302	**20 074 541**
Foreign loans and advances		
Corporate		
Current account loans	687 878	395 474
Loans	1 068 038	1 355 859
Discounted bills	21 206	39 086
Factoring	138 292	101 980
Overdrafts	39 158	30 894
Financial leases	37 422	42 765
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 084 606	955 902
Consumer credit and other loans	315 483	336 203
	3 392 084	**3 258 164**
Overdue loans and advances and interests		
Under 90 days	24 025	63 116
Over 90 days	1 073 220	3 466 007
	1 097 245	**3 529 123**
	24 995 631	**26 861 828**
Impairment losses	**(1 841 483)**	**(4 071 843)**
	23 154 148	**22 789 985**
Fair value adjustaments of interest rate hedges *		
Corporate		
Loans	14 390	31 571
Individuals		
Residential Mortgage loans	35 494	-
	49 884	**31 571**
	23 204 032	**22 821 556**

* See Note 21

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 141.9 million (Euro 1 180.7 million in gross value and Euro 1 038.8 million in impairment), and the impact on results was a loss of Euro 79.7 million (see Note 39).

In 2018, a non-performing loan portfolio was sold, and the impact of this operation on the balance sheet resulted in a reduction of Euro 496.6 million in loans and advances to customers (Euro 1 462.2 million gross value and Euro 965.6 million of impairment), and the impact on profit or loss resulted in a loss of Euro 104.8 million.

Loans to customers are all recorded in the amortized cost portfolio.

As at 31 December 2019, the caption Loans and advances to customers include Euro 6 076.8 million of mortgage loans related to the issuance of covered bonds (31 December 2018: Euro 4 617.4 million) (see Note 28).

As at 31 December 2019, the amount of interest income and commission fees recorded in the balance sheet relating to credit operations totals Euro 25 139 thousand (31 December 2018: Euro 28 222 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)

	31.12.2019	31.12.2018
Up to 3 months	1 766 827	2 401 060
From 3 months to 1 year	1 424 761	1 886 779
From 1 to 5 years	5 084 654	4 539 776
More than 5 years	15 672 028	14 536 661
Unlimited duration (Overdue Loans)	1 097 245	3 529 123
	25 045 515	**26 893 399**

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 2017				**5 693 858**
Impact of transition to IFRS 9				212 292
Balance as at 1 January 2018	**401 610**	**224 083**	**5 280 457**	**5 906 150**
Financial assets originated or acquired	2 359	-	-	2 359
Financial assets derecognised	(572)	(1 573)	(979 597)	(981 742)
Increases due to changes in credit risk	139 316	61 262	783 153	983 731
Decreases due to changes in credit risk	(128 370)	(64 948)	(495 341)	(688 659)
Utilization during the period	(94 287)	(2 189)	(1 008 607)	(1 105 083)
Other movements	74 063	(110 557)	(8 419)	(44 913)
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**

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Fixed rate	3 583 037	3 151 631
Variable rate	21 462 478	23 741 768
	25 045 515	**26 893 399**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Gross investment in finance leases receivable		
Up to 1 year	293 189	275 621
1 to 5 years	827 824	819 974
More than 5 years	663 672	720 998
	1 784 685	1 816 593
Unrealized finance income in finance leases		
Up to 1 year	35 558	37 344
1 to 5 years	91 219	97 615
More than 5 years	57 541	46 048
	184 318	181 007
Present value of minimum lease payments receivable		
Up to 1 year	257 631	238 277
1 to 5 years	736 605	722 359
More than 5 years	605 996	674 870
	1 600 232	1 635 506
Impairment	(202 575)	(289 405)
	1 397 657	**1 346 101**

NOTE 21 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

As at 31 December 2019 and 2018, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Hedging derivatives		
Assets	7 992	1 721
Liabilities	(58 854)	(36 150)
	(50 862)	**(34 429)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Loans and advances to customers (see Note 21)	49 884	31 571
	49 884	**31 571**

As at 31 December 2019 and 2018, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2019

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/ 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) Attributable to hedged risk

(2) Includes accrued interest

(in thousands of Euros)

31.12.2018

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/ CIRS	Loans and advances to customers	nterest and exchange rates	2 611 422	(34 429)	42 591	31 571	(39 132)
			2 611 422	**(34 429)**	**42 591**	**31 571**	**(39 132)**

(1) Attributable to hedged risk

(2) Includes accrued interest

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Net gains / (losses) from financial assets and liabilities at fair value through profit or loss (see Note 9).

As at 31 December 2019, the ineffective portion of the fair value hedging operations resulted in a gain of Euro 2.2 million that was recognised in the income statement (31 December 2018: cost of Euro 3.5 million). The Bank periodically evaluates the effectiveness of the hedges.

As at 31 December 2019 and 2018, the analysis of derivatives held for risk management and hedging purposes, by maturity, may be analysed as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
3 months to 1 year	-	-	-	25 000	25 000	(436)
1 to 5 years	781 374	781 374	(13 873)	646 002	646 002	(11 528)
More than 5 years	874 816	874 816	(36 989)	634 709	634 709	(22 465)
	1 656 190	**1 656 190**	**(50 862)**	**1 305 711**	**1 305 711**	**(34 429)**

NOTE 22 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The financial information of the most relevant associated companies is presented in the following table:

(in thousands of Euros)

	31.12.2019				31.12.2018			
	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	1 700
BEST	62 999 700	100,00%	1,00	100 418	62 999 700	100,00%	1,00	100 418
ES Plc	-	-	-	-	30 000	100,00%	5,00	38
GNB SEGUROS	-	-	-	-	749 800	24,99%	5,00	3 749
ES TECH VENTURES	71 500 000	100,00%	1,00	71 500	71 500 000	100,00%	1,00	71 500
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
ESEGUR	-	-	-	-	242 000	44,00%	5,00	9 634
E.S. REPRESENTAÇÕES	49 995	99,99%	0,22	12	49 995	99,99%	0,22	12
LOCARENT	525 000	50,00%	5,00	2 967	525 000	50,00%	5,00	2 967
BES GMBH	-	-	-	-	1	100,00%	25 000,00	365 025
NOVO BANCO SERVICIOS	2 676 665	100,00%	0,40	1 057	2 676 665	100,00%	0,40	1 057
NOVO VANGUARDA	500 000	100,00%	1,00	500	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	35,00%	74,94	12 362	122 499	35,00%	72,66	12 362
EDENRED PORTUGAL	101 477 601	50,00%	0,01	4 984	101 477 601	50,00%	0,01	4 984
MULTIPESSOAL	-	-	-	-	20 000	22,52%	5,00	100
HERDADE DO PINHEIRINHO I	5 280 000	100,00%	1,00	5 280	5 280 000	100,00%	1,00	5 280
HERDADE DO PINHEIRINHO II	17 200 000	100,00%	1,00	17 200	17 200 000	100,00%	1,00	17 197
				413 609				**792 152**
Impairment				(182 184)				(146 281)
				231 425				**645 871**

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 27).

The changes in impairment losses for investments in associates are presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**146 281**	**98 677**
Charges	36 040	47 605
Utilizations	(38)	-
Foreign exchange differences	(99)	(1)
Balance at the end of the exercise	**182 184**	**146 281**

NOTE 23 – TANGIBLE FIXED ASSETS

This caption as at 31 December 2019 and 2018 is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Real estate properties		
For own use	202 485	202 410
Improvements in leasehold properties	136 307	137 254
Assets under right-of-use	77 574	-
	416 366	**339 664**
Equipment		
Computer equipment	105 322	104 095
Fixtures	56 208	64 078
Furniture	67 528	69 707
Security equipment	24 284	26 579
Office equipment	7 739	7 800
Transport equipment	586	586
Assets under right-of-use	5 076	-
Other	167	163
	266 910	**273 008**
Work in progress		
Improvements in leasehold properties	22	793
Real estate properties	65	160
Equipment	-	936
	87	**1 889**
	683 363	**614 561**
Accumulated impairment	(10 609)	(10 609)
Accumulated depreciation	(478 001)	(468 221)
	194 753	**135 731**

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 2017	**368 441**	**281 984**	**560**	**650 985**
Acquisitions	172	11 569	2 802	14 543
Disposals / write-offs	(12 546)	(18 887)	-	(31 433)
Transfers **(a)**	(16 403)	(1 669)	(1 474)	(19 546)
Foreign exchange differences and other	-	11	1	12
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 **(b)**	438	950	(2 152)	(764)
IFRS 16 transition impact	90 280	3 755	-	94 035
Foreign exchange differences and other	(3)	4	-	1
Balance at 31 December 2019	**416 366**	**266 910**	**87**	**683 363**
Depreciation				
Balance at 31 December 2017	**233 300**	**254 865**	**-**	**488 165**
Depreciation	5 893	10 348	-	16 241
Disposals / write-offs	(12 546)	(18 625)	-	(31 171)
Transfers **(a)**	(4 077)	(1 690)	-	(5 767)
Foreign exchange differences and other	424	329	-	753
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 **(b)**	(210)	(74)	-	(284)
Foreign exchange differences and other	91	566	-	657
Balance at 31 December 2019	**241 382**	**236 619**	**-**	**478 001**
Impairment				
Balance at 31 December 2017	**11 122**	**-**	**-**	**11 122**
Transfers	(513)	-	-	(513)
Balance at 31 December 2018	**10 609**	**-**	**-**	**10 609**
Balance at 31 December 2019	**10 609**	**-**	**-**	**10 609**
Net book value at 31 December 2019	**164 375**	**30 291**	**87**	**194 753**
Net book value at 31 December 2018	**106 061**	**27 781**	**1 889**	**135 731**

(a) Includes Euro 10 053 thousand of fixed assets (real estate and equipment) and Euro 3 109 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

(b) 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.

NOTE 24 – INTANGIBLE ASSETS

This caption as at 31 December 2019 and 2018 is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Internally developed		
Software - Automatic data processing system	65 270	68 575
Acquired from third parties		
Software - Automatic data processing system	364 062	360 612
	429 332	**429 187**
Work in progress	**17 446**	**2 618**
	446 778	**431 805**
Accumulated amortization	(420 735)	(427 024)
	26 043	**4 781**

The caption Intangible assets developed internally includes costs incurred by the Bank units specialised in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.12).

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 2017	**465 762**	**1 921**	**467 683**
Acquisitions			
Internally developed	-	1 446	1 446
Acquired from third parties	1 457	3 745	5 202
Disposals / write-offs	(37 829)	-	(37 829)
Transfers **(a)**	-	(4 494)	(4 494)
Foreign exchange differences and other	(203)	-	(203)
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 2019	**429 332**	**17 446**	**446 778**
Amortizations			
Balance as at 31 December 2017	**459 823**	**-**	**459 823**
Amortization for the period	5 073	-	5 073
Disposals / write-offs	(37 829)	-	(37 829)
Foreign exchange differences and other	(43)	-	(43)
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**
Net balance at 31 December 2019	**8 597**	**17 446**	**26 043**
Net balance at 31 December 2018	**2 163**	**2 618**	**4 781**

(a) Relates to discontinued investment projects that were allocated to costs.

NOTE 25 – 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 2019 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 December 31, 2019, 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 2019 and 2018, 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 2019, NOVO BANCO recognised Banking Levy charges as a cost in the amount of Euro 26 647 thousand (31 December 2018: Euro 26 800 thousand). The cost recognised as at 31 December 2019 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.

The deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2019 and 2018 may be analysed as follows:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Current tax	**680**	**9 239**	**3 209**	**9 112**
Corporate tax recoverable	-	5 278	-	4 547
Other	680	3 961	3 209	4 565
Deferred tax	**892 033**	**-**	**1 179 272**	**-**
	892 713	**9 239**	**1 182 481**	**9 112**

The deferred tax assets and liabilities recognized in the balance sheet in this period are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial instruments	54 200	57 152	(134 654)	(30 702)	(80 454)	26 450
Impairment losses on loans and advances to customers	903 759	903 769	-	-	903 759	903 769
Other tangible assets	-	-	(8 377)	(8 552)	(8 377)	(8 552)
Provisions	48 375	81 583	-	-	48 375	81 583
Pensions	26 938	37 189	-	-	26 938	37 189
Other	1 792	803	-	-	1 792	803
Tax losses carried forward	-	138 030	-	-	-	138 030
Deferred tax asset / (liability)	**1 035 064**	**1 218 526**	**(143 031)**	**(39 254)**	**892 033**	**1 179 272**
Asset / liability set-off for deferred tax purposes	(143 031)	(39 254)	143 031	39 254	-	-
Net Deferred tax asset / (liability)	**892 033**	**1 179 272**	**-**	**-**	**892 033**	**1 179 272**

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	1 179 272	1 947 425
Recognised in Results for the exercise	(36 185)	(657 882)
Recognised in Fair value reserves	(105 153)	68 744
Impact of the transition to IFRS 9 (in other reserves)	-	(48 570)
Conversion of Deferred taxes into Tax credits	(145 899)	(152 478)
Foreign exchange differences and other	(2)	22 033
Balance at the end of the exercise (Assets / (Liabilities))	**892 033**	**1 179 272**

The current and deferred taxes recognised in the income statement and in reserves, in 2019 and 2018, had the following origins:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	1 751	105 153	53 888	(68 744)
Impairment losses on loans and advances to customers	(136 523)	-	382 091	-
Other tangible assets	(175)	-	(183)	-
Investments in subsidiaries and associated companies	-	-	(1 058)	-
Provisions	33 208	-	(9 713)	-
Pensions	885	-	(17 773)	-
Other	(991)	-	(370)	-
Tax losses carried forward	138 030	-	251 000	-
Deferred taxes	**36 185**	**105 153**	**657 882**	**(68 744)**
Current taxes	2 541	-	2 714	-
Total tax recognised (income) / (expense)	**38 726**	**105 153**	**660 596**	**(68 744)**

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

(in thousands of Euros)

	31.12.2019		31.12.2018	
	%	Valor	%	Valor
Income before tax [a]		**(1 048 858)**		**(772 277)**
Tax rate of NOVO BANCO	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		**(220 260)**		**(162 178)**
Tax-exempt dividends				
Impairment on investments in subsidiaries or associated companies not subject to Participation Exemption	0.2	(1 759)	0.3	(2 106)
Costs not accepted for tax purposes	(2.2)	22 788	(2.5)	19 463
Profits / losses in units with a more favorable tax regime	(0.3)	3 391	(0.7)	5 580
Taxes of Bank Branches and tax withheld abroad	(3.7)	38 344	(4.2)	32 364
Annulment of tax losses carried forward	(13.2)	138 030	(32.5)	251 000
Impairments for stocks	21.5	(225 299)	(32.9)	254 374
Provisions for other risks, costs and contingencies	-	-	(3.2)	24 935
Annulment of tax losses carried forward	(0.1)	922	(3.2)	24 491
Share of profits / (losses) of associated companies	0.6	(6 264)	0.6	(4 849)
Deferred tax assets not recognized under tax losses for the exercise	(24.2)	254 300	(27.2)	209 708
Other	(3.3)	34 533	(1.0)	7 814
Total tax recognized	**(3.7)**	**38 726**	**(85.5)**	**660 596**

[a] Includes the profit / (loss) of discontinued units

Deferred tax assets are recognised 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.

As at 31 December 2019, 2019 NOVO BANCO has not recorded deferred tax assets associated with tax losses (31 December 2018: Euro 138 030 thousand).

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2019, exercise was made based on the business plan for the period 2019-2022. This evaluation led the Bank to the annulment of deferred tax assets generated by tax losses recognized in previous years in the amount during the last quarter of 2019.

The reduction in the Bank capacity to recover the deferred tax assets generated from tax liabilities, which was the reason for the abovementioned write down at the end of 2019, when compared to the amount estimated by the Executive Board of Directors at the end of 2018, is due, with the commitments between the Portuguese State and Directorate-General for Competition of the European Commission (“DGCOMP”), reviewed upon the partial sale of NOVO BANCO concluded by the end of October 2017 and formally announced to the Bank in December 2017, and due to a higher level of conservatism on the Portuguese macroeconomic projections for the medium and long term, bearing in mind the challenges and difficulties faced by NOVO BANCO, as well as the current expectations for the reference rates in the medium term, in particular after the measures announced by the ECB in the summer of 2019.

The plan incorporates also a greater focus on reducing non-performing assets, reflecting the requirements and commitments the Bank faces in the regulatory framework of the European Union, something that also contribute to this less favourable evolution when compared with the previous plan.

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:

- Growth of pre-tax income at a rate of 2.62% from 2022;

- Significantly unfavourable evolution of net interest income in relation to the projections presented in the previous Medium-term Plan (PMP), especially due to the effect of the reduction in interest rate benchmarks, according to the current macroeconomic estimates;
- Reduction of operating costs, reflecting the favourable effect of the decreases in the number of employees and branches and, generally, of the simplification and increased process efficiency; and
- Increase in credit impairment in line with the evolution of the Bank activity and based on the macroeconomic projections, especially bearing in mind the significant effort made in the last years in the provisioning of the loan portfolio.

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 1January 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 2019 and 2018, are as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Credit impairment	516 072	598 058
Employees' benefits	-	9 366
	516 072	**607 424**

Following the determination of a negative net income for the years between 2015 and 2018, 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)

	2018	2017	2016	2015
Tax credit	161 974	136 403	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 26 – OTHER ASSETS

As at 31 December 2019 and 2018, the caption Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Collateral deposits placed	807 810	680 685
Derivative products	*631 994*	*468 442*
Collateral CLEARNET and VISA	*33 175*	*33 350*
Collateral deposits relating to reinsurance operations	*141 697*	*167 967*
Other collateral deposits	*944*	*10 926*
Recoverable government subsidies on mortgage loans	4 441	1 270
Public sector	437 249	304 746
Contingent Capital Agreement	1 037 013	1 149 295
Other debtors	730 419	889 214
Income receivable	31 061	21 362
Deferred costs	55 317	61 454
Precious metals, numismatics, medal collection and other liquid assets	9 510	9 339
Real estate properties [a)]	562 532	974 179
Equipment [a)]	3 130	22 157
Stock exchange transactions pending settlement	-	2 010
Other assets	135 150	184 008
	3 813 632	**4 299 719**
Impairment losses		
Real estate properties [a)]	(267 656)	(313 195)
Equipment [a)]	(2 404)	(19 479)
Other debtors - Shareholder loans, supplementary capital contributions	(111 051)	(118 662)
Other	(98 935)	(102 611)
	(480 046)	**(553 947)**
	3 333 586	**3 745 772**

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 2018: Euro 112.8 million, entirely provisioned), and
- Euro 237.3 million receivable in relation to the sale operation of non-performing loans (Project NATA I: Euro 126.5 million and NATA II: Euro 110.8 million) (31 December 2018: Euro 392.4 million in relation to NATA I) (see Note 39);
- Euro 21.0 million receivable in relation to the sale operation of real estate assets in 2019 (denominated "Sertorius Project"); and
- Euro 12.4 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").

