BASE PROSPECTUS dated 28 September 2020

NOVO BANCO

NOVO BANCO, S.A.

(incorporated with limited liability in Portugal)

€10,000,000,000.00

CONDITIONAL PASS-THROUGH COVERED BONDS PROGRAMME

NOVO BANCO, S.A. (the "**Issuer**", "**Bank**" or "**NOVO BANCO**") is an authorised credit institution under Portuguese Law, for the purposes of Decree-Law No. 59/2006, of 20 March 2006 (as amended, the "**Covered Bonds Law**").

The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law. The Issuer and its subsidiaries are together referred to in this Base Prospectus as the "**Group**".

Under this €10,000,000,000.00 conditional pass-through covered bonds programme (the "**Programme**"), the Issuer may from time to time issue mortgage covered bonds denominated in any currency agreed between the Issuer and the relevant Dealer (as may be settled through Interbolsa) (as defined below).

Covered Bonds shall be issued in registered ("*nominativas*") form and will be represented in book-entry ("*escriturais*") form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €10,000,000,000.00 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein. Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Overview of the Covered Bonds Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Covered Bonds.

See *Risk Factors* for a discussion of certain risk factors to be considered in connection with an investment in the Covered Bonds.

This document comprises a base prospectus (the "**Base Prospectus**") for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, as amended from time to time (the "**Prospectus Regulation**").

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Regulation. The Central Bank of Ireland only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the Central Bank should not be considered as an endorsement of the Issuer or of the quality of the Covered Bonds. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the Covered Bonds to be admitted to the Official List and trading on its regulated market (the "**Euronext Dublin Regulated Market**"). Such approval relates only to the Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU, as amended, in any Member State of the European Economic Area ("**EEA**") (which, until the end of the transition period under the UK-EU Withdrawal Agreement (as defined below), for these purposes, shall include the United Kingdom). References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the Euronext Dublin Regulated Market or other regulated market. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. Covered Bonds may, after notification by the Central Bank of Ireland to the supervision authority of the Relevant Member States of the European Union, in accordance with the Prospectus Regulation, be admitted to trading on the regulated Market(s) of and/or be admitted to listing on stock exchange(s) of any other Member States of the EEA (which, until the end of the transition period under the UK-EU Withdrawal Agreement (as defined below), for these purposes, shall include the United Kingdom). The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

As at the date of this Base Prospectus long-term and short-term senior obligations of the Issuer are rated, respectively "B (high) with a negative trend" and "R-4 with a stable trend" by DBRS and "Caa2 with a stable outlook" by Moody's. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. The Covered Bonds issued under the Programme may be rated by Moody's and/or by DBRS. The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody's and DBRS are established either in the European Union or the United Kingdom and are registered under Regulation (EC) No. 1060/2009, as

amended (the "**CRA Regulation**"). As such, the referred credit rating agencies are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a final terms document (the "**Final Terms**") which will be delivered to the Central bank of Ireland and, if admitted to trading on the Euronext Dublin Regulated Market, to the Euronext Dublin. Copies of Final Terms in relation to Covered Bonds to be listed on the Euronext Dublin will also be published on the website of the Euronext Dublin (www.ise.ie).

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for a period of twelve months from the date of approval. The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Base Prospectus which may affect the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy will not apply when this Base Prospectus is no longer valid.

Arranger

J.P. Morgan

Dealers

J.P. Morgan

Novo Banco, S.A.

The date of this Base Prospectus is 28 September 2020.

IMPORTANT INFORMATION AND RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation for the purpose of giving information with regard to the Issuer which, according to the nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as of the features and characteristics of the Covered Bonds, the reasons for the issuance and its impact on the Issuer.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**"), or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account of or benefit of, U.S. persons as defined in Regulation S under the Securities Act, unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements* below).

The format and contents of this Base Prospectus comply with the relevant provisions of the Prospectus Regulation and all laws and regulations applicable thereto, including Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 (together with Commission Delegated Regulation (EU) 2019/979 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal, and repealing Commission Delegated Regulation (EU) No 382/2014 and Commission Delegated Regulation (EU) 2016/301.the "**Prospectus Delegated Regulations**").