As at 31 December 2019, the caption Deferred costs includes the amount of Euro 43 372 thousand (31 December 2018: Euro 46 826 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.

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 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). During 2018, the Bank entered into a promissory contract to buy and sell a portfolio of real estate assets, called Project Viriato. The details of these operations can be found in Note 39.

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).

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**553 947**	**527 185**
Allocation for the exercise	263 227	233 350
Utilisation during the exercise	(318 985)	(193 740)
Write-back for the exercise	(20 578)	(20 244)
Foreign exchange differences and other	2 435	7 396
Balance at the end of the exercise	**480 046**	**553 947**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**974 179**	**1 284 259**
Additions	85 678	176 313
Sales	(497 263)	(486 393)
Other movements	(62)	-
Balance at the end of the exercise	**562 532**	**974 179**

As at 31 December 2019 and 2018, the detail of the real estate properties included in Other assets, by type, is as follows:

(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	28 282	29 987	39 554
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	112 124	199 030	234 548
Other	**5**	**6 507**	**2 234**	**4 273**	**4 273**
	3 193	**562 532**	**267 656**	**294 876**	**399 053**

(a) Determined in accordance with accounting policy mentioned in Note 2.11

(in thousands of Euros)

	31.12.2018				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	839	147 732	47 191	100 541	107 588
Rural	350	254 157	118 067	136 090	139 555
	1 189	401 889	165 258	236 631	247 143
Buildings under construction					
Commercial	3	115	14	101	127
Residential	3	756	110	646	844
Other	1	1 577	410	1 167	1 168
	7	2 448	534	1 914	2 139
Buildings constructed					
Commercial	621	110 645	34 723	75 922	92 124
Residential	2 842	284 049	53 389	230 660	253 213
Other	359	172 432	45 995	126 437	140 785
	3 822	567 126	134 107	433 019	486 122
Other [(a)]	24	2 716	13 296	(10 580)	(9 473)
	5 042	**974 179**	**313 195**	**660 984**	**725 931**

(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)

	31.12.2019				
	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
Buildings under construction					
Commercial	-	-	29	3	32
Residential	68	-	-	16	84
Other	-	-	825	-	825
	68	-	854	19	941
Buildings constructed					
Commercial	(3 231)	5 484	9 659	18 075	29 987
Residential	7 587	31 735	31 132	51 409	121 863
Other	8 887	10 332	10 364	17 597	47 180
	13 243	47 551	51 155	87 081	199 030
Other	4 273	-	-	-	4 273
	27 507	**64 282**	**65 876**	**137 211**	**294 876**

(in thousands of Euros)

	31.12.2018				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	23 227	18 239	18 300	40 775	100 541
Rural	13 594	24 592	34 456	63 448	136 090
	36 821	42 831	52 756	104 223	236 631
Buildings under construction					
Commercial	-	-	98	3	101
Residential	-	53	109	484	646
Other	-	-	1 167	-	1 167
	-	53	1 374	487	1 914
Buildings constructed					
Commercial	5 471	20 809	20 227	29 415	75 922
Residential	42 732	76 130	54 846	56 952	230 660
Other	22 997	22 411	35 780	45 249	126 437
	71 200	119 350	110 853	131 616	433 019
Other [(a)]	(10 515)	-	-	(65)	(10 580)
	97 506	**162 234**	**164 983**	**236 261**	**660 984**

(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 2019, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 16 569 thousand (31 December 2018: Euro 22 355 thousand), having the Bank recorded impairment losses for these assets in the total amount of Euro 8 079 thousand (31 December 2018: Euro 9 433 thousand).

NOTE 27 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE

This caption as at 31 December 2019 and 2018 is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Assets of discontinued operations		
GNB Vida	-	620 472
Banco Well Link (former NB Ásia)	4 121	4 013
Banco Delle Tre Venezie	8 926	8 926
ESEGUR	9 634	-
GNB - Companhia de Seguros, S.A.	3 749	-
Other	3 619	1 470
	30 049	**634 881**
Impairment losses		
GNB Vida	-	(445 472)
Banco Delle Tre Venezie	(6 626)	(2 901)
Other	(2 150)	-
	(8 776)	**(448 373)**
	21 273	**186 508**

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 2019 and 2018, the results from discontinued operations is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**634 881**	**714 011**
Transfers	15 532	(9 567)
Sales	(620 472)	(68 791)
Other movements	108	(772)
Balance at the end of the exercise	**30 049**	**634 881**

During 2019, the Bank completed the sale of the GNB Vida (see Note 39).

The impairment movement for non-current Assets for disposal classified as held for sale is as follow:

(in thousands of Euros)

	31.12.2019	31.12.2018
Balance at the beginning of the exercise	**448 373**	**468 194**
Allocation / (reversals) for the exercise	55 775	23 354
Utilizations	(497 472)	(36 292)
Transfers	-	(6 883)
Exchange differences and other	2 100	-
Balance at the end of the exercise	**8 776**	**448 373**

NOTE 28 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 31 December 2019 and 2018 is analysed as follows:

(in tousands of Euros)

	31.12.2019	31.12.2018
Deposits from banks	10 542 549	9 119 139
Due to customers	27 980 577	28 439 075
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 044 445	1 135 128
Other financial liabilities	356 993	232 263
	39 924 564	**38 925 605**

Deposits from banks

The balance of Deposits banks is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	36 176	461
Other funds	6 087 000	6 410 000
	6 123 176	**6 410 461**
Deposits from credit institutions		
Domestic		
Deposits	681 478	650 958
Other funds	12 674	41 882
	694 152	**692 840**
Foreign		
Deposits	914 414	1 075 011
Loans	634 557	660 338
Operations with repurchase agreements	2 168 488	237 178
Other resources	7 762	43 311
	3 725 221	**2 015 838**
	4 419 373	**2 708 678**
	10 542 549	**9 119 139**

* See Note 21

As at 31 December 2019, the caption Other funds from the European System of Central Banks includes Euro 6 087 million, covered by Bank financial assets pledged as collateral (31 December 2018: Euro 6 410 million) (see Note 33).

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 2019 and 2018, the analysis of Deposits from banks, by maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Deposits from Central Banks		
Up to 3 months	1 286 176	461
From 3 months to 1 year	3 210 000	-
From 1 to 5 years	1 627 000	6 410 000
	6 123 176	**6 410 461**
Deposits from Banks		
Up to 3 months	2 421 436	1 481 217
From 3 months to 1 year	361 732	435 075
From 1 to 5 years	1 091 606	263 540
More than 5 years	544 599	528 846
	4 419 373	**2 708 678**
	10 542 549	**9 119 139**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
International		
From 3 months to 1 year	1 306 243	237 178
From 1 to 5 years	862 245	-
	2 168 488	**237 178**

Due to customers

The balance of Deposits due to costumers is composed, as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Repayable on demand		
Demand deposits	11 877 766	10 942 957
Time deposits		
Time deposits	11 228 590	13 383 301
Other	253	196
	11 228 843	**13 383 497**
Savings accounts		
Retirement saving accounts	243 507	240 446
Other	4 439 742	3 654 637
	4 683 249	**3 895 083**
Other funds		
Other	190 719	217 538
	190 719	**217 538**
	27 980 577	**28 439 075**

As at 31 December 2019 and 2018, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Repayable on demand	**11 877 766**	**10 942 957**
Term deposits		
Up to 3 months	7 204 511	7 614 228
3 months to 1 year	5 866 566	6 765 875
1 to 5 years	2 572 125	2 646 596
More than 5 years	459 609	469 419
	16 102 811	**17 496 118**
	27 980 577	**28 439 075**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	31.12.2019	31.12.2018
Debt securities issued		
Euro Medium Term Notes (EMTN)	495 989	477 787
Subordinated debt		
Bonds	415 069	414 903
Financial liabilities associated to transferred assets		
Asset lending operations	133 387	242 438
	1 044 445	**1 135 128**

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, on 31 December 2019, amount to Euro 5 500 million (31 December 2018: Euro 4 200 million) being these covered bonds totally repurchased by the Bank. The main characteristics of the outstanding issues as at 31 December 2019 and 2018 are as follows:

(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	07/10/2019	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)

31.12.2018

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	A3	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2019	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A3	A
	4 200 000	**-**							

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, 7 and 8 and Instruction No. 13 of Bank of Portugal.

As at 31 December 2019, the assets that collateralize these covered debt securities amount to Euro 6 076.8 million (31 December 2018: Euro 4 617.4 million) (see Note 20).

The changes in the financial years of 2019 and 2018 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2018	Issues	Redemptions b)	LME	Net purchases	Other movements a)	Balance as at 31.12.2019
Debt securities issued							
Euro Medium Term Notes (EMTN)	477 787	-	-	-	-	(11 247)	495 989
Covered bonds c)	-	1 300 000	-		(1 300 000)	-	-
	477 787	1 300 000	-	-	(1 300 000)	(11 247)	495 989
Subordinated debt							
Bonds	414 903	-	-	-	-	(14 159)	415 069
Financial liabilities associated to transferred assets							
Asset lending operations	242 438	-	(107 660)	-	-	(1 391)	133 387
	1 135 128	**1 300 000**	**(107 660)**	**-**	**(1 300 000)**	**(26 797)**	**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 the year of 2019, all classes B and C issued by Lusitano SME nº 3 and 12.6 thousand euros of class D were repaid in advance.
c) During the financial year 2019, two covered bonds were issued in the amount of 750 million euros and 550 million euros.

(in thousands of Euros)

	Balance as at 31.12.2017	Issues	Redemptions b)	LME	Net purchases	Other movements a)	Balance as at 31.12.2018
Debt securities issued							
Euro Medium Term Notes (EMTN)	617 861	-	-	(157 068)	(8 602)	25 596	477 787
Subordinated debt							
Bonds	-	141 200	-	258 800	-	14 903	414 903
Financial liabilities associated to transferred assets							
Asset lending operations	447 548	-	(199 968)	-	-	(5 142)	242 438
	1 065 409	**141 200**	**(199 968)**	**101 732**	**(8 602)**	**40 499**	**1 135 128**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.
b) Throughout 2018 the totality of Class A of Lusitano SME No. 3 emission was reimbursed in advance.

On 29 June 2018, NOVO BANCO issued Euro 400 million of instruments of subordinated liabilities. This issuance was carried out jointly with tender and exchange offers addressed to holders of senior bonds of NOVO BANCO, having been prioritized the allocation of the new Tier 2 issuance to the investors participating in the exchange offer (65%), against the allocation to new investors (35%). The tender and exchange offers allowed the extinction of a balance sheet value of Euro 250.7 million of senior bonds.

In accordance with the accounting policy mentioned in the Note 2.6, in case of purchases of securities representatives of the Bank's liabilities, these securities are written off from liabilities and the difference between the purchase price and the respective book value is recognised in the income statement. Following the debt exchange operation addressed to holders of senior bonds of NOVO BANCO by subordinated liabilities (LME) and purchases made, the Bank recognized, in the first half of 2018, a net loss of Euro 86.2 million from which Euro 81.8 million are related to operations of debt exchange by subordinated liabilities. During the financial year of 2019 the Bank recognised a gain of Euro 0.5 million.

As at 31 December 2019 and 2018, the analysis of Debt securities issued and subordinated debt, by maturity, is as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Debt securities issued		
More than 5 years	495 989	477 787
	495 989	**477 787**
Subordinated debt		
1 to 5 years	415 069	414 903
	415 069	**414 903**
Financial liabilities associated to transferred assets		
More than 5 years	88 937	197 987
Undertimined maturity	44 450	44 451
	133 387	**242 438**
	1 044 445	**1 135 128**

The main characteristics of these liabilities, as at 31 December 2019 and 2018, are as follows:

(in thousands of Euros)

		31.12.2019					
Entity	Description	Currency	Issue date	Carrying Book value	Maturity	Interest rate	Market
Euro Medium Term Notes							
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 02/01/43	EUR	2013	41 798	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 23/01/43	EUR	2013	96 270	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 19/02/2043	EUR	2013	62 461	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 18/03/2043	EUR	2013	46 011	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC	EUR	2013	34 344	2048	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	Banco Esp San Lux ZC 12/02/49	EUR	2014	42 861	2049	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	Banco Esp San Lux ZC 19/02/49	EUR	2014	37 674	2049	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	Banco Esp San Lux ZC 27/02/51	EUR	2014	32 615	2051	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 06/03/2051	EUR	2014	14 236	2051	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 03/04/48	EUR	2014	40 699	2048	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 09/04/52	EUR	2014	36 317	2052	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 16/04/46	EUR	2014	10 703	2046	Zero cuppon	XLUX
Subordinated debt							
NOVO BANCO	NB 06/07/2028	EUR	2018	415 069	2023 a)	8.5%	XDUB
				911 058			

a) Date of the next call option

(in thousands of Euros)

		31.12.2018					
Entity	Description	Currency	Issue date	Carrying Book value	Maturity	Interest rate	Market
Euro Medium Term Notes							
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 02/01/43	EUR	2013	41 225	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 23/01/43	EUR	2013	95 411	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 19/02/2043	EUR	2013	61 704	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg 3.5% 18/03/2043	EUR	2013	45 447	2043	Fixed Rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC	EUR	2013	32 452	2048	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	Banco Esp San Lux ZC 12/02/49	EUR	2014	40 223	2049	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	Banco Esp San Lux ZC 19/02/49	EUR	2014	35 324	2049	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	Banco Esp San Lux ZC 27/02/51	EUR	2014	30 550	2051	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 06/03/2051	EUR	2014	13 329	2051	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 03/04/48	EUR	2014	37 968	2048	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 09/04/52	EUR	2014	34 169	2052	Zero cuppon	XLUX
NB (Sucursal Luxemburgo)	BES Luxembourg ZC 16/04/46	EUR	2014	9 985	2046	Zero cuppon	XLUX
Subordinated debt							
NOVO BANCO	NB 06/07/2028	EUR	2018	414 903	2023 a)	8.5%	XDUB
				892 690			

a) Date of the next call option

The Bank did not present any capital or interest defaults regarding debt issued during the 2019 and 2018.

The securitization operations not derecognized above, implied the registration of financial liabilities associated with transferred assets, which are detailed as follows:

(in thousands Euros)

	31.12.2019	31.12.2018
Lusitano SME No. 3	88 937	197 987
FLITPTREL (1)	44 450	44 451
	133 387	**242 438**

(1) asset transfer operation, with the Bank in the securities portfolio vehicle equity instruments

NOTE 29 – PROVISIONS

As at 31 December 2019 and 2018, 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 2017	**91 992**	**146 184**	**105 100**	**-**	**70 720**	**413 996**
Impact of transition to IFRS 9	-	4 446	-	-	-	4 446
Balance as at 1 January 2018	**91 992**	**150 630**	**105 100**	**-**	**70 720**	**418 442**
Allocation / (write-backs) for the period	(21 086)	26 161	(2 222)	182 800	54 320	239 973
Utilization during the period	(61 125)	-	(29 902)	(143 935)	(12 022)	(246 984)
Foreign exchange differences and other	-	12 578	(99)	-	(27)	12 452
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**

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 2017				**144 230**
Impact of transition to IFRS 9				4 454
Balance as at 1 January 2018	**14 131**	**7 905**	**126 648**	**148 684**
Increases due to changes in credit risk	14 162	10 207	79 000	103 369
Decreases due to changes in credit risk	(2 056)	(11 852)	(63 649)	(77 557)
Other movements	552	10 528	1 499	12 579
Balance as at 31 December 2018	**26 789**	**16 788**	**143 498**	**187 075**
New guarantees granted	307	6 724	37 959	44 990
Increases 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**

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 2017				**1 954**
Impact of transition to IFRS 9				(8)
Balance as at 1 January 2018	**1 380**	**566**	**-**	**1 946**
Increases due to changes in credit risk	1 312	363	-	1 675
Decreases due to changes in credit risk	(722)	(603)	(1)	(1 326)
Other movements	(100)	98	1	(1)
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**

At the end of 2015, the Board of Directors of NOVO BANCO presented to the European Commission a Restructuring Plan that was prepared in strict collaboration with Bank of Portugal and involved a set of measures, highlighting the concentration of the retail and corporate banking activities in Portugal and Spain, the divestment in non-strategic assets and the reduction, in 2016, of Euro 150 million in recurring operating costs (excluding restructuring costs) associated with a decrease of 1 000 employees and a resizing of the distribution network to 550 branches. In the scope of IAS 37, during 2016 a provision for this restructuring was created in the amount of Euro 94.5 million, to cover the facilities' closure costs and the employee downsizing. The restructuring plan was executed during 2016, and in 31 December 2016 the employees reduction goal was met, and the distribution network was reduced as well as the operational costs recorded a surpassing decrease. As at 31 December 2019, the provision booked in the balance sheet amounted to Euro 0.8 million.

The goals agreed with the European Commission for 30 June 2017, included a Euro 230 million reduction on recurring operational costs (excluding restructuring costs) when compared to 2015. This cost reduction is due to a re-sizing to 5 908 employees at the Group level and the distribution network to 475 branches. In IAS 37 scope, in 2017 a provision for this restructure was created, in the amount of Euro 52.0 million, making up for the costs of shutting down facilities and reducing headcount. This new phase of the restructuring plan was executed, and as at 30 June 2017, the goal of downsizing employees and the distribution network was met and the operational costs recorded a decrease bigger than the established goal.

Under the sale process of NOVO BANCO, concluded in October 2017, additional commitments were made with the European Commission. As such, at the end of 2017 a restructuring provision was established in the amount of Euro 82.3 million in order to address the new objectives. This provision contemplates restructuring measures including the focus of the banking activity in Portugal and Spain and on the retail and corporate segments, the divestment of non-strategic assets, the reduction of the number of employees and the resizing of the distribution network. As at 31 December 2019, the book value of restructuring provisions constituted in 2017 amounted to Euro 2.8 million.

During the financial year of 2019, in order to comply with the objective of reduction of employees assumed with the European Commission, and the cost and headcount budget defined for the year 2019, a new provision for restructuring amounting to Euro 57.1 million was set up. As at 31 December 2019, the carrying amount of this provision amounted to Euro 20.5 million.

Provisions for commercial offers, in the amount of Euro 41.3 million (31 December 2018: Euro 72.9 million), are intended to cover costs resulting from commercial offers approved by the Board of Directors of NOVO BANCO, aimed at retail customers holding NOVO BANCO unsubordinated bonds. The Board of Directors considers the amount of this provision to be adequate based on the experience gained in the negotiations already completed and sales price expectations concerning the bonds and financial instruments subscribed by customers.

During 2018, the Bank launched a program of early repayment of liabilities. In this regard, provisions of Euro 182.8 million were incorporated for the clients that adhered to this program, in return for a compensation for loss of capital revenue, from which were used approximately Euro 143.9 million still in 2018. During 2019, Euro 1.2 million were replaced and Euro 37.7 million were used, so the value of this provision at the end of the year was nil.

Other provisions amounting to Euro 209.3 million (31 December 2018: Euro 113.0 million) are intended to cover certain duly identified contingencies related to the Bank activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of Euro 27.3 million (31 December 2018: Euro 14.5 million);
- The remaining amount, of Euro 182.0 million (31 December 2018: Euro 98.5 million), is intended to cover for losses in connection to the Bank normal activities, such as, amongst others, fraud, theft and robbery, and ongoing legal lawsuits, among others

Contingent liabilities are disclosed in Note 33.

NOTE 30 – OTHER LIABILITIES

As at 31 December 2019 and 2018, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Public sector	31 047	55 223
Creditors for supply of goods	88 315	25 818
Other creditors	70 197	75 298
Career bonuses (see Note 15)	6 981	6 376
Retirement pensions and health-care benefits (see Note 15)	152 280	26 715
Other accrued expenses	76 989	69 860
Deferred income	983	2 083
Foreign exchange transactions pending settlement	6 577	7 193
Other transactions pending settlement	38 257	74 601
	471 626	**343 167**

NOTE 31 – SHARE CAPITAL

Ordinary shares

In 2017 and following the acquisition of 75% of NOVO BANCO share capital 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 2019 and 2018, 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	
	31.12.2019	31.12.2018
Nani Holdings, SGPS, SA	75,00%	75,00%
Fundo de Resolução [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 25, 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 2018 will confer a shareholding of up to approximately 10.3% of the share capital of NOVO BANCO.

NOTE 32 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES

As at 31 December 2019 and 2018, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2019	31.12.2018
Other accumulated comprehensive income	**(632 033)**	**(751 016)**
Retained earnings	**(6 115 245)**	**(4 682 368)**
Other reserves	**5 580 864**	**4 565 538**
Originating reserve	2 098 187	2 234 440
Special reserve	606 547	470 295
Other reserves and Retained earnings	2 876 130	1 860 803
	(1 166 414)	**(867 846)**

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 2017	**-**	**-**	**-**	**135 104**	**-**	**(407 417)**	**(272 313)**
Impact of IFRS 9	599	-	-	(385 707)		-	(385 108)
Balance as at 1 January 2018	**599**	**-**	**-**	**(250 603)**	**-**	**(407 417)**	**(657 421)**
Actuarial deviations	-	-	-	-	-	(69 951)	(69 951)
Fair value changes, net of taxes	-	-	-	(21 892)	-	-	(21 892)
Foreign exchange differences	-	-	-	-	(2 549)	-	(2 549)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	1 202	-	-	-	-	1 202
Impairment reserves of securities at fair value through other comprehensive income	605	-	-	-	-	-	605
Reserves of sales of securities at fair value through other comprehensive income	-	-	(3 557)	-	-	-	(3 557)
Other	-	-	-	-	2 549	(2)	2 547
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)**

The accumulated variation of the credit risk reserves of financial liabilities at fair value through profit or loss is, at 31 December 2019, Euro -1 669 thousand (at 31 December 2018: Euro 1 202 thousand).

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 analysed as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	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
Balance at the beginning of the exercise	**(280 428)**	**7 933**	**(272 495)**	**195 915**	**(60 811)**	**135 104**
Impact of transition to IFRS 9	-	-	-	(442 105)	56 398	(385 707)
Balance as at 1 January 2018	**(280 428)**	**7 933**	**(272 495)**	**(246 190)**	**(4 413)**	**(250 603)**
Changes in fair value	408 804	-	408 804	6 985	-	6 985
Foreign exchange differences	(6 678)	-	(6 678)	(17 980)	-	(17 980)
Sales in the exercise	(68 519)	-	(68 519)	(23 243)	-	(23 243)
Deferred taxes recognized in the exercise in reserves	-	(105 153)	(105 153)	-	12 346	12 346
Balance at the end of the exercise	**53 179**	**(97 220)**	**(44 041)**	**(280 428)**	**7 933**	**(272 495)**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Amortised cost of financial assets at fair value through other comprehensive income	8 704 952	7 847 718
Market value of financial assets at fair value through other comprehensive income	8 758 131	7 567 290
Unrealised gains / (losses) recognized in fair value reserve	53 179	(280 428)
Deferred Taxes	(97 220)	7 933
Fair value reserve attributable to shareholders of the Bank	**(44 041)**	**(272 495)**

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 at the time, nominated by Bank of Portugal.

Special reserve

As mentioned in Note 31, 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 2018 and with reference to the elegible 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)

	31.12.2019	31.12.2018
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	109 421	133 658
2018 (net loss of 2017)	150 044	167 726
2019 (net loss of 2018)	178 171	-
	606 547	**470 295**

Resulting from the credit tax certified by the Tax authority at the end of 2018, the amounts of the special reserve constituted during the year of 2017 (referring to the negative net result of 2016), should be adjusted in the course of 2019, after correcting for the number of rights issued in favour of the Portuguese State.

Other reserves and retained earnings

Following the conditions agreed in the Bank's sale process, a Contingent Capitalization 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 33 – 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 2019 these assets had a net value of Euro 3.0 billion, mainly as a result of payments and recoveries as well as losses recorded (31 December 2018: net value of Euro 4.0 billion).

As a result of the losses recorded by NOVO BANCO on 31 December 2018 and 2017, the conditions determining the payment by Resolution Fund of Euro 1 149 295 thousand and Euro 791 695 thousand were meet and the payments occurred in May 2019 and 2018, respectively. In the financial year of 2019, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 1 037 013 thousand relating to the Contingent Capitalization 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 33 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2019 and 2018 are the following:

(in thousands of Euros)

	31.12.2019	31.12.2018
Contingent liabilities		
Guarantees and standby letters	3 148 216	3 361 309
Financial assets pledged as collateral	11 930 201	12 338 526
Open documentary credits	516 162	664 905
	15 594 579	**16 364 740**
Commitments		
Revocable commitments	6 897 501	5 127 423
Irrevocable commitments	409 215	452 979
	7 306 716	**5 580 402**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As at 31 December 2019, 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 11.5 billion (31 December 2018: Euro 12.1 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 2018: Euro 7.7 million);
- Securities pledged as collateral to the Deposits’ Guarantee Fund (“Fundo de Garantia de Depósitos”), in the amount of Euro 71.8 million (31 December 2018: Euro 70.1 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 98.6 million (31 December 2018: Euro 155.4 million);
- Securities pledged as collateral relating to derivatives trading with a central counterparty amounting to Euro 113.0 million.

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or 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)

	31.12.2019	31.12.2018
Deposit and custody of securities and other items	36 782 430	34 433 770
Amounts received for subsequent collection	283 674	296 996
Securitized loans under management (servicing)	3 660 539	3 791 918
Other responsibilities related with banking services	871 399	1 685 399
	41 598 042	**40 208 083**

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 2019 (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 2019, 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.

Significant 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 informed by the publication in the Official Journal of the European Union of 16 July 2018, of the existence of an appeal to the General Court by Banco Comercial Português, SA and other entities of the group seeking the annulment of the decision of the European Commission C (2017 / N) of 11 October 2017 which considers the Contingent Capitalization Agreement agreed between the Resolution Fund and the Lone Star Group in connection with the sale of NOVO BANCO, compatible with the internal market. Although NOVO BANCO is not a party to this proceeding, it has asked the General Court to intervene as a party and this request was granted;

(v) 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 2019, the periodic contribution made by the Bank amounted to Euro 11 996 thousand (31 December 2018: Euro 10 803 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. 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..

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 the previous announcement of 28 September 2016 and the Portuguese Finance Ministry announcement issued at 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.

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 Capitalization 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 Capitalization 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 Capitalization Agreement and the Compensation Mechanism referred to in the previous paragraphs.

According to the announcement issued by the Resolution Fund on 1 March 2019, for the payment to be made to the Bank under the Contingent Capitalization Agreement, the available financial resources will be used first, resulting from the contributions paid, directly or indirectly by the banking sector, and these resources are complemented by a loan agreed with the State in October 2017 with an annual maximum limit then defined of Euro 850 million.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTE 34 – 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 2019, the following transactions with Related Parties (credit and other types) were carried out:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euro)
BEST - Banco Electrónico de Serviço Total S.A.	Subsidiary	Bank guarantee	8 090 174
		Bank guarantee	41 359 876
		Bond Issue	1 300 000 000
Cristalmax - Indústria Vidros S.A.	Associate	Credit Limit - NB Express Bill	100 000
		Limits - NB Factoring (Confirming)	250 000
		MLT Funding	500 000
Enkrot - Gestão e Tratamento de Águas S.A.	Associate	Bank guarantee	77 000
		Bank guarantee	159 067
		Authorized overdraft	500 000
		Factoring	650 000
GNB Companhia de Seguros S.A.	Associate	Direct Debits Limits	81 200 000
GNB Companhia de Vida S.A.	Subsidiary	Op. Markets Rce	10 000 000
		Direct Debits Limits	80 100 000
Greendraive - Gestão e Exporação de Campos de Golf e Complexos Turísticos S.A.	Subsidiary	Leasing	45 500
		Bank guarantee	106 000
		Loan Account Cc_	175 000
		Shareholder loans	340 000
Grupo Esegur (Esegur - Soluções de Segurança S.A.)	Associate	Limits Credit Card	225 000
		Limits to Bank guarantee	1 000 000
Grupo Multipessoal (Multipessoal - Recursos Humanos SGPS S.A.)	Associate	Limits Credit Card	117 500
		Collateral Line Guarantees	1 750 000
		Credit limit - NB Express Bill	2 500 000
		Authorized overdraft	4 500 000
		Factoring	9 200 000
Locarent- Coompanhia Portuguesa Aluguer Viaturas S.A.	Associate	Limits Credit Card	10 000
		Loan Account Cc_	2 500 000
		Op. Markets Rce_	3 000 000
		Credit Plafond - Leasing	4 625 000
		AOV Contract - NB Vehicles	5 726 880
		Credit Plafond - Leasing	6 900 000
		Direct Debits Limits	40 000 000
		Credit Plafond - Leasing	41 500 000
Logic C Logística Integrada S.A.	Associate	Limits Credit Card	10 000
		Bank guarantee	90 240
		Loan Account Cc_	250 000
M N Ramos Ferreira Engenharia S.A.	Associate	Limits Credit Card	3 500
		Credit Limit - NB Express Bill	100 000
		Credit Limit - NB Express Bill Exclusive	200 000
		MLT Funding	275 000
Nacional Conta – Contabilidade, Consultadoria e Administração, Lda.	Director / Manager / Family	Loan Account Cc_	100 000
Nexxpro - Fábrica de Capacetes S.A.	Associate	Issuance of Credit Cards	182 387
		Factoring	750 000
Novo Banco Servicios Corporativos SL	Subsidiary	Shareholder loans	4 750 000
		Loan Account Cc_	45 000 000
Novo Vanguarda SL	Subsidiary	Loan Account Cc_	250 000
Righthour S.A.	Subsidiary	MLT Funding	13 451 386
		MLT Funding	1 962 826
Unicre - Cartão Internacional de Crédito S.A.	Associate	MLT Funding	25 000 000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation
BEST - Banco Electrónico de Serviço Total S.A.	Subsidiary	1. Mortgage Offer Agreement for BEST employees 2. Credit Intermediary Binding Agreement
GNB Sociedade Gestora Fundos Investimento Imobiliário S.A.	Subsidiary	Outsoursing Contract (Real Estate Asset Management Agreement)
GNB Sociedade Gestora Fundos Investimento Mobiliário S.A.	Subsidiary	Amendment to the Distribution Agreement
Esegur - Soluções de Segurança S.A.	Associate	1. Renewal of the Technical Assistance Contract for Security Equipment and Central Security Service 2. Contract for the Provision of Services of Transportation of Values and Treatment of Cash
NANI Holdings SGPS SA / LSF NANI Investments Sarl	Associate	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)

The Bank Balance Sheet balances with related parties as at 31 December 2019 and 2018, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	31.12.2019					31.12.2018				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	153	-	332	-	-	153	-	390	-
FUNDO DE RESOLUÇÃO	1 037 013	-	-	-	11 996	1 149 295	-	-	-	10 803
Subsidiary companies										
GNB RECUPERAÇÃO DE CRÉDITO	-	156	-	-	2 319	-	267	-	35	3 072
GNB CONCESSÕES	83 473	39 382	-	-	-	63 351	39 501	-	-	-
GNB ACE	-	309	-	-	1 728	-	517	-	-	2 041
GNB GA	2 698	44 507	6	6 009	1	549	54 278	4 026	6 013	30
NOVO BANCO SERVICIOS	4 777	2	-	438	1 316	42 803	-	-	924	2 610
BES GMBH	-	-	-	-	-	-	3 872	-	-	-
BESIL	-	-	-	128	551	-	115 882	-	153	1 135
ES Plc	-	-	-	41 043	52 409	443 281	454	-	19 620	14 583
ES TECH VENTURES	46 732	64 791	-	-	10	46 732	65 277	-	-	17
BEST	1 858	432 110	37	1 855	5 895	2 410	411 259	-	476	6 673
NB AÇORES	139 165	145 384	1 295	857	1 860	139 198	125 567	1 295	2 075	2 653
FCR PME	-	121	-	-	-	-	9 066	-	-	-
FT LPF1	-	-	-	-	-	1 509	505	-	-	-
SPE-LM6	322 437	2 902	-	439	-	365 930	4 138	-	484	-
SPE-LM7	827 787	5 414	-	1 177	-	681 379	7 062	-	1 281	-
FCR NB GROWTH	15 414	3 147	-	-	-	15 456	1 471	-	-	-
NB ÁFRICA	-	7 229	-	-	-	-	7 265	-	-	-
GNB Vida	-	-	-	-	-	14 835	218 807	-	16 961	462
NOVO VANGUARDA	-	158	-	-	627	199	309	-	-	2 290
FUNGEPI	-	58 666	-	29	15	-	52 017	1 898	35	18
FUNGEPI_II	-	62 244	-	27	13	-	45 956	41	43	15
FUNGERE	-	41 422	-	32	7	-	32 941	60	35	4
IMOINVESTIMENTO	-	1 393	-	47	-	-	817	-	74	-
PREDILOC	-	2 162	-	-	-	-	973	-	-	-
IMOGESTÃO	-	36 925	409	42	6	-	7 854	436	45	-
ARRABIDA	-	1 308	-	-	-	-	27	-	-	-
INVESFUNDO VII	-	1 180	-	-	-	-	883	-	9	-
NB LOGÍSTICA	-	4 415	-	-	-	-	3 095	-	-	1
NB PATRIMÓNIO	-	31 071	-	-	4 791	-	24 348	387	-	5 790
FUNDES	-	14 598	-	-	3	-	11 115	-	-	6
AMOREIRAS	-	36 100	-	-	-	-	1 899	4 674	-	-
FIMES ORIENTE	-	14 766	-	-	43	-	40 281	113	-	28
NB ARRENDAMENTO	-	3 193	-	-	-	-	2 620	-	-	-
NB FINANCE	-	72 911	168 578	268	4 323	-	68 692	-	114	5 274
ASAS INVEST	-	660	-	-	-	-	5	880	-	-
FEBAGRI	-	-	-	-	-	-	954	-	-	-
AUTODRIL	-	13	-	-	-	-	8	-	-	-
JCN	-	-	-	-	-	17 920	11	-	-	-
PORTUCALE	-	66	-	-	-	-	46	1 127	-	-
GREENWOODS	-	132	-	-	-	-	138	-	-	-
QUINTA D. MANUEL I	-	1	-	-	-	-	-	-	-	-
QUINTA DA AREIA	-	79	-	-	-	-	-	-	-	-
PROMOTUR	-	745	-	-	-	-	17	-	-	-
HERDADE DA BOINA	-	21	-	-	-	-	-	-	-	-
BENAGIL	-	6	-	-	-	-	125	-	-	-
IMOASCAY	-	631	-	-	-	-	639	-	-	-
HERDADE PINHEIRINHO	24 713	-	-	-	-	24 194	2	470	-	-
HERDADE PINHEIRINHO II	73 734	33	-	-	-	73 341	12	4 227	-	-
QUINTA DA RIBEIRA	-	-	-	-	-	-	53	-	-	-
PROMOFUNDO	-	531	-	-	-	-	263	-	18	-
OREY REABILITAÇÃO URBANA	-	-	-	-	1	-	25	-	-	-
R INVEST	-	1 709	-	-	-	-	214	-	-	-
GREENDRAIVE	4 165	20	106	1	-	3 784	104	-	46	-
	2 583 966	**1 132 766**	**170 431**	**52 724**	**87 914**	**3 086 166**	**1 361 784**	**19 634**	**48 831**	**57 505**
Associated companies										
LINEAS	97 656	29 556	-	2 609	-	97 644	34 426	-	4 710	3
LOCARENT	122 802	376	-	1 176	4 215	31 304	1 282	-	1 323	5 409
GNB SEGUROS	-	14 390	-	2	1	-	8 237	-	-	2
ESEGUR	4 157	1 510	69	-	-	5 528	3 507	69	-	-
UNICRE	28 360	2 500	-	180	-	10 001	21	-	26	-
MULTIPESSOAL	3 520	35	273	22	-	3 074	35	251	52	-
OUTRAS	1 336	57 312	53	22	1 499	1 172	47 425	49	32	82
	257 831	**105 679**	**395**	**4 011**	**5 715**	**148 723**	**94 933**	**369**	**6 143**	**5 496**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	2 767	-	-	-	-	5 444
NACIONAL CONTA LDA (*)	117	8	-	-	-	120	7	-	-	-
	117	**8**	**-**	**-**	**2 767**	**120**	**7**	**-**	**-**	**5 444**

(*) Companies controlled directly or indirectly by members of the corporate bodies.

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capitalization Agreement regarding the financial years 2019 and 2018.

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.