Each of the Issuer, the members of the Executive Board of Directors and General Supervisory Board of the Issuer (see *Management and Supervisory Corporate Bodies*) are responsible for the information contained in this Base Prospectus and hereby declare that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

The only persons authorised to use this Base Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the relevant Dealer(s) or the Managers.

Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178, with registered office at Av. da República no. 90 1700-157 Lisbon (the "**Auditor**"), has audited and expressed an opinion on the financial statements of the Issuer for the financial period from 1 January 2018 to 31 December 2018 as well as on the financial statements of the Issuer for the financial period from 1 January 2019 to 31 December 2019. The consolidated financial statements for such financial periods give a true and fair view of the financial position of the Issuer as at 31 December 2019 and 31 December 2018, and of the results of the Issuer's operations and cash flows for the period then ended (see *General Information*).

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see *Documents Incorporated by Reference*). This Base Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference"*), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus or any other information supplied in connection with the issue or sale of the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger (as defined in *Definitions*), the Common Representative (as defined under *General Description of the Programme*) or any of the Dealers.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing such information.

The Arranger, the Common Representative and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, amongst other things, the Issuer's financial statements, if any, of the Issuer when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus or any Final Terms (as defined below) do not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder or assume any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary, no action has been taken by the Issuer, the Arranger or the Dealers (save for application for the approval by the Central Bank of Ireland of this Base Prospectus as a base prospectus for the purposes of the Prospectus Regulation) which would permit a public offering of any Covered Bonds or the distribution of this Base Prospectus or any other offering material relating to the Programme or the Covered Bonds issued thereunder in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material relating to the Programme or the Covered Bonds issued thereunder may be distributed or published in any jurisdiction, except under circumstances that would result in compliance with any applicable securities laws and regulations. Each Dealer has represented or, as the case may be, will be required to represent that to the best of its knowledge all offers and sale by it will be made on the terms indicated above. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of the Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area (the "**EEA**") (including Italy and Portugal) and the United Kingdom and Japan. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

The Arranger, the Common Representative and the Dealers have not separately verified the information contained or incorporated in this Base Prospectus. Accordingly, none of the Arrangers, the Common Representative or the Dealers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Base Prospectus. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the Covered Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arrangers, the Common Representative or the Dealers that any recipient of this Base Prospectus or any other financial information supplied in connection with the Programme should purchase the Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, the Common Representative or any of the Dealers to subscribe for or to purchase any Covered Bonds.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Covered Bonds in any Member State of the EEA which has implemented the Prospectus Regulation and (until the end of the transition period under the UK-EU Withdrawal Agreement) the United Kingdom (each, a "**Relevant State**") will be made pursuant to an exemption under the Prospectus Regulation, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant State of Covered

Bonds which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Covered Bonds may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State and (in either case) published, all in accordance with the Prospectus Regulation, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

MiFID II PRODUCT GOVERNANCE / TARGET MARKET - The Final Terms in respect of any Covered Bonds will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under Commission Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

IMPORTANT – EEA AND UK RETAIL INVESTORS – If the Final Terms in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors" or "Prohibition of Sales to EEA Retail Investors" (as the case may be), the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or, if so specified in the applicable Final Terms, in the United Kingdom (the "**United Kingdom**" or the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, on insurance distribution (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA or in the UK (as the case may be) has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA or in the UK (as the case may be) may be unlawful under the PRIIPs Regulation.

*Under the terms of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (2019/C 384 I/01) (the "**UK-EU Withdrawal Agreement**"), a transition period has now commenced which will last until 31 December 2020. During this period, most EU rules and regulations will continue to apply to and in the UK and negotiations in relation to a free trade agreement will be ongoing. Under the UK-EU Withdrawal Agreement, the transition period could, before 1 July 2020, be extended once by up to two years. No such extension has taken place within such deadline.*

BENCHMARKS REGULATION - Amounts payable on Floating Rate Covered Bonds (as described under "*Terms and Conditions of the Covered Bonds*") will be calculated by reference to the London Interbank Offered Rate ("**LIBOR**") or the Euro Interbank Offered Rate ("**EURIBOR**") as specified in the relevant Final Terms. As at the date of this Base Prospectus, each of the administrator of LIBOR

(ICE Benchmark Administration Limited) and the administrator of EURIBOR (the European Money Markets Institute or "**EMMI**") is included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Regulation (EU) No. 2016/1011 (as amended from time to time, the "**Benchmarks Regulation**"). The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Prospectus to reflect any change in the registration status of the Administrator.