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 4.5% (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 2019 and 2018, are as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Executive Board of Directors	**General and Supervisory Board**	**Total**	**Executive Board of Directors**	**General and Supervisory Board**	**Total**
Short-term employment benefits	2 812	980	3 792	2 265	993	3 258
Post-employment benefits	3	-	3	4	-	4
Other long-term benefits	43	21	64	33	26	59
Employment termination benefits	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-
	2 858	**1 001**	**3 859**	**2 302**	**1 019**	**3 321**

In the financial year of 2018, no variable remuneration costs were recorded in relation to the Management and Supervisory Bodies and no variable remuneration was paid or attributed in 2018. Still in 2018 and resulting from the commitment to take up a new Executive Director, Euro 320 thousand were recorded as a sign-on bonus, which were actually paid in 2019, before taking up his duties. With regard to the financial year of 2019, variable remuneration to the Management Bodies amounts to Euro 1,997 thousand, which relates to the remuneration that do 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 deferral and verification of certain conditions.

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 448 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

As at 31 December 2018, 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 503 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives was Euro 1 thousand.

NOTE 35 – SECURITISATION OF ASSETS

As at 31 December 2019 and 2018 the outstanding securitisation transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2019	31.12.2018	
Lusitano Mortgages No.1 plc	December 2002	1 000 000	-	182 361	Mortgage loans (subsidized scheme)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	-	185 120	Mortgage loans (general and subsidized scheme)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	-	291 087	Mortgage loans (general scheme)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	312 836	351 544	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	463 413	513 952	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	434 463	478 943	Mortgage loans (general scheme)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	-	8 371	Project Finance loan
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 090 124	1 199 264	Mortgage loans (general scheme)
Lusitano SME No.3	November 2016	630 385	88 937	197 985	Loans to small and medium-sized enterprises

The loans and advances to customers covered by the securitization operation Lusitano SME No. 3 was not derecognised from the balance sheet since the Bank substantially retained all the risks and rewards of ownership associated with the securitised assets. The remaining securitisation operations were derecognised as the Bank substantially transferred all the risks and rewards of ownership. During 2019 the Bank repurchased securitization operations credits Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc.

As at 31 December 2018, the following synthetic securitization operations were in progress:

(in thousands of Euros)

Issue	Start date	Initial amount of securitised credit	Current amount of securitised credit		Asset securitized
			31.12.2019	31.12.2018	
Lusitano Synthetic Limited	December 2012	1 000 000	-	354 311	Financing M/L Term (SMEs)

Lusitano Synthetic Limited was a synthetic loan securitization operation involving the contracting by the Bank of a credit default swap (CDS) to eliminate credit risk associated with a portfolio of loans granted to companies. The loans associated to this portfolio continued to be recognized in the Bank's balance sheet under the caption Loans and advances to customers. During the financial year of 2019, Lusitano Synthetic Limited was early terminated.

The main characteristics of these operations, as at 31 December 2019 and 2018, may be analysed as follows:

(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	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2018															
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.1 plc	Class A	915 000	87 504	-	-	December 2035	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	32 500	32 500	-	-	December 2035	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	25 000	25 000	-	-	December 2035	A	A2	A	-	AA	Aa3	BBB-	-
	Class D	22 500	22 500	-	-	December 2035	BBB	Baa2	BBB	-	A+	Baa1	BB+	-
	Class E	5 000	5 000	-	-	December 2035	BB	Ba1	BB	-	BBB+	B1	B-	-
	Class F	10 000	10 000	-	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	99 505	-	-	December 2036	AAA	Aaa	AAA	-	AA	Aa3	AA-	-
	Class B	30 000	30 000	-	-	December 2046	AA	Aa3	AA	-	AA	Aa3	A	-
	Class C	28 000	28 000	-	-	December 2046	A	A3	A	-	A+	Aa3	BBB-	-
	Class D	16 000	16 000	-	-	December 2046	BBB	Baa3	BBB	-	BBB-	Baa2	BBB-	-
	Class E	6 000	6 000	-	-	December 2046	BBB-	Ba1	BB	-	B	B2	B	-
	Class F	9 000	9 000	-	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	250 799	-	-	December 2047	AAA	Aaa	AAA	-	A	A1	A	-
	Class B	27 000	9 841	-	-	December 2047	AA	Aa2	AA	-	BBB+	Ba1	BB-	-
	Class C	18 600	6 780	-	-	December 2047	A	A2	A	-	BB+	Ba3	B	-
	Class D	14 400	5 249	-	-	December 2047	BBB	Baa2	BBB	-	B	B3	B-	-
	Class E	10 800	5 400	-	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	272 930	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	A	-
	Class B	22 800	18 066	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BBB-	-
	Class C	19 200	15 214	-	-	December 2048	A+	A1	A+	-	BB	Ba3	BB-	-
	Class D	24 000	19 017	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 529	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	406 872	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA-	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB-	B1	BBB-	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	CCC	Caa2	BB+	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	CCC+	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	319 906	266 342	253 795	March 2060	AAA	Aaa	AAA	-	A-	Aa3	BBB+	-
	Class B	65 450	65 450	63 950	57 394	March 2060	AA	Aa3	AA	-	BB+	Baa1	BBB+	-
	Class C	41 800	41 800	41 800	31 497	March 2060	A	A3	A	-	B-	Ba3	BBB-	-
	Class D	17 600	17 600	17 600	11 945	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	10 511	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	8 833	1 521	1 509	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	749 529	749 529	681 379	October 2064	-	-	AAA	AAA	-	-	AA-	AAH
	Class B	294 500	294 500	-	-	October 2064	-	-	BBB-	-	-	-	BBB-	-
	Class C	180 500	180 500	-	-	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-
Lusitano SME No.3	Class A	385 600	-	-	-	December 2037	-	A3	-	AA	-	Aa3	-	AA
	Class B	62 700	31 058	31 058	30 782	December 2037	-	Baa3	-	BBB	-	Aa3	-	AAL
	Class C	62 700	62 700	62 700	61 061	December 2037	-	B1	-	B	-	A3	-	BBBH
	Class D	116 000	116 000	116 000	110 677	December 2037	-	-	-	-	-	-	-	-
	Class E	9 500	3 691	3 691	3 420	December 2037	-	-	-	-	-	-	-	-
	Class S	88 771	5 624	5 624	2 645	December 2037	-	-	-	-	-	-	-	-
Lusitano Synthetic Limited	Senior	900 000	255 731	255 731	-	April 2034	-	-	-	-	-	-	-	-
	Mezzanine	80 000	77 963	-	-	April 2034	-	-	-	-	-	-	-	-
	Junior	20 000	-	-	-	April 2034	-	-	-	-	-	-	-	-

NOTE 36 – 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.

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 organised 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 more than one provider and for which the instruments are listed on a stock exchange;

(vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / 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) OTC (over-the-counter) derivatives valued using observable market inputs; and

(iii) Unlisted shares valued through 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 analysed.

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 which considers assumptions not observable in the market. 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.

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.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Bank 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 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**

(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 2018				
Financial assets held for trading	**257 270**	**519 739**	**148 535**	**925 544**
Securities held for trading	257 270	-	-	257 270
Bonds issued by public entities	*257 269*	-	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*
Derivatives held for trading	-	519 739	396	520 135
Exchange rate contracts	-	*33 777*	-	*33 777*
Interest rate contracts	-	*439 257*	*396*	*439 653*
Credit default contracts	-	*9*	-	*9*
Other	-	*46 696*	-	*46 696*
Economic hedging derivatives	-	-	148 139	148 139
Interest rate contracts	-	-	*70 176*	*70 176*
Credit default contracts	-	-	*77 963*	*77 963*
Financial assets mandatorily at fair value through profit or loss	**86 755**	**46**	**2 862 796**	**2 949 597**
Bonds issued by other entities	*9 970*	*46*	*319 932*	*329 948*
Shares	*76 785*	-	*596 514*	*673 299*
Other variable income securities	-	-	*1 946 350*	*1 946 350*
Financial assets at fair value through other comprehensive income	**7 504 959**	**20 155**	**42 176**	**7 567 290**
Bonds issued by public entities	*6 537 547*	-	-	*6 537 547*
Bonds issued by other entities	*951 085*	-	-	*951 085*
Shares	*16 327*	*20 155*	*42 173*	*78 655*
Other variable income securities	-	-	*3*	*3*
Derivatives - Hedge Accounting	**-**	**1 721**	**-**	**1 721**
Interest rate contracts	-	*1 721*	-	*1 721*
Assets at fair value	**7 848 984**	**541 661**	**3 053 507**	**11 444 152**
Financial liabilities held for trading	**-**	**490 679**	**2 724**	**493 403**
Derivatives held for trading	-	490 679	2 724	493 403
Exchange rate contracts	-	*33 596*	-	*33 596*
Interest rate contracts	-	*433 239*	*2 724*	*435 963*
Credit default contracts	-	*117*	-	*117*
Other	-	*23 727*	-	*23 727*
Derivatives - Hedge Accounting	**-**	**36 150**	**-**	**36 150**
Interest rate contracts	-	*36 150*	-	*36 150*
Liabilities at fair value	**-**	**526 829**	**2 724**	**529 553**

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 2019 and 2018, may be analysed as follows:

(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
	Securities held for trading	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**

(in thousands of Euros)

	31.12.2018								
	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
	Securities held for trading	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2017	**81**	**448**	**103 779**	**-**	**3 973**	**4 597 158**	**4 705 439**	**2 440**	**2 440**
Impact of transition to IFRS 9	(81)	-	-	3 005 906	(3 973)	(4 550 344)	(1 548 492)	-	-
Balance as at 1 January 2018	**-**	**448**	**103 779**	**3 005 906**	**-**	**46 814**	**3 156 947**	**2 440**	**2 440**
Acquisitions	-	-	-	57 667	-	7 516	65 183	-	-
Attainment of maturity	-	-	-	(43 016)	-	(7 661)	(50 677)	-	-
Liquidation	-	(121)	(24 397)	(98 969)	-	(1)	(123 488)	-	-
Transfers in	-	163	70 169	-	-	-	70 332	40	40
Changes in value	-	(94)	(1 412)	(58 792)	-	(4 492)	(64 790)	244	244
Balance as at 31 December 2018	**-**	**396**	**148 139**	**2 862 796**	**-**	**42 176**	**3 053 507**	**2 724**	**2 724**

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 2019 and 2018 were as follows:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Recognised in reserves	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**
Derivatives held for trading	-	682	682	-	(464)	(464)
Securities held for trading	-	(71 759)	(71 759)	-	24 724	24 724
Financial assets mandatorily at fair value through profit or loss	-	(405 766)	(405 766)	-	(55 216)	(55 216)
Financial assets at fair value through other comprehensive income	1 015	-	1 015	(28 617)	-	(28 617)
	1 015	**(476 843)**	**(475 828)**	**(28 617)**	**(30 956)**	**(59 573)**

The following table presents, for 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	31.12.2019						
	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 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

(in millions of Euros)

Assets classified under level 3	31.12.2018						
	Valuation Model	**Variable analysed**	**Carrying book value**	**Unfavorable scenario**		**Favorable scenario**	
				Change	**Impact**	**Change**	**Impact**
Financial assets held for trading			**148,5**		**-**		**-**
Derivatives held for trading	Other	*(a)*	0,4		-		-
Economic hedging derivatives	*c)*	*c)*	148,1		-		-
Financial assets mandatorily at fair value through profit or loss			**2 862,8**		**(37,9)**		**46,6**
Obligations of other issuers	Discounted cash flow model	Discount rate	*319,9*	*(-) 100 bps*	*(14,9)*	*(+) 100 bps*	*16,5*
Shares			596,5		(23,0)		30,1
	Discounted cash flow model	Specific Impairment	*83,5*	*-50%*	*(23,0)*	*+50%*	*30,1*
	Others	*(a)*	*2,8*		-		-
	Valuation of the management company	*Net assets value (b)*	*510,3*		-		-
Other variable income securities			1 946,4		-		-
	Others	*(a)*	*0,5*		-		-
	Valuation of the management company	*Net assets value (b)*	*1 945,8*		-		-
Financial assets at fair value through other comprehensive income			**42,2**		**-**		**-**
Shares			42,2		-		-
	Others		*10,9*		-		-
	Others	*(a)*	*31,2*		-		-
	Valuation of the management company	*Net assets value (b)*	*0,1*		-		-
Total			**3 053,5**		**(37,9)**		**46,6**

(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 31 December 2019 and 2018, 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:

(%)

	31.12.2019			31.12.2018		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0,4560	1,6000	0,7500	-0,4200	2,4000	0,7650
1 month	-0,4380	1,7900	0,7650	-0,3630	2,7000	0,9050
3 months	-0,3830	1,9200	0,8650	-0,3090	2,8700	0,9500
6 months	-0,3240	1,9300	0,9000	-0,2370	2,9500	1,0700
9 months	-0,3174	1,9100	0,9450	-0,2295	3,0300	1,1600
1 year	-0,3161	1,7490	0,7419	-0,2250	2,7440	0,9898
3 years	-0,2380	1,6556	0,8243	-0,0650	2,5800	1,2193
5 years	-0,1205	1,6990	0,8844	0,2010	2,5780	1,3050
7 years	0,0160	1,7630	0,9406	0,4690	2,6210	1,3574
10 years	0,2110	1,8470	1,0172	0,8150	2,7110	1,4365
15 years	0,4670	1,9650	1,0968	1,1690	2,7890	1,5131
20 years	0,5990	2,0160	1,1206	1,3450	2,8190	1,5461
25 years	0,6370	2,0350	1,1130	1,3720	2,8190	1,5491
30 years	0,6310	2,0420	1,1082	1,4050	2,8110	1,5411

Credit Spreads

The credit spreads used by the Bank in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behavior 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 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
31 December 2018						
CDX USD Main	**30**	28,34	55,91	87,74	112,28	132,90
iTraxx Eur Main	**29**	-	54,76	88,08	111,06	131,23
iTraxx Eur Senior Financial	**29**	-	-	109,52	-	146,91

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2019			31.12.2018		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	12,71	18,87	48,83	16,48	11,25	33,95
3 years	22,74	39,23	57,73	32,17	22,87	-
5 years	33,51	36,57	64,04	48,20	27,29	58,01
7 years	40,12	39,25	67,79	57,42	28,35	61,25
10 years	46,46	34,71	70,87	63,34	30,20	-
15 years	51,03	-	-	64,69	-	-

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	**31.12.2019**	**31.12.2018**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,1234	1,1450	5,03	5,24	5,43	5,58	5,85
EUR/GBP	0,8508	0,8945	7,10	6,78	6,83	6,80	6,95
EUR/CHF	1,0854	1,1269	3,98	4,20	4,35	4,58	4,68
EUR/NOK	9,8638	9,9483	6,29	6,30	6,40	6,50	6,58
EUR/PLN	4,2568	4,3014	3,80	3,85	4,04	4,13	4,20
EUR/RUB	69,9563	79,7153	7,51	8,07	8,71	9,29	9,58
USD/BRL [a]	4,0197	3,8812	10,45	10,58	10,57	10,65	10,73
USD/TRY [b]	5,9501	5,2915	12,05	13,20	14,30	15,13	15,93

[a] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b] Calculated based on EUR / USD and EUR / TRY exchange rates.

With regard to exchange rates, the Bank uses in the valuation models the spot rate observed in the market at the time of evaluation.

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
	31.12.2019	**31.12.2018**	**% Change**	**1 month**	**3 months**	
DJ Euro Stoxx 50	3 745	3 001	-19,86%	11,15	11,68	-
PSI 20	5 214	4 731	-9,26%	9,67	10,42	-
IBEX 35	9 549	8 540	-10,57%	12,15	12,24	-
FTSE 100	7 542	6 728	-10,80%	13,21	11,90	11,26
DAX	13 249	10 559	-20,30%	10,70	12,12	12,59
S&P 500	3 231	2 507	-22,41%	7,32	9,53	11,14
BOVESPA	115 645	87 887	-24,00%	11,24	15,03	19,21

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)

		Fair Value			
	Assets / liabilities recorded at amortised cost	**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**

(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 2018					
Cash, cash balances at central bank and other demand deposits	802 330	-	802 330	-	802 330
Financial assets at amortised cost					
Debt securities	2 302 765	10 464	705 677	1 781 362	2 497 503
Loans and advances to banks	558 652	-	558 652	-	558 652
Loans and advances to customers	22 789 985	-	-	22 937 425	22 937 425
Financial assets	**26 453 732**	**10 464**	**2 066 659**	**24 718 787**	**26 795 910**
Financial liabilities measured at amortised cost					
Deposits from banks	9 119 139	-	9 123 957	-	9 123 957
Due to customers	28 439 075	-	-	28 439 075	28 439 075
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 135 128	1 055 795	-	252 864	1 308 659
Other financial liabilities	232 263	-	-	232 263	232 263
Financial liabilities	**38 925 605**	**1 055 795**	**9 123 957**	**28 924 202**	**39 103 954**

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 Bank 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 Bank 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, subordinated debt and financial liabilities associated to transferred assets

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 37 – RISK MANAGEMENT

The Bank 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 represents the potential financial loss arising from the failure of a borrower or counterparty to honor its contractual obligation established with the Bank in the scope of its credit granting activity. Credit risk is essentially present in traditional banking products – loans, guarantees provided and other contingent liabilities. In credit default swaps (CDS), the net exposure between selling and buying positions in relation to each reference entity, is also considered a credit risk to NOVO BANCO, CDSs are accounted for at fair value in accordance with the accounting policy described in Note 2.3.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for risk management throughout the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the valuation methodologies and tools used to evaluate and control risk, as well as in the procedures and decision making processes.

The risk profile of the Bank is analysed on a regular basis by the Risk Committee, especially regarding the evolution of the credit exposure and the monitoring of credit losses. Regular analyzes also include compliance with the approved credit limits and the correct operation of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas.