PROJECTIONS, FORECASTS AND ESTIMATES

Forward-looking statements, including estimates, and any other projections or forecasts in this document are necessarily speculative in nature and some or all of the assumptions underlying the forward-looking statements may not materialise or may vary significantly from actual results.

SUITABILITY OF INVESTMENT

PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED IN THE SECTION HEADED "RISK FACTORS" HEREIN.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investmentportfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

This Base Prospectus (and the documents incorporated by reference in this Base Prospectus) contains certain management indicators of performance or alternative performance measures ("**APMs**"), which are used by management to evaluate Issuer's overall performance. These APMs are not audited, reviewed or subject to review by Issuer's auditors and are not measurements required by, or presented in accordance with, International Financial Reporting Standards as adopted by the EU ("**IFRS-EU**").

Accordingly, these APMs should not be considered as alternatives to any performance indicators prepared in accordance with IFRS-EU. Many of these APMs are based on Issuer's internal estimates, assumptions, calculations, and expectations of future results and there can be no guarantee that these results will actually be achieved. Accordingly, investors are cautioned not to place undue reliance on these APMs. Furthermore, these APMs, as used by the Issuer, may not be comparable to other similarly titled indicators used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS-EU, as indications of operating performance or as indicators of Issuer's profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS-EU and investors are advised to review these APMs in conjunction with the audited consolidated annual financial statements and the unaudited quarterly business activity and results report incorporated by reference in this Base Prospectus.

The descriptions (including definitions, explanations and reconciliations) of all APMs are set out in Section 6 'Annex – Alternative Performance Measures' of Novo Banco's 2019 Annual Report, which is incorporated by reference into this Base Prospectus (see the section titled *Documents Incorporated by Reference*) and in Annex I to this Base Prospectus.

LEGAL CONSIDERATIONS IN RESPECT OF INVESTING IN COVERED BONDS

The Covered Bonds will not represent an obligation or be the responsibility of the Arranger, the Common Representative or the Dealers or any person other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators.

Other Assets/Hedging Contracts - The Covered Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging contracts subject to certain restrictions under the Covered Bonds Law. The aggregate amount of other eligible assets cannot exceed 20 per cent. of the total value of the mortgage credits and other eligible assets comprised in the Cover Pool. See *Characteristics of the Cover Pool*.

Hedging Contracts - Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. The Issuer is entitled but not required to enter into hedging contracts under the Covered Bonds Law, except if the Covered Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any rate risk coverage. See *Characteristics of the Cover Pool – Hedging Contracts*.

Amortisation of Mortgage Credits - Mortgage credits which are included in the Cover Pool are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgage credits may result in the Issuer being required to include further mortgage credits and/or substitution assets in the Cover Pool in order for the Issuer to comply with the financial matching requirements under the Covered Bonds Law.

None of the Arranger or the Dealers has or will undertake any investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pool but will instead rely on representations and warranties provided by the Issuer in the Programme Agreement.

CERTAIN DEFINED TERMS

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, to "**U.S.$**", "**USD**" or "**U.S. dollars**" are to United States dollars, the lawful currency of the United States of America, and to "**£**" or "**GBP**" or "**pounds sterling**" are to pounds sterling, the lawful currency of the United Kingdom.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealer**,** subject as set out herein. An overview of the terms and conditions of the Programme and the Covered Bonds appears under *Overview of the Covered Bonds Programme*. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of those Covered Bonds and will be set out in the *Terms and Conditions of the Covered Bonds* endorsed on, or attached to, the Covered Bonds as completed by the applicable final terms attached to, or endorsed on, such Covered Bonds (the "**Final Terms**"), as more fully described under *Final Terms for Covered Bonds* below.

This Base Prospectus will only be valid for admitting Covered Bonds to trading on the Euronext Dublin Regulated Market until no more of Covered Bonds concerned with this Programme are issued in a continuous or repeated manner in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Covered Bonds previously or simultaneously issued under the Programme, does not exceed €10,000,000,000.00 (subject to increase in accordance with the Programme Agreement (as defined below)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

a) the euro equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms for Covered Bonds*) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for business in London and Lisbon, in each case, on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the Lisbon foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and

b) the euro equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms for Covered Bonds*) and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

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OVERVIEW OF THE COVERED BONDS PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of the Prospectus Delegated Regulations, in particular article 25(1)(b) of Commission Delegated Regulation (EU) no. 2019/980 of 14 March 2019.

Capitalised terms used in this overview and not otherwise defined below or under Definitions have the respective meanings given to those terms elsewhere in this Base Prospectus.

Description:	Covered Bonds Programme.
Programme size:	Up to Euro 10,000,000,000.00 (or its equivalent in other currencies, all calculated as described under *General Description of the Programme*) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time. The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.
Issuer:	Novo Banco, S.A.
Arranger:	J.P. Morgan Securities plc and any other Arranger(s) appointed from time to time.
Dealers:	J.P. Morgan Securities plc, Novo Banco, S.A. and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.
Common Representative:	BNP Trust Corporation UK Limited
Agent:	Novo Banco, S.A.
Paying Agent:	Novo Banco, S.A.
Cover Pool Monitor:	Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178 See *Cover Pool Monitor*.
Account Bank:	Société Générale London Branch, in its capacity as Account Bank, with its head office at SG House, 41 Tower Hill, London, EC3N 4SG, or any successor account bank, appointed from time to time by the Issuer in connection with the Reserve Account and under the Reserve Account Agreement, when applicable.
Hedge Counterparties:	The parties or party (each, a "**Hedge Counterparty**" and together, the "**Hedge Counterparties**") that, from time to time may enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds issued under the Programme, including, *inter alia*, those set out under *Risk Factors* below. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under *Risk Factors* below and include, *inter alia*, the dynamics of the legal and regulatory requirements and the risks related to the structure of a particular issue of Covered Bonds.

Distribution:

Covered Bonds may be distributed by way of private placement and on a non-syndicated or syndicated basis. The method of distribution of each Tranche of Covered Bonds will be stated in the applicable Final Terms. Covered Bonds will be issued and placed only outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

Certain Restrictions:

Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*).

Currencies:

Subject to compliance with relevant laws, Covered Bonds may be issued in any currency agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Ratings:

Covered Bonds issued under the Programme may be rated by Moody's and/or by DBRS.

Each of Moody's and DBRS is established in the European Union and is registered under the CRA Regulation. As such, the referred credit rating agencies are included in the list of registered credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Listing and Admission to Trading:

Application has been made to the Euronext Dublin for Covered Bonds issued under the Programme to be admitted to the Official List of the Euronext Dublin and trading on the Euronext Dublin Regulated Market. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market or Covered Bonds admitted to trading on other regulated markets for the purposes of MIFID II or on any other market which is not a regulated market. The relevant Final Terms will state on which stock exchange(s) and/or market(s) the relevant Covered Bonds are to be listed and/or admitted to trading (if any).

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy and Portugal), the United Kingdom and Japan as set out in S*ubscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

United States Selling Restriction:	The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Accordingly, the Covered Bonds are being offered and sold only outside the United States in reliance upon Regulation S under the Securities Act. There may also be restrictions under United States federal tax laws on the offer or sale of Covered Bonds to U.S. persons except in accordance with United States Treasury regulations as set forth in the applicable Final Terms. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.
Use of Proceeds:	Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.
Status of the Covered Bonds:	The Covered Bonds issued under the Programme will constitute direct, unconditional and unsubordinated and secured obligations of the Issuer and will rank *pari passu* among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer for issues under the Programme and in accordance with the terms of the Covered Bonds Law. Such cover assets pool is autonomous from any other cover pool maintained by the Issuer in relation to any other programmes that it has or may establish in the future and it is allocated to the issue of Covered Bonds under this Programme only. See *Characteristics of the Cover Pool*.
Terms and Conditions of the Covered Bonds:	Final Terms will be prepared in respect of each Tranche of Covered Bonds, completing the Terms and Conditions of the Covered Bonds set out in *Terms and Conditions of the Covered Bonds*.
Clearing Systems:	Interbolsa (together with any other clearing system which may be chosen from time to time, the "**Clearing System**") and/or, in relation to any Series of Covered Bonds, any other clearing system as specified in the relevant Final Terms. See *Form of the Covered Bonds and Clearing Systems*.
Form of the Covered Bonds:	The Covered Bonds are intended to be held through Interbolsa and will be in book-entry form (*forma escritural*) and *nominativas* (which means that Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer), and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. See Form of the Covered Bonds and Clearing Systems.
Transfer of Covered Bonds:	The Covered Bonds may be transferred in accordance with the provisions of the relevant Clearing System or other central securities