NOVO BANCO maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Deposits with and loans and advances to banks	587 014	665 693
Derivatives for trading and fair value option derivatives	493 988	668 274
Securities held for trading	254 848	257 270
Securities at fair value through profit/loss - mandatory	694 667	329 948
Securities at fair value through other comprehensive income	8 683 376	7 487 428
Securities at amortised cost	2 392 843	2 302 765
Loans and advances to customers	23 204 032	22 821 556
Derivatives - hedge accounting	7 992	1 721
Other assets	555 935	690 573
Guarantees and standby letters provided	3 054 193	3 171 940
Documentary credits	516 162	664 905
Irrevocable commitments	7 303 636	5 578 108
Credit risk associated with the credit derivatives' reference entities	2 883	7 814
	47 751 569	**44 647 995**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the carrying book value net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Bank 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 table below displays the assets impaired, or overdue but not impaired:

(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

(in thousands of Euros)

	31.12.2018					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	367 037	-	374 400	741 437	(75 744)	665 693
Securities held for trading	257 270	-	-	257 270	-	257 270
Bonds issued by government and other public entities	*257 269*	-	-	*257 269*	-	*257 269*
Bonds issued by other entities	*1*	-	-	*1*	-	*1*
Securities at fair value through profit/loss - mandatory	329 948	-	-	329 948	-	329 948
Bonds issued by other entities	*329 948*	-	-	*329 948*	-	*329 948*
Securities at fair value through other comprehensive income	7 443 132	-	45 500	7 488 632	(1 204)	7 487 428
Bonds issued by government and other public entities	*6 537 547*	-	-	*6 537 547*	*(807)*	*6 536 740*
Bonds issued by other entities	*905 585*	-	*45 500*	*951 085*	*(397)*	*950 688*
Securities at amortised cost	2 352 129	-	142 961	2 495 090	(192 325)	2 302 765
Bonds issued by government and other public entities	*503 123*	-	-	*503 123*	*(771)*	*502 352*
Bonds issued by other entities	*1 849 006*	-	*142 961*	*1 991 967*	*(191 554)*	*1 800 413*
Loans and advances to customers	20 659 358	14 655	6 219 386	26 893 399	(4 071 843)	22 821 556

Impairment 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 an individual assessment of impairment.

Exposures classified as non-impairing relate to (i) all exposures that do not show signs of significant deterioration of credit risk - exposures classified as stage 1; (ii) exposures that, with signs of a significant deterioration of credit risk, have no objective evidence of impairment or 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)

	31.12.2019					
	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**

(in thousands of Euros)

	31.12.2018					
	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	-	-	-	-	11 999	43 758
3 months to 1 year	-	11 000	-	-	1 107	390 776
1 to 3 years	-	72 697	-	-	1 349	1 219 855
3 to 5 years	-	97 775	-	-	73	1 136 612
More than 5 years	-	219	-	-	127	723 467
	-	**181 691**	**-**	**-**	**14 655**	**3 514 468**
Due						
Up to 3 months	-	3 880	-	-	-	231 351
3 months to 1 year	-	2 890	-	-	-	623 333
1 to 3 years	-	-	-	-	-	450 902
3 to 5 years	-	-	-	-	-	275 401
More than 5 years	-	-	-	374 400	-	1 123 931
	-	**6 770**	**-**	**374 400**	**-**	**2 704 918**
	-	**188 461**	**-**	**374 400**	**14 655**	**6 219 386**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2019				31.12.2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	381 501	-	381 501	-	374 400	-	374 400
Securities at fair value through other comprehensive income	-	-	45 520	45 520	-	-	45 500	45 500
Securities at amortised cost	-	-	104 475	104 475	-	-	142 961	142 961
Loans and advances to customers	934	14 456	2 914 987	2 930 377	6 846	155 511	6 071 684	6 234 041
	934	**395 957**	**3 064 982**	**3 461 873**	**6 846**	**529 911**	**6 260 145**	**6 796 902**

In relation to assets that are not overdue or impaired, the distribution by rating level is presented below. For debt instruments, the rating assigned by the Rating Agencies is considered; for the loans and advances to customers and cash and deposits with banks the rating and scoring models for the attribution of a credit rating are used, with these being reviewed periodically. For the purpose of presenting the information, the ratings were aggregated into five large risk groups, with the last group including unrated exposures.

(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

(in thousands of Euros)

	31.12.2018					
	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	13 732	44 909	64 031	244 364	367 037
Securities held for trading	-	-	257 269	-	1	257 270
Bonds issued by government and other public entities	*-*	*-*	*257 269*	*-*	*-*	*257 269*
Instrumentos de dívida- outros emissores	*-*	*-*	*-*	*-*	*1*	*1*
Securities at fair value through profit/loss - mandatory	-	-	-	-	329 948	329 948
Bonds issued by other entities	*-*	*-*	*-*	*-*	*329 948*	*329 948*
Securities at fair value through other comprehensive income	1 081 656	2 088 725	3 894 079	-	378 672	7 443 132
Bonds issued by government and other public entities	*784 128*	*2 047 323*	*3 706 096*	*-*	*-*	*6 537 547*
Bonds issued by other entities	*297 528*	*41 402*	*187 983*	*-*	*378 672*	*905 585*
Securities at amortised cost	-	-	-	533 577	1 818 552	2 352 129
Bonds issued by government and other public entities	*-*	*-*	*-*	*503 123*	*-*	*503 123*
Bonds issued by other entities	*-*	*-*	*-*	*30 454*	*1 818 552*	*1 849 006*
Loans and advances to customers	2 399 987	7 093 238	2 630 639	6 283 981	2 251 513	20 659 358

As at 31 December 2019 and 2018, 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	31.12.2019													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	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**

(in thousands of Euros)

Segment	31.12.2018													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total			
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	11 976 252	288 439	38 781	1 524	12 015 033	289 963	1 734 509	712 254	4 058 565	2 934 405	5 793 074	3 646 659	17 808 107	3 936 622
Mortgage loans	7 435 397	17 951	37 559	651	7 472 956	18 602	49 689	13 000	130 661	20 390	180 350	33 390	7 653 306	51 992
Consumer and other loans	1 106 648	325	8 227	505	1 114 875	830	180 025	6 754	137 086	75 645	317 111	82 399	1 431 986	83 229
Total	**20 518 297**	**306 715**	**84 567**	**2 680**	**20 602 864**	**309 395**	**1 964 223**	**732 008**	**4 326 312**	**3 030 440**	**6 290 535**	**3 762 448**	**26 893 399**	**4 071 843**

As at 31 December 2019 and 2018, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euros)

Year of production	31.12.2019											
	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**

(in thousands of Euros)

Year of production	31.12.2018											
	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	6 718	454 071	84 340	43 402	1 002 323	28 421	706 344	151 032	11 403	756 464	1 607 426	124 164
2005	1 334	153 867	30 717	5 762	244 337	1 183	18 243	18 941	486	25 339	417 145	32 386
2006	1 512	333 431	46 227	8 474	393 257	1 491	22 889	24 006	1 216	32 875	750 694	48 934
2007	1 792	472 602	88 964	14 579	604 373	2 827	32 138	30 311	1 299	48 509	1 107 286	93 090
2008	1 809	817 706	102 862	13 535	685 978	2 762	25 967	32 175	939	41 311	1 535 859	106 563
2009	1 677	699 604	203 033	10 902	575 855	2 878	23 131	39 948	2 659	35 710	1 315 407	208 570
2010	2 009	732 943	294 947	9 980	585 689	2 778	27 397	54 821	2 041	39 386	1 373 453	299 766
2011	1 843	556 323	126 675	5 707	277 873	1 459	27 342	28 186	1 250	34 892	862 382	129 384
2012	2 293	1 587 108	993 590	3 392	133 248	1 156	34 785	33 526	3 239	40 470	1 753 882	997 985
2013	3 861	970 845	337 116	4 090	205 182	1 350	31 289	65 781	12 547	39 240	1 241 808	351 013
2014	4 682	1 212 884	427 147	2 792	158 848	702	28 685	36 786	1 586	36 159	1 408 518	429 435
2015	7 017	1 501 406	301 536	3 733	245 966	653	37 673	160 225	22 985	48 423	1 907 597	325 174
2016	8 490	1 953 268	480 685	7 339	529 890	1 235	56 988	149 737	13 584	72 817	2 632 895	495 504
2017	11 141	2 264 472	140 797	10 876	907 970	1 543	62 446	235 962	6 119	100 343	3 408 404	148 459
2018	21 330	4 097 577	277 986	11 463	1 102 517	1 554	65 346	370 549	1 876	98 139	5 570 643	281 416
Total	**77 508**	**17 808 107**	**3 936 622**	**156 026**	**7 653 306**	**51 992**	**1 200 663**	**1 431 986**	**83 229**	**1 450 077**	**26 893 399**	**4 071 843**

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 2019 and 2018, 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)

	31.12.2019					
	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 thousands of Euros)

	31.12.2018					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	6 037 388	3 764 203	11 770 719	172 419	17 808 107	3 936 622
Mortgage loans	6 943	826	7 646 363	51 166	7 653 306	51 992
Consumer and other loans	269 965	56 576	1 162 021	26 653	1 431 986	83 229
Total	**6 314 296**	**3 821 605**	**20 579 103**	**250 238**	**26 893 399**	**4 071 843**

(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

The loans and advances analysed by the Impairment Committee, for which the impairment amount automatically determined by the model was not changed, are included and presented in the "Collective assessment".

As at 31 December 2019 and 2018, 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)

	31.12.2019		31.12.2018	
	Amount of loans	Fair value of collateral	Amount of loans	Fair value of collateral
Individuals - Mortgage				
Mortgages	8 361 300	8 347 345	7 524 800	7 511 810
Pledges	77 307	76 667	56 090	55 704
Not collateralized	85 451	-	72 416	-
	8 524 058	**8 424 012**	**7 653 306**	**7 567 514**
Individuals - Other				
Mortgages	261 974	256 489	273 338	261 495
Pledges	295 965	165 438	337 031	191 572
Not collateralized	857 253	-	821 617	-
	1 415 192	**421 927**	**1 431 986**	**453 067**
Corporate				
Mortgages	2 868 316	2 535 429	3 448 299	3 109 864
Pledges	5 002 788	2 568 332	6 386 323	2 795 794
Not collateralized	7 235 161	-	7 973 485	-
	15 106 265	**5 103 761**	**17 808 107**	**5 905 658**
Total	**25 045 515**	**13 949 700**	**26 893 399**	**13 926 239**

The differential between the amount of the loans and advances to customers and the fair value of the collateral represents the total loans' exposure that exceeds the value of the collateral. This value is not impacted by collaterals with a fair value in excess of the loan to which they are linked.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

	31.12.2019							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0.5M€	175 277	8 160 435	5 205	221 517	5 299	384 020	185 781	8 765 972
>= 0.5M€ and <1.0M€	234	138 221	44	16 666	2 100	238 306	2 378	393 193
>= 1.0M€ and <5.0M€	46	48 689	18	18 306	6 365	697 100	6 429	764 095
>= 5.0M€ and <10.0M€	-	-	-	-	651	323 305	651	323 305
>= 10.0M€ and <20.0M€	-	-	-	-	3 267	303 602	3 267	303 602
>= 20.0M€ and <50.0M€	-	-	-	-	222	518 961	222	518 961
>= 50M€	-	-	-	-	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**

(in thousands of Euros)

	31.12.2018							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0.5M€	148 766	7 343 301	4 943	213 885	7 826	412 373	161 535	7 969 559
>= 0.5M€ and <1.0M€	223	126 899	60	23 151	2 257	289 076	2 540	439 126
>= 1.0M€ and <5.0M€	36	41 610	25	24 459	3 322	822 777	3 383	888 846
>= 5.0M€ and <10.0M€	-	-	-	-	635	414 388	635	414 388
>= 10.0M€ and <20.0M€	-	-	-	-	1 260	379 255	1 260	379 255
>= 20.0M€ and <50.0M€	-	-	-	-	161	453 519	161	453 519
>= 50M€	-	-	-	-	1 603	338 476	1 603	338 476
	149 025	**7 511 810**	**5 028**	**261 495**	**17 064**	**3 109 864**	**171 117**	**10 883 169**

The amounts of the collateral – mortgages, presented above, represent the maximum coverage value of the assets collateralised, i.e. which are considered up to the gross amount of the individual loans collateralised.

The assessment of the risk of an operation or set of operations considers the associated credit risk mitigation elements, according to the internal rules and procedures implemented.

Relevant collaterals are essentially the following:

- Real estate properties, where the value considered is that which corresponds to the latest available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month - in the case of a quoted security - or to the value of the pledge - in the case of cash.

The acceptance of collateral as a guarantee for loans and advances to customers leads to the need to define and implement risk mitigation techniques in respect of the exposures of said collateral. Thus, and as an approach to this matter, the Bank stipulated several procedures applicable to collateral (namely the financial and real estate properties collateral), covering amongst others, the volatility of the value of the collateral, its liquidity as well as an indication as to the recovery rates associated with each type of collateral.

Therefore, the internal rules governing the credit granting powers have a specific chapter on this point, "Acceptance of collateral - Risk mitigation techniques in respect of the exposures of said collateral, namely the risks of liquidity and volatility."

The real estate properties revaluation process is conducted by valuation experts registered with the CMVM, and is based on the methodology described in Note 2.10.

The analysis of risk exposure by sector of activity, as at 31 December 2019 and 2018, is presented as follows:

(in thousands of Euros)

	31.12.2019											
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivatives	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	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 Elect	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)**

(in thousands of Euros)

	31.12.2018											
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivatives	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	566 586	(211 768)	-	87	-	-	10 870	-	-	-	14 042	(6 706)
Mining	94 954	(3 198)	-	-	-	-	102	-	-	-	5 256	(98)
Food, Beverages and Tobacco	518 912	(26 963)	-	544	-	-	9 601	(2)	23 460	(2 516)	54 381	(381)
Textiles and Clothing	314 532	(18 591)	-	79	-	-	-	-	2 495	-	11 728	(1 035)
Leather and Shoes	62 486	(3 003)	-	23	-	-	-	-	1 000	-	1 731	(101)
Wood and Cork	106 052	(8 545)	-	284	-	-	-	-	7 497	(12)	7 950	(50)
Paper and Printing Industry	194 371	(19 166)	-	-	-	-	22 150	(14)	1 498	-	7 538	(44)
Refining of Petroleum	8 105	(111)	-	-	-	-	-	-	-	-	11 371	-
Chemicals and Rubber	337 344	(18 354)	-	1 917	-	-	25 323	(38)	3 980	(8)	39 651	(251)
Non-metallic Minerals	184 135	(40 088)	-	-	-	-	3 174	(3)	23 344	(26)	15 248	(257)
Metallurgical Industries and Metallic Products	354 059	(13 509)	-	211	-	-	9 572	(8)	6 248	(11)	44 489	(674)
Production of Machinery, Equipment and Elect	140 883	(10 001)	-	2 086	-	-	37 880	(19)	-	-	81 318	(341)
Production of Transport Material	84 546	(2 533)	-	-	-	-	13 225	(10)	-	-	10 888	(113)
Other Transforming Industries	160 969	(17 001)	-	6	-	-	-	-	1 006	(1)	25 527	(1 795)
Electricity, Gas and Water	521 677	(39 416)	-	35 853	-	-	28 893	(24)	162 804	(496)	93 397	(75)
Construction and Public Works	1 603 556	(394 600)	-	57 515	-	-	-	-	191 407	(36 219)	933 290	(73 233)
Wholesale and Retail Trade	1 523 779	(275 893)	-	1 237	-	-	30 803	(22)	19 612	(100)	286 799	(44 135)
Tourism	1 027 050	(37 072)	-	712	-	-	144	-	-	-	95 198	(5 900)
Transport and Communication	1 023 995	(84 609)	-	110 358	-	-	107 920	(75)	33 285	(53)	427 984	(9 746)
Financial Activities	951 155	(262 228)	1	427 345	2 863 272	1 721	610 628	(102)	969 492	(19 658)	329 183	(1 365)
Real Estate Activities	2 381 579	(504 129)	-	6 947	2 751	-	38 034	(21)	104 549	(18 010)	261 164	(20 407)
Services Provided to Companies	3 735 290	(1 415 022)	-	18 433	71 245	-	181 551	(39)	435 290	(114 345)	439 053	(11 368)
Public Administration and Services	797 840	(59 056)	257 269	1 562	-	-	6 295 967	(779)	503 123	(771)	21 717	(1 241)
Other activities of collective services	1 083 327	(471 672)	-	3 075	12 329	-	73 359	(40)	5 000	(99)	116 932	(1 480)
Mortgage Loans	7 653 306	(51 992)	-	-	-	-	-	-	-	-	68	-
Consumers Loans	1 431 986	(83 229)	-	-	-	-	-	-	-	-	6 423	(322)
Others	30 925	(94)	-	-	-	-	68 094	(8)	-	-	18 983	(5 957)
TOTAL	**26 893 399**	**(4 071 843)**	**257 270**	**668 274**	**2 949 597**	**1 721**	**7 567 290**	**(1 204)**	**2 495 090**	**(192 325)**	**3 361 309**	**(187 075)**

The Bank identifies and marks loan agreements restructured due to financial difficulties of the customer whenever there are changes to the terms and conditions of an agreement in respect of which the customer defaulted, or it is foreseeable that this will come to happen, in respect to a financial obligation. A change to the terms and conditions of the agreement is deemed to exist when (i) there are contractual changes to the customer's benefit, such as extension of the contract period, introduction of grace periods, reduction of rate or partial pardon of debt; (ii) a new loan operation is contracted to settle existing debt (total or partial); or (iii) the new terms of the agreement are more favorable than those applied to other customers with the same risk profile.

The unmarking of a loan restructured due to financial difficulties of the customer can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively met: (i) regular payment of principal and interest; (ii) the customer has no principal or interest past due; and (iii) there was no new loan restructuring during that period.