depositary with which the relevant Covered Bond has been registered. The transferability of the Covered Bonds is not restricted.

Maturity Date:

The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than two years or in excess of 50 years. See also *Extended Maturity Date*.

Issue Price:

The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.

Insolvency Event:

If an Insolvency Event in respect of the Issuer occurs, pursuant to the Covered Bonds Law the holders of Covered Bonds may approve a Resolution to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest, without prejudice to the applicability of the pass-through provision, as described under Condition 6. of the *Terms and Conditions of the Covered Bonds*.

Negative Pledge:

None.

Cross Default:

None.

Guarantor:

None.

Fixed Rate Covered Bonds:

Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds:

Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:

- on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("**ISDA**") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or
- on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.

In the event a Benchmark Event occurs (a) a Successor Rate or, failing which, an Alternative Reference Rate, and (b) in either case, an

Adjustment Spread may be used for the purposes of determining the Rate of Interest.

Zero Coupon Covered Bonds:

Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.

Redemption:

The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (*i*) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the Covered Bonds Law (see *The Covered Bonds Law*) and in the pass-through provisions under Condition 6., or (*ii*) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer (as applicable), on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). See also *Extended Maturity Date*. The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are specified in the applicable Final Terms.

Extended Maturity Date:

An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series.

Such Extended Maturity Date, as defined in the Final Terms of each Series of Covered Bonds, will apply if a Pass-through Event occurs. In this case the maturity of the principal amount outstanding of all Covered Bonds issued under the programme will automatically extend to the relevant Extended Maturity Date. In that event, the Issuer and/or any entity managing the Cover Pool will redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date after the Pass-through Date up to and including the Extended Maturity Date in accordance with the Pass-Through provision as described under Condition 6. of the Terms and Conditions.

Following the occurrence of a Pass-through Event, Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Pass-through Date to (but excluding) the earlier of the Interest Payment Date on which the Covered Bonds are redeemed in full and the Extended Maturity Date. Interest will be payable on each Interest Payment Date following the Pass-through Date in respect of the Interest Period ending immediately prior to such Interest Payment Date or as otherwise provided for in the applicable Final Terms at the rate provided for in the applicable Final Terms.

Covered Bonds may for the purposes of the Programme be:

(a) Fixed Rate Covered Bonds, Zero Coupon Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Issue Date to (and including) the Maturity Date or the Pass-through Date, as applicable; or

(b) Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from (but excluding) the Pass-through Date to (and including) the Extended Maturity Date, as set out in the

applicable Final Terms.

In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Pass-through Date, the initial outstanding principal amount on the Pass-through Date for the above purposes will be the total amount otherwise payable by the Issuer on that date in accordance with Condition 6.7.

Pass-through Covered Bonds:

If a Series of Covered Bonds has not been repaid in full on its Maturity Date or within two Business Days thereafter or an Insolvency Event in respect of the Issuer occurs (both constituting a "**Pass-through Event**"), the maturity of all outstanding Series of Covered Bonds issued under the Programme is deferred until the Extended Maturity Date, as defined in the relevant Final Terms, and all outstanding Series of Covered Bonds issued under the Programme become pass- through Covered Bonds in the Pass-through Date. See *Terms and Conditions of the Covered Bonds*.

Pass-through redemption undertakings:

The Issuer and/or any entity managing the Cover Pool will be obliged to use and employ its best efforts to sell (in whole or in part) assets comprised in the Cover Pool along commercial acceptable terms then possible in order to redeem, to the extent possible, the Covered Bonds prior to the relevant Extended Maturity Date, provided such sale and subsequent redemption of the respective Covered Bonds will not result in a reduction in Overcollateralisation under the prescribed Overcollateralisation Percentage outlined in Condition 15.1. Failure by the Issuer and/or any entity managing the Cover Pool to sell or refinance the assets comprised in the Cover Pool will not constitute an event of default.

Covered Bonds with a Repurchase Commitment:

If a Repurchase Commitment is specified in the applicable Final Terms for a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on the Repurchase Date at par plus accrued interest (or any other repurchase amount as specified in, or determined in the manner specified in, the applicable Final Terms for such Series of Covered Bonds), if so requested by the holders of such Series of Covered Bonds which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to two Business Days after the Maturity Date. This undertaking does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-compliance by the Issuer with such undertaking will not constitute an event of default under such Terms and Conditions. See *Repurchase Commitment*.

Denomination of Covered Bonds:

The Covered Bonds will be issued in denomination per unit equal to or higher than €100,000 (or its equivalent in another currency, all calculated as described under *General Description of the Programme*) as specified in the relevant Final Terms, subject to compliance with the applicable legal and/or regulatory and/or central bank requirements and provided that each Series will have Covered Bonds of one denomination only.

Reserve Account:

While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Account Bank on behalf of the Programme and which will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for

the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times. The Issuer will be required to maintain at all times in the Reserve Account funds in an amount sufficient to reach the Total Target Reserve Amount. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may release the excess amounts.

The Account Bank will at all times have the minimum rating and comply with other requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool. The Reserve Account will form part of the Cover Pool associated with the Programme, provided that the amounts standing to the credit of such Reserve Account (together with the remaining Other Assets) do not at any time exceed 20 per cent. of the value of the mortgage loans and other eligible assets allocated to the Cover Pool.

Funds held in the Reserve Account, given their nature of Cover Pool assets, are available to meet amounts due in relation to the Covered Bonds and shall not be applied towards a partial principal redemption of the Covered Bonds prior to their Extended Maturity Date, subject to Conditions 6.8 and 6.9. See *Terms and Conditions of the Covered Bonds*.

At the Issuer's option, the Reserve Account may be replaced by a liquidity facility, through a Liquidity Facility Agreement to be settled with a Liquidity Facility Provider pursuant to which the Issuer will be entitled to make liquidity drawings equal to the interest payable on the Covered Bonds on any Interest Payment Dates following the occurrence of a Liquidity Event up to a maximum amount equal to Total Target Reserve Amount. This replacement will be subject to the confirmation that it will not result in any credit rating then assigned to the Covered Bonds by the Rating Agencies being reduced, removed, suspended or placed on credit watch.

Liquidity Facility Provider:

An eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

Benchmark Discontinuation:

In the event a Benchmark Event occurs (a) a Successor Rate or, failing which, an Alternative Reference Rate, and (b) in either case, an Adjustment Spread may be used for the purposes of determining the Rate of Interest.

Taxation of the Covered Bonds:

All payments in respect of the Covered Bonds will be made without deduction for, or on account of, withholding taxes imposed by any jurisdiction, unless the Issuer shall be obliged by law to make such deduction or withholding and provided that the Covered Bonds holders deliver, *inter alia*, certain tax certifications. The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. See *Taxation*.

The Covered Bonds Law:

The Covered Bonds Law introduced into Portuguese law a framework for the issuance of certain types of asset covered bonds. Asset covered

bonds can only be issued by (*i*) credit institutions licensed under the Credit Institutions General Regime or (*ii*) by special credit institutions created pursuant to the Covered Bonds Law, whose special purpose is the issue of covered bonds. The Covered Bonds Law establishes that issuers of mortgage covered bonds shall maintain a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, over which the holders of the relevant covered bonds have a statutory special creditor privilege.