The amounts of the loans restructured due to financial difficulties of the customer as at 31 December 2019 and 2018, are as follows:

(in thousands of Euros)

	31.12.2019	31.12.2018
Corporate	2 380 724	4 430 410
Mortgage loans	110 173	116 386
Consumer and other loans	203 163	245 966
Total	**2 694 060**	**4 792 762**

The details of the restructuring measures applied to loans restructured up to 31 December 2019 and 2018 are the following:

(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**

(in thousands of Euros)

Solution	31.12.2018								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	32	48 180	5 137	208	316 163	225 067	240	364 343	230 204
Assets received in partial settlement of loan	12	141	4	10	2 997	2 183	22	3 138	2 187
Capitalization of interest	19	5 449	111	226	560 754	463 192	245	566 203	463 303
New loan in total or partial payment of existing loan	1 823	144 122	4 211	773	827 213	522 931	2 596	971 335	527 142
Extension of repayment period	977	371 449	7 657	1 491	1 115 930	602 418	2 468	1 487 379	610 075
Introduction of grace period of principal or interest	662	90 281	2 557	254	392 044	250 714	916	482 325	253 271
Decrease in the interest rates	114	29 253	1 088	78	306 509	94 238	192	335 762	95 326
Changes of the lease payment plan	187	72 254	2 510	117	68 454	25 344	304	140 708	27 854
Changes in the interest paymen	14	10 438	160	27	239 300	166 710	41	249 738	166 870
Other	2 842	70 882	1 558	1 365	120 949	67 922	4 207	191 831	69 480
Total	**6 682**	**842 449**	**24 993**	**4 549**	**3 950 313**	**2 420 719**	**11 231**	**4 792 762**	**2 445 712**

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 unrealised losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. NOVO BANCO 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)

	31.12.2019				31.12.2018			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	3 688	2 173	2 315	1 141	526	2 239	2 242	4 294
Interest rate risk	42 292	29 133	50 203	11 305	9 870	10 247	10 000	6 150
Shares and commodities	295	285	207	209	199	324	440	307
Volatility	314	470	78	189	140	169	241	173
Credit spread	1 771	3 537	3 401	3 705	1 614	3 147	20 209	45
Diversification effect	(4 257)	(5 436)	(4 136)	(3 138)	(1 135)	(3 481)	(7 856)	(3 261)
Total	**44 103**	**30 162**	**52 068**	**13 411**	**11 215**	**12 645**	**25 276**	**7 707**

NOVO BANCO has a VaR of Euro 44 103 thousand (31 December 2018: Euro 11 215 thousand) in respect of its trading positions. The increase is mainly explained by the increase in the 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)

	31.12.2019						
	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)**

(in thousands of Euros)

	31.12.2018						
	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	1 432 687	208 321	727 328	115 360	6 153	4 468	371 057
Loans and advances to customers	26 892 180	31 571	14 138 268	4 419 015	2 587 621	4 725 161	990 544
Securities	13 637 600	3 601 447	2 052 434	912 614	482 836	3 966 200	2 622 069
Total			**16 918 030**	**5 446 989**	**3 076 610**	**8 695 829**	**3 983 670**
Deposits from banks	9 107 757	-	1 884 360	107 884	325 411	6 737 139	52 963
Due to customers	28 137 995	-	11 694 911	3 103 276	5 408 313	7 745 260	186 235
Debt securities issued	864 597	-	-	-	-	-	864 597
Total			**13 579 271**	**3 211 160**	**5 733 724**	**14 482 399**	**1 103 795**
Balance sheet GAP (Assets - Liabilities)	10 779		3 338 759	2 235 829	(2 657 114)	(5 786 570)	2 879 875
Off-Balance sheet	1		1 625 996	738 161	(36 194)	(1 106 439)	(1 221 523)
Structural GAP	**10 780**		**4 964 755**	**2 973 990**	**(2 693 308)**	**(6 893 009)**	**1 658 352**
Accumulated GAP			**4 964 755**	**7 938 745**	**5 245 437**	**(1 647 572)**	**10 780**

In 2019, the values of Loans and advances to customers started to be considered net of impairment, for NPL (Non Performing Loans) contracts.

The Bank performs sensitivity analyses of the interest rate risk of the banking portfolio, based on the current difference of the discounted interest rate mismatch at current rates and the discounted value of the same cash flows simulating 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 (assuming linear regulatory floors between -1% and 0%, in comparison with the single regulatory floor of 0% in 2018).

(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

(in thousands of Euros)

	31.12.2018					
	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	(146 882)	105 965	81 948	(174 200)	(255 289)	114 332
Exercise average	(163 496)	116 337	84 626	(180 168)	(269 236)	120 176
Exercise maximum	(91 632)	153 907	100 355	(160 540)	(255 289)	123 513
Exercise minimum	(213 509)	60 213	75 345	(213 477)	(280 751)	114 332

Following the communication sent by the ECB, to the Banks considered to be systemic in the country in which they operate, on the measures adopted/adopted to face the discontinuation of the IBOR's market benchmarks and the future use of risk-free interest rates, the Bank carried out a survey of all its balance sheet and derivative operations indexed to market rates, as well as its valuation and risk analysis processes, based on the scenario in which:

- On 2 October 2019, the ECB would launch the new risk-free interest rate, €STR, which would be lower than the EONIA by 8.5 bp and being disclosed in T + 1;
- From 3 October 2019 until 3 January 2022, EONIA would be calculated as €STR added by 8.5 bp and released by EMMI also in T + 1. As of January 3, 2022, EONIA would be discontinued;
- Euribor could be discontinued as of the beginning of 2024;
- Libors would cease from the beginning of 2022.
- Despite the uncertainties that still existed regarding the indexes that can replace EURIBOR and the various Libors, it was concluded that the potential impacts on the operating account would not be significant.

The following table presents the average interest rates for the Bank major financial asset and liability categories, as at 31 December 2019 and 2018, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2019			31.12.2018		
	Average balance of the exercise	**Interest of the exercise**	**Average interest rate**	**Average balance of the exercise**	**Interest of the exercise**	**Average interest rate**
Monetary assets	856 696	16 385	1,89%	1 096 687	20 717	1,86%
Loans and advances to customers	26 425 189	567 688	2,12%	28 291 979	598 312	2,09%
Securities and other	11 701 853	155 270	1,31%	10 130 817	110 280	1,07%
Financial assets and differentials	**38 983 738**	**739 343**	**1,87%**	**39 519 483**	**729 309**	**1,82%**
Monetary Liabilities	9 839 928	33 056	0,33%	9 359 790	41 047	0,43%
Due to customers	28 489 942	160 138	0,55%	29 066 652	242 021	0,82%
Differential liabilities	653 868	-	-	1 093 041	-	-
Financial liabilities and differentials	**38 983 738**	**193 194**	**0,49%**	**39 519 483**	**283 068**	**0,71%**
Net interest income		**546 149**	**1,38%**		**446 241**	**1,11%**

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2019 and 2018, is analysed as follows:

(in thousands of Euros)

		31.12.2019				31.12.2018			
		Spot Positions	Term positions	Other elements	Net Position	Spot Positions	Term positions	Other elements	Net Position
USD	UNITED STATES DOLLAR	(969 129)	1 007 152	(16 381)	21 642	(1 684 760)	1 679 256	(5 933)	(11 437)
GBP	GREAT BRITISH POUND	3 111	3 076	6 878	13 065	26 001	(21 867)	-	4 134
BRL	BRAZILIAN REAL	103 672	(52 218)	-	51 454	834	3 528	(4 287)	75
DKK	DANISH KRONE	(1 324)	1 407	-	83	(2 092)	2 643	-	551
JPY	JAPANESE YEN	(167)	311	-	144	(3 338)	3 359	5 947	5 968
CHF	SWISS FRANC	(8 182)	12 981	(208)	4 591	(8 710)	11 381	-	2 671
SEK	SWEDISH KRONE	47 022	(47 019)	-	3	(11 850)	11 624	(1 080)	(1 306)
NOK	NORWEGIAN KRONE	48 444	(47 344)	976	2 076	(12 421)	12 635	2 260	2 474
CAD	CANADIAN DOLLAR	(21 734)	44 657	-	22 923	(42 282)	42 967	984	1 669
ZAR	SOUTH AFRICAN RAND	544	(491)	-	53	(1 071)	1 167	-	96
AUD	AUSTRALIAN DOLLAR	3 326	10 753	-	14 079	(8 522)	8 724	-	202
VEB	VENEZUELAN BOLIVAR	1	-	-	1	5	-	-	5
MOP	MACAO PATACA	4 413	-	-	4 413	4 359	-	-	4 359
MAD	MOROCCAN DIRHAN	(2 748)	2 708	-	(40)	(3 196)	2 656	-	(540)
MXN	MEXICAN PESO	(319)	608	-	289	392	(261)	-	131
AOA	ANGOLAN KWANZA	13 053	-	-	13 053	19 828	-	-	19 828
PLN	POLISH ZLOTY	36 782	(5 988)	-	30 794	(8 228)	8 741	-	513
CZK	CZECH KORUNA	9 218	960	-	10 178	(321)	645	-	324
DZD	ALGERIAN DINAR	7 338	-	-	7 338	2 427	-	-	2 427
CNY	YUAN REN-MIN-BI	9 204	946	-	10 150	(3 544)	3 767	-	223
	OTHERS	1 305	1 616	-	2 921	1 719	3 712	3 977	9 408
		(716 170)	**934 115**	**(8 735)**	**209 210**	**(1 734 770)**	**1 774 677**	**1 868**	**41 775**

Note: assets / (liabilities)

Exposure to sovereign debt of "peripheral" Eurozone countries

As at 31 December 2019 and 2018, the Bank exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(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)

(in thousands of Euros)

	31.12.2018					
	Loans to customers	Securities held for trading	Derivative Instruments (1)	Securities at fair value through other comprehensive income	Securities at amortized cost	Total
Portugal	743 450	257 269	(109)	3 591 448	502 352	5 094 410
Spain	54 243	-	-	1 980 394	-	2 034 637
Ireland	-	-		60 398	-	60 398
Italy	-	-	-	83 037	-	83 037
	797 693	**257 269**	**(109)**	**5 715 277**	**502 352**	**7 272 482**

(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 details of the exposure regarding the securities is as follows:

(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	**2 007 130**	**2 154 408**	**26 874**	**2 181 282**	**-**	**74 753**
Maturity over 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 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
	5 084 904	**5 745 235**	**64 533**	**5 809 768**	**-**	**256 895**
Securities at amortized cost						
Portugal	**457 230**	**526 916**	**2 030**	**458 556**	**-**	**-**
Maturity over 1 year	457 230	526 916	2 030	458 556	704	-
	457 230	**526 916**	**2 030**	**458 556**	**-**	**-**
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**	**-**	**-**

(in thousands of Euros)

31.12.2018	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Securities at fair value through other comprehensive income						
Portugal	**3 157 428**	**3 547 804**	**43 644**	**3 591 448**	**-**	**25 029**
Maturity up to 1 year	610 124	613 677	2 785	616 462	-	372
Maturity over 1 year	2 547 304	2 934 127	40 859	2 974 986	-	24 657
Spain	**1 832 372**	**1 950 455**	**29 939**	**1 980 394**	**-**	**16 930**
Maturity up to 1 year	30 027	30 895	583	31 478	-	282
Maturity over 1 year	1 802 345	1 919 560	29 356	1 948 916	-	16 648
Ireland	**60 000**	**59 845**	**553**	**60 398**	**-**	**(7)**
Maturity over 1 year	60 000	59 845	553	60 398	-	(7)
Italy	**80 000**	**82 644**	**393**	**83 037**	**-**	**2 011**
Maturity over 1 year	80 000	82 644	393	83 037	-	2 011
	5 129 800	**5 640 748**	**74 529**	**5 715 277**	**-**	**43 963**
Securities at amortized cost						
Portugal	**501 022**	**570 587**	**2 085**	**502 352**	**-**	**-**
Maturity over 1 year	501 022	570 587	2 085	502 352	771	-
	501 022	**570 587**	**2 085**	**502 352**	**-**	**-**
Securities held for trading						
Portugal	233 000	254 161	3 108	257 269	-	-
	233 000	**254 161**	**3 108**	**257 269**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability, current or future, of an institution satisfying its commitments as they mature, without incurring excessive losses.

Liquidity risk can be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid / offer spread or the application of a haircut to its market value;
- Funding liquidity risk – the impossibility to obtain market funding to finance assets and / or refinance debt coming to maturity in the desired tenors and currency. This can lead to a sharp increase in funding costs or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may

lead to the sale of asset, even if incurring in significant losses. The risk of (re)financing should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk as an inherent consequence of the business of transforming maturities (long-term lenders and short-term deposit takers), with the prudent management of liquidity risk being therefore crucial.

The liquidity of NOVO BANCO is managed in a centralised manner, at the Head Office, 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 2019 and 2018, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2019						
		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**
APPETIZER							
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 thousands of Euros)

	31.12.2018						
	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
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	102 291	2 247	4 593	-	-	-	95 451
Liabilities arising from secured loan operations and capital market operations	6 740 104	961	237 143	-	-	40 000	6 462 000
Behavioral exits resulting from deposits	31 103 674	332 338	300 208	536 319	449 683	969 009	28 516 117
Foreign exchange swaps and derivatives	1 166 385	55 912	156 064	358 005	65 829	89 050	441 525
Other outputs	398 229	-	-	-	-	-	398 229
Total Exits	**39 510 683**	**391 458**	**698 008**	**894 324**	**515 512**	**1 098 059**	**35 913 322**
APPETIZER							
Guaranteed loan operations and operations associated with the capital market	11 760	2 010	9 750	-	-	-	-
Behavioral inflows resulting from loans and advances	24 155 126	154 165	49 080	139 336	260 706	311 115	23 240 724
Foreign exchange swaps and derivatives	1 147 347	57 042	151 025	346 758	67 271	77 204	448 047
Own portfolio securities to mature and Other entries	11 118 961	-	55 492	28 692	990 204	509 914	9 534 659
Total Entries	**36 433 194**	**213 217**	**265 347**	**514 786**	**1 318 181**	**898 233**	**33 223 430**
Net contractual deficit	(3 077 487)	(178 240)	(432 661)	(379 538)	802 670	(199 826)	(2 689 892)
Accumulated net contractual deficit	**-**	**(178 240)**	**(610 901)**	**(990 439)**	**(187 769)**	**(387 595)**	**(3 077 487)**
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	149 266						
Central bank mobilisable reserves	279 178	(279 178)					
Marketable and non-marketable assets eligible for central banks	8 994 709	(36 510)	36 521	(263 447)	(429 904)	(612 820)	(7 595 446)
Authorized and unused facilities received	-	-	-	-	-	-	-
Net change in rebalancing capacity	-	(315 688)	36 521	(263 447)	(429 904)	(612 820)	(7 595 446)
Accumulated rebalancing capacity	**9 423 153**	**9 107 465**	**9 143 986**	**8 880 539**	**8 450 635**	**7 837 815**	**242 369**

The one-year cumulative liquidity gap moved from Euro 388 million on 31 December 2018 to Euro 6 410 million on 31 December 2019. This decrease results from the fact that the financing with the ECB of EUR 6 410 million came within less than 1 year. The one-year counterbalancing capacity as at 31 December 2019 was Euro 10 140 million, Euro 2 302 million higher than the figure recorded at 31 December 2018 (Euro 7 838 million).

To anticipate possible constraints, internal stress scenarios in terms of liquidity are carried out, which are representative of the types of crises that can occur, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank) and market scenarios.

In addition, given the importance of liquidity risk management, 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 the resilience of banks to short-term liquidity risk by ensuring they hold enough high-quality liquid assets to survive a severe stress scenario over a 30-day period, whilst the NSFR aims to ensure banks maintain a stable funding for their assets and off-balance sheet operations, for one year.

In accordance with current regulatory legislation, the Bank is required 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 respective limit.

Operational risk

Operational Risk reflects, typically, the probability of the occurrence of events with negative impacts, on net income or equity, resulting from inadequacies or weaknesses in procedures and in information systems, staff behavior or external events, including legal risks. Operational risk is, therefore, understood to be the sum of the following risks: operational, information systems, compliance and reputational.

To manage operational risk, a system was developed that standardizes, systematizes and regulates the frequency of actions undertaken with the objective of identifying, monitoring, controlling and mitigating this risk. This system is supported by an organizational structure, integrated within the Global Risk Department, exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the relevant departments, branches and subsidiaries, whose responsibility it is to comply with the procedures in place and the daily management of this risk in their areas of competence.

Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the 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 summary of own funds, risk weighted assets and capital ratios capital of NOVO BANCO as at 31 December 2019 and 2018 are presented in the following table:

(million euros)

		31.12.2019	31.12.2018
Realised ordinary share capital, issue premiums and own shares		5 900	5 900
Reserves and Retained earnings		(1 166)	(868)
Net income for the year attributable to shareholders of the Bank		(1 088)	(1 433)
A - Equity (prudential perspective)		**3 646**	**3 599**
Adjustments of additional valuation		(13)	(13)
Transitional period to IFRS9		220	246
Goodwill and other intangibles		(26)	(5)
Insufficiency of provisions given the expected losses		(88)	(41)
Deferred tax assets and shareholdings in financial companies		(12)	(250)
Others		(67)	(68)
B - Regulatory adjustments to equity		**13**	**(131)**
C - Own principal funds level 1 - CET I (A+B)		**3 659**	**3 469**
D - Additional own funds Level 1 - Additional Tier 1		**-**	**-**
E - Level 1 own funds - Tier I (C+D)		**3 659**	**3 469**
Subordinated liabilities elegeible for Tier II		398	398
Other elements elegible for Tier II		127	139
Regulatory adjustments for Tier II		(70)	(13)
F - Level 2 own funds - Tier II		**455**	**524**
G - Eligible own funds (E+F)		**4 115**	**3 993**
Credit risk		26 738	29 471
Market risk		1 851	892
Operational risk		1 341	1 253
H - Risk Weighted Assets		**29 930**	**31 617**
Solvability ratio			
CET I ratio	**(C/H)**	**12,2%**	**11,0%**
Tier I ratio	**(E/H)**	**12,2%**	**11,0%**
Solvability ratio	**(G/H)**	**13,7%**	**12,6%**
Leverage ratio[1]		**7,7%**	**7,3%**

(1) The leverage ratio results from dividing Tier 1 for the exposure measure in accordance to the terms of the CRR

As at 31 December 2019 the NOVO BANCO complied with the minimum capital requirements for every capital typology.

NOTE 38 – RENDERING OF INSURANCE AND RE-INSURANCE BROKERING SERVICES

At 31 December 2019 and 2018, services provided with insurance and re-insurance brokerage have the following composition:

(thousands of euros)

	31.12.2019	31.12.2018
Life Branch		
Unit Link and other life commissions	707	8
Credit protection insurance (life insurance)	1 241	1 435
Traditional products	17 936	15 640
	19 884	**17 083**
Non-Life Branch		
Private insurance	7 459	6 051
Insurance for companies	(38)	755
Credit protection insurance (non-life part)	1 639	1 943
	9 060	**8 749**
	28 944	**25 832**

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 39 – RELEVANT TRANSACTIONS OCCURRED IN THE FINANCIAL YEARS OF 2019 AND 2018

2019 Exercise

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 balance sheet resulted in a reduction of net assets of Euro 145.9 million (gross assets: Euro 1 202.1 million, of which Euro 1,180.7 million of credit to customers; impairment: Euro 1 056.2 million, of which Euro 1 038.8 million in customer loans). In terms of the Bank income statement, the following impacts were noted:

(in thousands of Euro)

Impact on Income Statement	31.12.2019
Net interest income	69
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	1 703
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-80 773
Impact on Net Income	**-79 001**

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, with the following impacts on the income statement for the financial year of 2019:

(in thousands of Euro)

Impact on Income Statement	31.12.2019
Impairments or impairment reversal of non-financial assets	-160 511
Impact on Net Income	**-160 511**

Sale of a portfolio of non-performing loans and real estate assets (referred to as “Projeto 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. In terms of the Bank's income statement, the following impacts were noted:

(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	-7 493
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-53 300
Impairment net of reversals of non financial assets	26 902
Impact on Net Income	**-33 891**

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 derecognise this participation. in September 2019, after obtaining the necessary regulatory authorizations. In terms of the Bank income statement, the following impact was noted:

(in thousands of Euros)

Impact on Income Statement	31.12.2019
Impairment net of reversals of non financial assets	-52 000
Impact on Net Income	**-52 000**

2018 exercise

Sale of Non-Performing Loans portfolio (Project NATA)

During 2018, NOVO BANCO and BEST, entered into a sale and purchase contract of a non-performing loans portfolio and related assets, named Project NATA, with a consortium of funds managed by KKR Credit Advisors (US) L.L.C and LX Investment Partners II S.À.R.L.