The Covered Bonds Law also provides for (*i*) the inclusion of certain hedging contracts in the relevant cover pool and (*ii*) certain special rules that apply in the event of insolvency of the Issuer. The Covered Bonds Law and the Bank of Portugal Regulations further provide for (*i*) the supervision and regulation of issuers of covered bonds by the Bank of Portugal, (*ii*) the role of a cover pool monitor in respect of each issuer of covered bonds and the relevant cover pool maintained by it, (*iii*) the role of the common representative of the holders of covered bonds, (*iv*) restrictions on the types and status of the assets comprised in a cover pool (including loan to value restrictions, weighted average interest receivables and weighted average maturity restrictions), and (*v*) asset/liability management between the cover pool and the covered bonds. See *Characteristics of the Cover Pool*, *Insolvency of the Issuer*, *Common Representative of the Holders of Covered Bonds* and *The Covered Bonds Law*.

The Covered Bonds issued by the Issuer will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law. The Covered Bonds will be senior obligations of the Issuer and will rank equally with all other Covered Bonds which may be issued by the Issuer. In the event of an insolvency of the Issuer, the holders of the Covered Bonds issued by the Issuer, together with the Other Preferred Creditors, will have recourse under the Covered Bonds Law to the Cover Pool in priority to other creditors (whether secured or unsecured) of the Issuer who are not preferred creditors under the Covered Bonds Law. See *Characteristics of the Cover Pool* and *Insolvency of the Issuer.*

Governing Law:

Unless otherwise specifically provided (as is the case of the Reserve Account Agreement), the Covered Bonds and all other documentation and matters relating to the Programme, including any non-contractual obligations arising out of, or in connection with, the Covered Bonds or the Programme, are governed by, and will be construed in accordance with, Portuguese law.

Jurisdiction:

The courts of Lisbon, Portugal are to have jurisdiction to settle any disputes (including any non-contractual obligations) which may arise out of or in connection with the Covered Bonds or the Programme (except in respect of the Reserve Account Agreement, where the applicable exclusive jurisdiction is of the English courts) and, accordingly, any suit, action or proceedings arising out of or in connection with the Covered Bonds or the Programme may be brought in such courts, to the extent not mandatorily resulting otherwise from any applicablelaws.

RISK FACTORS

The following is a description of the main risks associated with an investment in the Covered Bonds issued under the Programme. These risk factors are material to an investment in the Covered Bonds and in the Issuer. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Prospective investors in the Covered Bonds should carefully read and consider all the information contained in this Base Prospectus, including the risk factors set out in this section, prior to making any investment decision. The Issuer believes that the factors described below identify the risks that are considered more relevant prior to the issuance of the Covered Bonds, based on the probability of their occurrence and on the expected extent of their negative impact, should they occur. Although these are the specific risks which are considered to be more significant and capable of affecting the Issuer's ability to meet its obligations in relation to the Covered Bonds, they may not be the only risks to which the Issuer is exposed, and the Issuer may be unable to make payments on or in connection with any Covered Bonds for other reasons or for the identified risks having materialised differently. The Issuer does not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. Additional risks or uncertainties not presently known to the Issuer or which the Issuer currently considers immaterial may also have an adverse effect on the Issuer's ability to make payments on or in respect of the Covered Bonds. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus or incorporated by reference herein and make their own assessments prior to making any investment decision.

Words and expressions defined in "Definitions" below shall have the same meaning in this section.

INTRODUCTION

The risk factors described below may affect the Issuer's ability to fulfil each of the obligations under the Covered Bonds. The risk factors have been organised into the following categories:

1. Risks relating to the Issuer
    - A. Risks relating to the Economic and Financial Environment;
    - B. Risks relating to the Issuer's Business;
    - C. Legal and Regulatory Risks;
    - D. Tax and Accounting Risks;
2. Risks relating to the Covered Bonds issued under the Programme
    - A. Risks relating to the Nature of the Covered Bonds;
    - B. Risks relating to the Nature of the Covered Pool;
    - C. Risks relating to the Market generally;
    - D. Risks relating to Tax and other Relevant Laws;
    - E. Risks related to the Structure of a particular issue of Covered Bonds.