This operation impacted the balance sheet with a decrease on the loans and advances to customers in the amount of Euro 496.6 million (Euro 1 462.2 million of gross amount and Euro 965.6 million of impairment), a decreased in the securities portfolio in the amount of Euro 1.8 million (Euro 76.5 million of gross amount and Euro 74.7 million of impairment), and an increase on Other Assets in the amount of Euro 392.4 million. The operation had the following impacts on the income statement:

(in thousands of Euros)

Impact on Income Statement	31.12.2018
Net Interest Income	5 647
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	-204 053
Impairment net of reversals of financial assets not designated at fair value through profit or loss	92 356
Impact on net income	**-106 050**

Sale of Real Estate portfolio (Project Viriato)

The Bank entered into a promissory sale and purchase agreement with several entities indirectly held by investment funds managed by Anchorage Capital Group L.L.C, to sell a real estate portfolio, named Project Viriato, with the following impacts in the income statement:

(in thousands of Euros)

Impact on Income Statement	31.12.2018
Other operational income	14 990
Impairment on othe the assets net of reversals	-126 909
Impact on Net Income	**-111 919**

NOTE 40 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Applicable for 2019

The following standards and interpretations became effective for annual periods beginning on or after 1 January 2019:

IFRS 16 – Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees: (1) leases of 'low-value' assets (e.g., personal computers) and (2) short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15 Revenue from Contracts with Customers.

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted.

Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax

environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain

information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a ‘plain vanilla’ interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

Modification or exchange of a financial liability that does not result in derecognition

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of

a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

The IASB stated specifically that the clarification on modification or exchange of financial liabilities relates to the application of IFRS 9. As such, it would appear that this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

Determining the current service cost and net interest

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using:

    - the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and

    - the discount rate used to remeasure that net defined benefit liability (asset).

A plan amendment, curtailment or settlement may reduce or eliminate a surplus in a defined benefit plan, which may cause the effect of the asset ceiling to change.

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.

Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Annual improvements for the cycle 2015-2017

In the annual improvements for the 2015-2017 cycle, the IASB has introduced improvements in four standards summarized bellow:

IFRS 3 Business Combinations - Previously held Interests in a joint operation

- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.
- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IFRS 11 Joint Arrangements - Previously held Interests in a joint operation

- A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in

IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

- An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity

- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 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.

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

At the date of approval of these financial statements, the standards and interpretations endorsed by the European Union, but whose mandatory application occurs in future years, are as follows:

Definition of Material - Amendments to IAS 1 and IAS 8

The purpose of this amendment was 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 periods beginning on or after 1 January 2020. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Note: The definition of material in the Conceptual Framework and IFRS Practice Statement 2: Making Materiality Judgements were amended to align with the revised definition of material in IAS 1 and IAS 8.

The Conceptual Framework for Financial Reporting

The conceptual framework sets out a comprehensive set of concepts for:

- Financial reporting;
- Standard setting;
- Guidance for preparers in developing 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 recognition criteria for assets and liabilities; and
- clarifies some important concepts.

It is organized 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.

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 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).

<u>The amendments to IFRS 9</u>

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.

<u>The amendments to IAS 39</u>

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.

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.

Standards and Interpretations issued by the IASB, but not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, were not, until the date of approval of these financial statements, adopted (endorsed) by the European Union:

Definition of a Business - 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 develop or 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)).

IFRS 17 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.

NOTE 41 – SUBSEQUENT EVENTS

- Following the recent news about the case “Luanda Leaks”, despite being an event known in 2020, NOVO BANCO incorporated in the 2019 accounts the impacts that resulted from the analysis of this specific case in line with the accounting standards in force. NOVO BANCO will continue to monitor developments in this process during fiscal year 2020.

- From January 2020, the COVID-19 outbreak has been spreading beyond China's borders, impacting financial markets and economic activity.

  NOVO BANCO is closely monitoring developments, which, on the date of production of this report, are still on a preliminary stage, and, as such, in constant change and with great uncertainty. As an example, the national state of emergency is in force since March 19 decreed for a period of 15 days, with the possibility of prolongation. On this date, the Portuguese Government announced an aid package covering several lines of funding, totalling EUR 3 billion including state guarantees, particularly for the tourism, food and entertainment, textile and clothing, footwear and wood and derivatives sectors.

  On the other hand, and on that same date, the ECB announced the implementation of the Pandemic Emergency Purchase Programme (PEPP), a programme for the acquisition of public and private sector assets, amounting to EUR 750 billion which could be increased. Purchases under this programme will run until the end of 2020 and will include all classes of assets eligible since the sovereign debt crisis (the amount of which had already been increased by EUR 120 billion). Also noteworthy are the monetary policy actions that have already been adopted by the Central Bank of China with the reduction of interest rates for 1 and 5 years.

  NOVO BANCO is also monitoring the potential impacts and, where relevant, is taking decisions that defend the interests of different stakeholders, including employees, depositors, customers and shareholders. The main impacts on the NOVO BANCO's financial statements may come as a result of increased credit risk, increased volatility in financial and non-financial assets and from business constraints due to the measures enacted to contain the spread of the virus.

In view of these very recent facts, in constant progress and, as such, not yet definitive, NOVO BANCO, in the current fiscal year, will consider and include in its forecasts scenarios with different levels of severity of scenarios, including also in these scenarios unknown events resulting form the pandemic that are not yet fully known – as may be eventual payment holidays on the loans, and their impacts on impairment of assets, credit quality, assessment of significant increase in credit since inception, forbearance, estimated credit losses according to IFRS9, impacts on capital, among others, material and immaterial. This estimate is not quantifiable at this date.

With regard to the fair value of the portfolio of financial assets measured at fair value, which as of December 31, 2019 amounted to Euro 11 802 855 thousand, as disclosed in Note 20, there has been increased volatility in the interest rate market, but, considering the measures announced by the ECB, it is not possible to reliably access the full impact of the pandemic.

Finally, regarding non-financial assets, the NOVO BANCO holds a portfolio of real estate assets of Euro 294 876 thousand, as presented in note 26. The value of these assets may be affected by a decrease in occupancy rates that have been reported in the tourism sector, a decrease in economic activity in general and a reduction in the market's ability to transact these assets, all as a result of the impacts of Covid-19. On this date, management is not in a position to quantify the potential impacts of Covid-19 on the fair value or recoverable amount of these assets.

As a result of the evolution of the pandemic in Portugal, the NOVO BANCO implemented the following measures:

<u>Adaptating the banking and financial offer to cope with the COVID-19 outbreak:</u>

- Corporate clients:

NOVO BANCO has made available to its clients and to the national businesses a set of solutions to support treasury and corporate finances to support sectors of the national economy whose activity is affected by the resulting economic effects of covid-19, always taking into account the appropriate risk criteria. The support ranges from prorogation of capital repayments up to 12 months, extension of 90 days in factoring, advance of social security payments for eventual lay-off or access to the "Capitalizar" credit line.

- Retail clients:

NOVO BANCO has launched a package of products and services tailored to the needs exacerbated by the COVID 19 pandemic and aimed at reducing the risks of contagion. This package includes the temporary exemption of commissions on a set of essential transactions through digital channels (from interbank transfers, payment of services, cash-advance and MBWay payments, to the exemptions of the 1st annuity on new debit and prepaid cards or replacements).

To meet the foreseeable increase in the use of digital channels, NOVO BANCO has also strengthened technological support for transactions made through electronic means of payment.

These measures will have temporary effect and aim to drastically reduce the need to touch the terminals and the physical exchange of money which are little advised in this period.

Protection of Employees and Customers:

- Promotion and dissemination of recommended hygiene practices and availability of recommended sanitary products in buildings and branches of NOVO BANCO;
- Availability of dedicated isolation rooms, in all central buildings and branches, for the confinement of employees suspected of infection;
- Plan for the evacuation and disinfection of buildings and branches in case of confirmed infection of a team member;
- Self-isolation/quarantine and telework measures for employees who have traveled to one of the affected countries or regions or who have been in close contact with someone who has been confirmed to be infected;
- Prohibition of all non-critical business trips and recommendation to all employees to reduce personal travel to a minimum;
- Restriction of non-critical face-to-face internal meetings or with suppliers or partners, which are replaced by digital means (video and conference call or other team collaboration tools) and reduced to a minimum number of participants;
- Replacement of face-to-face meetings with customers with remote alternatives whenever possible, with greater restrictions in the affected areas;
- Implementation of telework plans and division of teams between various locations for critical and non-critical functions, in order to ensure the ability to maintain service levels without disruption;
- Evaluation with our main suppliers and partners of their business continuity plans for COVID-19 to ensure minimization of business impact through third-party supplies.

Customer Service:

The customer phone service team has been strengthened to cope with a potential increase in demand.

Also, the communication to customers about the means to conduct transactions, contracting and digital contact was strengthened and implemented an exemption on commissions for the generality of transactions carried out through digital channels.

With regard to the availability of face-to-face service, NOVO BANCO's branches will remain open to the public in a conditioned manner. The conditionality is reflected solely in the restriction on the number of customers who can simultaneously be inside the branch, which will be limited to 4 customers.

However, the following exceptions are foreseen for availability in face-to-face care:

- In situations where customers who had visited the facilities and who subsequently tested positive for the COVID-19 virus, the service will be carried out exclusively by telephone during the period of 14 days;
- In situations of branches with up to 3 employees, which will close during lunch time between 12:00 and 13:00;

- In situations where there is a positive case of COVID-19 infection, the affected branch will be closed for the quarantine period.

  Whenever the period of operation or closure of a branch changes, this information will be posted in the storefront of the branch, customers of these branches will be informed by email or SMS, and information about the closed branches or with service limitations will always be up-to-date on the www.novobanco.pt website.

  These measures may have an impact on the NOVO BANCO's activity, however, given the possibility of using remote and digital channels, the NOVO BANCO does not expect these to be relevant through the mitigation measures implemented.

  However, risks of a longer overall impact, arising from any trigger that undermines confidence, are not yet completely ruled out.

  It is also the conviction of the Board of Directors that NOVO BANCO has the means to conduct business, despite the adversity we are facing and maintains a continuous support from its shareholders, we, thus, consider adequate that the financial statements of NOVO BANCO continue to be prepared in a going concern basis, as described in note 2.1.

- On February 11, 2020, Novo Banco, S.A., Branch of Spain was informed by a former employee that he had performed several allegedly fraudulent acts involving several clients, relating to the management of a client portfolio of a given agency of the Spanish Branch, in parallel and in non-compliance with the internal procedures defined by the Bank. NOVO BANCO immediately took several steps to verify the veracity of the facts and to quantify the potential damages and identification of customers that may be at stake, which are still in progress. On the present date, there is no visibility as to the existence of NOVO BANCO's liability and, if confirmed, its effects or the amounts that could potentially be at stake, so the eventual liability of NOVO BANCO is, for the moment, insusceptible determined or quantified.

7.4 Auditor’s Report on the Consolidated Financial Statements

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In case of doubt, the Portuguese version prevails)

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 2019 (showing a total of 45,295,903 thousand euros and a total equity of 4,002,757 thousand euros, including a net loss for the year of 1,058,812 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 the 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 2019, and of its consolidated 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.

Emphasis of matter relating to Covid-19

The recent developments surrounding the Covid-19 pandemic (Coronavirus) have a significant impact on the health of people and on our society as a whole, increasing uncertainty around the operational and financial performance of organisations. The impacts and uncertainties resulting from the Covid-19 pandemic (Coronavirus) are disclosed in Note 46 of the Notes to the consolidated financial statements and reflect the expectations of the Executive Board of Directors for Novo Banco Group. Based on the information available at that date, the financial impacts of the event are uncertain, namely concerning the fair value of financial and non-financial assets, the measurement of expected credit losses and in the capital requirements. Our opinion has not been modified in relation to this matter.

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:

Sociedade Anónima - Capital Social 1.335.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 20161480 na Comissão do Mercado de Valores Mobiliários
Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited

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 accumulated impairment amounting 1,852,495 thousand of euros ("K€"), with an impact of 627,517 K€ recognized in the profit for the period recorded on the line impairment losses on loans and advances to customers net of reversals and recoveries. The gross amount of loans and advances to customers is 27,054,722 K€, the accumulated impairment represents 6.8% of loans and advances to customers. The details of the impairment and the accounting policies, methodologies, definitions and assumptions used are disclosed in the notes to the consolidated financial statements (Note 2.5, note 3.1 and note 21) The impairment for loans and advances to customers represents the best estimate of the management for the expected loss on the loan portfolio to customers with reference to 31 December 2019. For the calculation of this estimate, the management established assumptions, used mathematical models to calculate parameters, defined concepts and designed a model to calculate the expected loss. For relevant exposures, the calculations resorted to expert judgment from specialists of the Group on the evaluation of credit risk. In addition to the complexity of the models described, their use requires the treatment of a significant volume of data that are not always available in the Group's core systems, such as the credit risk information at the time of origination, date and value at that date of the first default and the value of the historical recoveries since default. To overcome limitations that may exist on some data, management resorts to practical expedients which increase the judgements applied. The use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment. Given the degree of subjectivity and complexity that the estimated impairment involves and the materiality of its value, we consider this topic as key auditing matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures in particular: ► We obtained the understanding, evaluated the design and tested the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; ► We used analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, compared with last year and with the expectations formed, which include the understanding of changes in the loan portfolio and changes in the assumptions and methodologies for impairment; ► We selected a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included: inspection of information containing the business models and the financial situation of the debtors and of collateral appraisal reports; inquiry of Group experts to understand the recovery strategy defined and the assumptions used; ► With the support of auditor's experts on risk, we evaluated the reasonableness of the parameters used in the calculation of impairment, according to the following procedures: i) understanding of the methodology formalized and adopted by management and comparison with the one effectively used; ii) evaluation of changes to models to determine the parameters to reflect the expected loss; iii) analysis of changes made during the financial year 2018 to risk parameters (PD, LGD and EAD); iv) on a test basis, comparison of the data used in the calculation of the risk parameters with source information; v) inquiries to management's experts responsible for the models and inspection of the reports from the models validation team internal audit and regulators vi) inspection of the reports with the results of the operational assessment of the model (back-testing); ► We have obtained the understanding and evaluated the design of the model used to calculate the expected loss, we tested the calculation, we compared the information used in the model with the source information, through the reconciliations prepared by the Group staff, evaluated the assumptions used to fill gaps in data, we compared the parameters used with the results of the estimation models and we compared the results with the values in the financial statements; Analysis of 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 notes to the consolidated financial statements (Note 39) on 31 December 2019, the Group held financial instruments valued at fair value in the amount of 10,920,822 K€ in assets and 705,692 K€ in liabilities, of which 1,254,127 K€ and 1,837 K€ respectively are valued through valuation techniques using unobservable variables in market (level 3). The details of these assets and liabilities are disclosed in the notes to the financial statements (note 20, note 21 and note 22). 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. As disclosed in the notes to the consolidated financial statements (Note 21), the Non-trading financial assets mandatorily at fair value through profit or loss includes 653,301 K€ in participation units and 603,851 K€ in equity of restructuring and investment funds that are valued using the information provided by the managers of these funds. This valuation is based on the NAV which corresponds to the value of the net assets of the fund, as calculated from the financial statements, and an adjustment for the lack of liquidity of these assets. Management considers that this valuation corresponds to the best estimate of fair value at 31 December 2019 on the assumption that the realization of the participation units of the funds corresponds to its underlying assets. 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.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of financial instruments; ► Analytical procedures on the value of the financial instruments, comparing the values with last year and with the expectations formed, which include understanding the variations occurred and the changes in the assumptions and methodologies; ► On the internal models we used the following procedures: i) understanding of the methodology formalized and adopted by the management ii) for a sample of financial instruments, analysis of the data used in the models and iii) on a test basis recalculation of the fair value; ► For the restructuring funds and closed-end funds our analysis was based on a sample for which we inspected the latest financial information available and/or the last NAV (Net Asset value) provided by the manager, the latest audit reports and the fund regulations. Test to the liquidity manual adjustment; Analysis of 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. 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 accounts, investment properties and other assets include real estate assets of 700,744 K€ and 434,876 K€ respectively, which were essentially obtained by credit foreclosure. 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 3.7). The notes to the consolidated financial statements (Note 25) disclose the detail and the movement of investment properties, which are held by investment funds which are rented to third parties for obtaining income or held to generate capital gains. The properties in this category are valued at fair value which is calculated following the rules of the CMVM Regulation No. 2/2015 based on assessments prepared by management's experts. 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. 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 assessments prepared by management's experts. Throughout 2019, the Group sold real estate, as described in the notes to the consolidated financial statements (Note 42), having realized a loss of 244,174 K€. The formalities necessary to complete the sale and the derecognition of the remaining of the real estate are still ongoing. 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 experts. The assumptions considered include the best use that can be given to the asset, which could be a comparable transaction or result from the potential yield that can be obtained. We consider this topic as a key audit matter 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.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of the properties received by credit recovery; ► Performance of 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, of which include the understanding of changes that have occurred and changes in the assumptions and methodologies; ► For a sample, we assessed the reasonableness of the assumptions included in the appraisals carried out by management's external experts registered in CMVM, as well as evaluating the adequacy of the methodology followed in the appraisals. For these assets, inspection of eventual promissory sale contracts and certificate of land register; ► Inspection of real estate sale contracts and assessment of the derecognition requirements and the calculation of gains and losses recorded; ► Analysis of the disclosures contained in the consolidated financial statements based on the requirements of international financial reporting standards and in the accounting records.

4. 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 (i) losses incurred in assets, which had an initial net value of approximately 7,836,823 K€ (with reference to 30 June 2016), (ii) certain costs associated with the financing structure of the Group, and (iii) lower profitability associated to assets covered by the CCA. The payments from the Resolution Fund under the CCA will be made 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 2019, the Group incurred losses in the assets defined by the CCA, in addition to the decrease of equity and consequently the CET 1, which led to a claim under the CCA of 1,037,013 K€, which 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 34). 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.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ► we obtained the understanding and evaluated the design of the existing internal control procedures in the process to quantify the CCA; ► We analyzed the movements for the year and inspected the support documentation to these movements, including the reports from the verification agent; ► Read the minutes of the monitoring commission and correspondence with the Resolution Fund to identify any matters susceptible of judgement; ► Evaluated the methodology used and tested the calculation for the year based on this methodology. We compared the values used for the calculation with the source information in accounting and prudential reporting; ► Analysis of the disclosures contained in the consolidated financial statements based on the requirements of international financial reporting standards and in the 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 35) 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 3.6. 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 incorporation of the Group resulted from a resolution measure applied to BES, which impacted third parties, leading to several disputes which, in spite of existing guarantees, may lead to effects or impacts in the Group which not possible to determine or quantify; ► 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 Star, there were lawsuits contesting these contracts; ► 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 both external	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of quantification of provisions and contingent liabilities; ► We read the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► Analysis of responses to external confirmations from external legal experts of the Group; ► Inspection of the documentation of the Resolution Fund, in particular the annual report of 2018 and the public communications from the Resolution Fund; ► Inquiries to the Board of Directors and legal consultants on contingent liabilities of the Group; ► Analysis of the disclosures contained in the consolidated financial statements, based on the requirements of international financial reporting standards and in the accounting records.

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
and internal legal experts by the Group. Given the relevance of these contingencies for the Group, we consider this topic as a key audit matter.	

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, including the Corporate Governance Report 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, related safeguards.

Our responsibility 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.

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 described in article 451, nr. 7 of the Commercial Companies Code, the opinion on the preceding paragraph does not apply to the non-financial statement included in the Management Report.

On the Corporate Governance Report

In our opinion, the Corporate Governance 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 the said article.

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 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;
- 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, 26 March 2020

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
Registered with the Portuguese Securities Market Commission under license nr. 20161271

7.5 Auditor's Report on the Separate Financial Statements

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(Translation from the original document in the Portuguese language.
In case of doubt, the Portuguese version prevails)

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 2019 (showing a total of 45,026,429 thousand euros and a total equity of 3,646,002 thousand euros, including a net loss for the year of 1,087,584 thousand euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended, and the notes to the separate 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 2019, 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.

Emphasis of matter relating to Covid-19

The recent developments surrounding the Covid-19 pandemic (Coronavirus) have a significant impact on the health of people and on our society as a whole, increasing uncertainty around the operational and financial performance of organisations. The impacts and uncertainties resulting from the Covid-19 pandemic (Coronavirus) are disclosed in Note 41 of the Notes to the separate financial statements and reflect the expectations of the Executive Board of Directors for Novo Banco, S.A.. Based on the information available at that date, the financial impacts of the event are uncertain, namely concerning the fair value of financial and non-financial assets, the measurement of expected credit losses and in the capital requirements. Our opinion has not been modified in relation to this matter.

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 accumulated impairment amounting to 1,841,483 thousand of euros ("K€"), with an impact of 630,855 K€ recognized in the profit for the period recorded on the line impairment losses on loans and advances to customers net of reversals and recoveries. The gross amount of loans and advances to customers is 25,045,515 K€, the accumulated impairment represents 7.4% of loans and advances to customers. The details of the impairment and the accounting policies, methodologies, definitions and assumptions used are disclosed in the notes to the separate financial statements (Note 2.4, Note 3.1 and Note 20) The impairment for loans and advances to customers represents the best estimate of the Bank management for the expected loss on the loan portfolio to customers with reference to 31 December 2019. For the calculation of this estimate, the management established assumptions, used mathematical models to calculate parameters, defined concepts and designed a model to calculate the expected loss. For relevant exposures, the calculations resorted to expert judgment from specialists of the Bank on the evaluation of credit risk. In addition to the complexity of the models described, their use requires the treatment of a significant volume of data that are not always available in the Bank's core systems, such as the credit risk information at the time of origination, date and value at that date of the first default and the value of the historical recoveries since default. To overcome limitations that may exist on some data, management resorts to practical expedients which increase the judgements applied. The use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment. Given the degree of subjectivity and complexity that the estimated impairment involves and the materiality of its value, we consider this topic as key auditing matter.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures in particular: ► We obtained the understanding, evaluated the design and tested the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; ► We used analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, compared with last year and with the expectations formed, which include the understanding of changes in the loan portfolio and changes in the assumptions and methodologies for impairment; ► We selected a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included: inspection of information containing the business models and the financial situation of the debtors and of collateral appraisal reports; inquiry of Bank experts to understand the recovery strategy defined and the assumptions used; ► With the support of auditor's experts on risk, we evaluated the reasonableness of the parameters used in the calculation of impairment, according to the following procedures: i) understanding of the methodology formalized and adopted by management and comparison with the one effectively used; ii) evaluation of changes to models to determine the parameters to reflect the expected loss; iii) analysis of changes made during the financial year 2018 to risk parameters (PD, LGD and EAD); iv) on a test basis, comparison of the data used in the calculation of the risk parameters with source information; v) inquiries to management's experts responsible for the models and inspection of the reports from the models validation team, internal audit and regulators vi) inspection of the reports with the results of the operational assessment of the model (back-testing); ► We have obtained the understanding and evaluated the design of the model used to calculate the expected loss, we tested the calculation, we compared the information used in the model with the source information, through the reconciliations prepared by the Bank staff, evaluated the assumptions used to fill gaps in data, we compared the parameters used with the results of the estimation models and we compared the results with the values in the financial statements; ► Analysis of disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement

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 notes to the separate financial statements (Note 36), on 31 December 2019, the Bank held financial instruments valued at fair value in the amount of 12,559,683 K€ in assets and 603,254 K€ in liabilities, of which 2,983,954 K€ and 1,837 K€ respectively are valued through valuation techniques using unobservable variables in market (level 3). The details of these assets and liabilities are disclosed in the notes to the financial statements (note 19, note 22 and note 32). 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. As disclosed in the notes to the separate financial statements (Note 20), the Non-trading financial assets mandatorily at fair value through profit or loss includes 1,784,444 K€ in participation units and 601,613 K€ in equity of restructuring and investment funds that are valued using the information provided by the managers of these funds. This valuation is based on the NAV which corresponds to the value of the net assets of the fund, as calculated from the financial statements, and an adjustment for the lack of liquidity of these assets. Management considers that this valuation corresponds to the best estimate of fair value at 31 December 2019 on the assumption that the realization of the participation units of the funds corresponds to its underlying assets. 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.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of valuation of financial instruments; ► Analytical procedures on the value of the financial instruments, comparing the values with last year and with the expectations formed, which include understanding the variations occurred and the changes in the assumptions and methodologies; ► On the internal models we used the following procedures: i) understanding of the methodology formalized and adopted by the management ii) for a sample of financial instruments, analysis of the data used in the models and iii) on a test basis recalculation of the fair value; ► For the restructuring funds and closed-end funds our analysis was based on a sample for which we inspected the latest financial information available and/or the last NAV (Net Asset value) provided by the manager, the latest audit reports and the fund regulations. Test to the liquidity manual adjustment; ► Analysis of disclosures included in the explanatory notes to the separate financial statements based on the requirements of international financial reporting standards and in the accounting records.

3. 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 include real estate assets of 294,876 K€, which were essentially obtained by credit foreclosure. The detail of these assets and the accounting policies are disclosed in the notes to the financial statements (Note 26 and Note 2.10). As disclosed in note 26 to the separate financial statements, the other assets include real estate for which management implemented a plan pursuant to its sale. 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 assessments prepared by management's experts. Throughout 2019, the Bank sold real estate, as described in the notes to the separate financial statements (Note 39), having realized a loss of 175,486 K€. The formalities necessary to complete the sale and the derecognition of the remaining of the real estate are still ongoing. 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 experts. The assumptions considered include the best use that can be given to the asset, which could be a comparable transaction or result from the potential yield that can be obtained. We consider this topic as a key audit matter 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.	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ▸ Understanding of the existing internal control procedures in the process of valuation of the properties received by credit recovery; ▸ Performance of 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, of which include the understanding of changes that have occurred and changes in the assumptions and methodologies; ▸ For a sample, we assessed the reasonableness of the assumptions included in the appraisals carried out by management's external experts registered in CMVM, as well as evaluating the adequacy of the methodology followed in the appraisals. For these assets, inspection of eventual promissory sale contracts and certificate of land register; ▸ Inspection of real estate sale contracts and assessment of the derecognition requirements and the calculation of gains and losses recorded; ▸ Analysis of the disclosures contained in the separate financial statements, based on the requirements of international financial reporting standards and in the accounting records.

4. 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 (i) losses incurred in assets, which had an initial net value of approximately 7,836,623 K€ (with reference to 30 June 2016), (ii) certain costs associated with the financing structure of the Bank, and (iii) lower profitability associated to assets covered by the CCA..	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ▸ we obtained the understanding and evaluated the design of the existing internal control procedures in the process to quantify the CCA;

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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
The payments from the Resolution Fund under the CCA will be made 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 2019, the Bank incurred losses in the assets defined by the CCA, in addition to the decrease of equity and consequently the CET 1, which led to a claim under the CCA of 1,037,013 K€, which 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 32). 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.	► We analyzed the movements for the year and inspected the support documentation to these movements, including the reports from the verification agent; ► Read the minutes of the monitoring commission and correspondence with the Resolution Fund to identify any matters susceptible of judgement; ► Evaluated the methodology used and tested the calculation for the year based on this methodology. We compared the values used for the calculation with the source information in accounting and prudential reporting; ► Analysis of the disclosures contained in the separate financial statements, based on the requirements of international financial reporting standards and in the 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 separate financial statements disclose the contingent liabilities (Note 33) 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 incorporation of the Bank resulted from a resolution measure applied to BES, which impacted third parties, leading to several disputes which, in spite of existing guarantees, may lead to	We identified and assessed the audit risk that led to the definition of the audit approach for responding to the risk of material distortions. This approach 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 additional procedures which included testing of controls and substantive procedures, in particular: ► Understanding of the existing internal control procedures in the process of quantification of provisions and contingent liabilities; ► We read the minutes of the Bank's management bodies, the correspondence with regulators and with the Resolution Fund; ► Analysis of responses to external confirmations from external legal experts of the Bank; ► Inspection of the documentation of the Resolution Fund, in particular the annual report of 2018 and the public communications from the Resolution Fund; ► Inquiries to the Board of Directors and legal consultants on contingent liabilities of the Bank;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
effects or impacts in the Bank which not possible to determine or quantify; ► 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 Star, there were lawsuits contesting these contracts; ► The Bank is one of the 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 both external and internal legal experts by the Bank. Given the relevance of these contingencies for the Bank, we consider this topic as a key audit matter.	► Analysis of the disclosures contained in the separate 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, including the Corporate Governance Report 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.

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, related safeguards.

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.

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 described in article 451, nr. 7 of the Commercial Companies Code, the opinion on the preceding paragraph does not apply to the non-financial statement included in the Management Report.

On the Corporate Governance Report

In our opinion, the Corporate Governance 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 the said article.

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;
- 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, 26 March 2020

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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7.6 Report of the General and Supervisory Board and the Opinion of the Financial Affairs (Audit) Committee on the Management Report and on the Separate and Consolidated Financial Statements of Novo Banco, S.A. for the year ended on 31 December 2019

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" or “Bank”), the General and Supervisory Board is required to issue the Annual Report on the activity developed and the Committee for Financial Affairs 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, separate and consolidated statement of comprehensive income, separate and consolidated balance sheet, separate and consolidated statement of changes in equity, separate and consolidated statement of cash flows and the respective Annexes, as well as on the proposed application of Results, presented by the Board of Directors of Novo Banco, for the year ended on 31 December 2019.

1. Report of the General and Supervisory Board for the year 2019

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 General and supervisory board, including the Chairman, are independent. The General and Supervisory Board 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 2019, we have monitored the activity of the Bank and its more significant subsidiaries. The activity of the General and Supervisory Board is directly supported by 5 (five) committees, in which were delegated some of its powers, namely the Financial Affairs 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 General and Supervisory Board.

These Committees are chaired and composed by members of the General and Supervisory Board and can also have the presence of the Executive members of the Board of Directors or other managers responsible for the areas covered by the activities of these Committees.

The General and Supervisory Board meets monthly, performing the duties assigned to it by law, by the Bylaws of the Bank and by own regulation. The Executive Board of Directors informs the General and Supervisory Board on all relevant matters, timely and on a comprehensive written or verbally manner.

1.2. Activity undertaken in 2019

General and Supervisory Board

During 2019, the General and Supervisory Board held 12 meetings, where several issues were discussed, analised and approved, including:

- The separate and consolidated financial statements of Novo Banco for the year ended 31 December 2019 and the financial statements of the first, second and third quarters of 2019;
- The budget for 2019;
- 2019-2021 strategic plan;
- The strategy and risk appetite;
- The main sale of assets of Novo Banco, in particular, the sale of the GNB - Companhia de Seguros de Vida, S.A., the sale of real estate portfolios (Viriato,Sertorius and Cannas Projects), the sale of non-performing loans-NPLs portfolios and related assets (Nata I and Nata II Projects); the termination of the activities in the Branches of London, Cayman Islands and Venezuela, as well as the merge of ES PLC and BESIL into Novo Banco;
- Compliance Department activity, including, the ratification of transactions with related parties, approved by this department;
- Internal Audit Department activity;
- Most relevant lawsuits against the Group;
- 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 General and Supervisory Board own regulation and the regulations of their Committees delegating powers to some of the committees;
- Changes to the Information disclosure policy;
- Changes to Whistleblowing policy;
- Changes to the Evaluation and selection policy of the governing bodies and key function holders;
- Changes to the Related party policy;
- Changes to the Conflict of interest policy;
- Changes to Remuneration policies of the governing bodies and the rest of the Bank's staff;
- Servicing contract of the CCA;
- Group Impairment report;
- Group Internal control report;
- Approval of the Internal audit plan May 2019 - April 2020.

Additionally, in all meetings, the General and Supervisory Board, 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 Executive Board of Directors and presentation of the measures arising from European banking regulation and the specific requirements set by the European Central Bank (SREP);
- the liquidity position and respective regulatory ratios of the Bank, through information presented to the Executive Board of Directors.

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 Affairs Committee

The Financial Affairs Committee held 15 meetings during 2019 and concentrated its activity in the assessment of the Bank's financial statements, and reports of the statutory auditor for the financial year 2019, discussing and analyzing also the update reports submitted by the Internal Audit. Throughout 2019, the main Non-Performing Assets sales operations were monitored by the Financial Affairs Committee, namely, Project Nata II, Project Viriato, Project Albatros, Project Cannas, sale of GNB - Vida and GNB Seguros. During 2019, 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 Elegible Liabilities, and the MIS Project (with a view, among other things, to the separation of legacy and non-legacy activity). The Financial Affairs Committee monitored on a continued form, the independence and the work of the external auditor, including the supervision and approval of the provision by this of other additional services to NOVO BANCO Group. The annual audit process for 2019 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 EBD.

Risk Committee

The risk Committee held 19 meetings during the year of 2019. 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 to 2020, according to the budget for 2020. Other topics discussed by the Risk Committee included the major monthly indicators of risk (credit risk, market and operational) and the provisions and impairments of credit in the financial statements for the financial year of 2019. 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. Responsible for the risk function and the CRO participated in meetings as guests, where necessary.

Compliance committee

The Compliance Committee held 5 meetings during 2019 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 conflict of interest, as well as more relevant lawsuits regularly accompanied by the Bank.

Nomination Committee

The Nomination Committee held 1 meeting during the year 2019. 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 – GA. The evaluation and promotion policy for the Bank's essential functions (“Succession Plan Matrix - Key Function Holders”) was also analyzed.

Remuneration Committee

The Remuneration Committee held 5 meetings during the year 2019. At these meetings, the Committee monitored the implementation of policies relating to the remuneration of the management and supervisory bodies and adopted a set of decisions related to the variable component of remuneration. Additionally, were also established and approved at this meeting the main individual and collective performance indicators for the Executive members of the Board of Directors for the year 2020, based on the approved budget for this year.

During the year of 2019, the General and supervisory board and their Committees have issued several opinions arising from requests made by the Executive Board of Directors, under article 15, paragraph 5 of the Bylaws.

The General and Supervisory Board and the Financial Affairs Committee 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 2019, 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 General and Supervisory Board 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 NOVO BANCO Group 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 General and Supervisory Board 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 2019, 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;
- Measurement of real estate obtained through credit foreclosure;
- Contingent Capitalization Agreement;
- Disclosure of contingent liabilities.

All these matters were monitored by the General and Supervisory Board and their Committees, which, on these matters, kept updated by the Executive Board of Directors, by the relevant Directions and by the external auditors.

In preparing the accounts of the financial year, the General and Supervisory Board analyzed the management report as well as other documents submitted by the Executive Board of Directors, 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 2019 in 26 March 2020, without qualifications and including an emphasis of matter related to Covid-19, on which the General and Supervisory Board expresses its agreement.

The General and Supervisory Board 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 Affairs on the management report and the separate and consolidated financial statements

Within the scope of our work we verified that:

(a) the separate and consolidated balance sheet, the separate and consolidated income statement, separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity, the separate and consolidated cash flow statement and the corresponding separate and consolidated Annex, allow a proper understanding of the assets, liabilities and the separate and consolidated financial position of Novo Banco, their separate and consolidated 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 do not contradict the legal and statutory provisions applicable;
(e) in accordance with paragraph 5 of article 420 of the "Código das Sociedades Comerciais", apply for remission of articles 441, 444, paragraph 2 and paragraph 2, the information about the corporate governance includes the elements required under article 245 of the "Código dos Valores Mobiliários" 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 2019, presented by the Executive Board of Directors, considering the aspects highlighted in the Audit report on the separate and consolidated financial statements of the Bank of that year issued by the audit firm;
(b) Approval of the proposed application of results submitted by the Board of Directors in Executive Management report.

Finally, the General and Supervisory Board would like to express its appreciation to the Management 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, 1 April 2020

General and Supervisory Board and the Financial Affairs

Byron James Macbean Haynes
Chairman of the General and Supervisory Board and member of the Financial Affairs Committee

Karl-Gerhard Eick
Vice-Chairman of the General and Supervisory Board and member of the Financial Affairs Committee

Kambiz Nourbakhsh
Member of the General and Supervisory Board and member of the Financial Affairs Committee

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