Within each category, the most material risks, in the assessment of the Issuer, are set out first. The Issuer has assessed the relative materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact. The order of the categories does not imply that any category of risk is more material than any other category. Prospective investors should read the detailed information set out in this Base Prospectus (including the documents incorporated by reference herein), in conjunction with each of the risk factors described below, and reach their own views prior to making an investment decision.

1. RISKS RELATING TO THE ISSUER

A. Risks relating to the Economic and Financial Environment

The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic

A widespread pandemic of the severe respiratory syndrome coronavirus 2 (SARS-CoV-2) and of the infectious disease Covid-19, caused by the virus, is currently taking place worldwide, affecting a large portion of the global population.

The impact of Covid-19 on global markets has been wide-ranging, with increasing short-term volatility and a slow-down in economic growth worldwide. Although the full implications of the Covid-19 outbreak are not yet entirely determined, it is already foreseeable that the pandemic will have a material adverse impact on the Portuguese economy and on the Portuguese market, as well as in the markets of other jurisdictions where NOVO BANCO operates.

The Bank of Portugal foresees a recession of the Portuguese economy in 2020, with GDP growth of -9.5% (Source: Bank of Portugal, Economic Bulletin, June 2020). The gradual lifting of containment measures in a context of relative pandemic control is likely to result in the recovery of economic activity from the third quarter of 2020 onwards. Thus, GDP is estimated to grow by 5.2% in 2021 and 3.8% in 2022 (Source: Bank of Portugal, Economic Bulletin, June 2020).

The pandemic has led various countries, including Portugal, to declare a state of emergency and to adopt different restraining measures (including constitutional exception measures), such as the imposition of travel restrictions, the establishment of quarantines and the temporary shutdown of various institutions and businesses. As a result, the global economy is expected to contract sharply in 2020, with the IMF projecting a contraction of -3%.

On 14 April 2020, the IMF announced that it expected a more severe recession, with a contraction of -8% of the Portuguese GDP in 2020 (Source: IMF, WEO, April 2020), as the pandemic and the necessary lockdown measures had aggravated. In 2021, both the IMF and the Bank of Portugal foresee a gradual recovery of the Portuguese economy. However, this scenario is still uncertain and there is a possibility that the impact of the pandemic crisis will be of a more persistent nature, associated with the deterioration of the Portuguese economy's productive capacity. In addition, although the shock is expected to have peaked in the second quarter of 2020, with a gradual normalisation from the second half of the year onwards, the possibility of a second wave and the non-existence of an effective vaccine/treatment, introduces considerable uncertainties on the future outlook for Portugal and worldwide.

Accordingly, several financial institutions worldwide, including NOVO BANCO, have taken unprecedented measures, such as having the vast majority of its employees working remotely. An outbreak of the virus amongst NOVO BANCO's employees or within its facilities, or any quarantines affecting NOVO BANCO's employees, may reduce NOVO BANCO personnel's ability to carry out their work as usual.

Furthermore, the current Covid-19 pandemic and any potential future outbreaks may also have a material adverse effect on NOVO BANCO's counterparties and/or clients, resulting in additional default risk in the performance of the obligations assumed by them before NOVO BANCO and ultimately exposing NOVO BANCO to an increased number of defaults and insolvencies among its counterparties and/or clients.

Measures implemented by the Portuguese Government in the context of the pandemic may adversely affect NOVO BANCO's activity. Amongst the measures already adopted by the Portuguese Government which can have an impact on NOVO BANCO is a moratorium on loan payments (capital and/or interest), until 30 September 2020, implemented by Decree-Law No. 10-J/2020, of 26 March, and since extended until 31 March 2021, with interested entities being able to request access to the moratorium until 30 September 2020 (following the approval of Decree-Law 26/2020, of 16 June and Law 27-A/2020 of 27 July) (which, for the avoidance of doubt, does not imply a cancellation or pardon of any amounts). On 24 September 2020, the Portuguese Government announced it would extend the moratoria until 30 September 2021, in certain cases. The moratorium is available for individuals (in particular, borrowers

and entrepreneurs (*empresários em nome individual*)) and companies (except for companies in the financial sector, besides certain third sector entities who can also adhere), depending on the fulfillment of certain conditions and, as such, may also be requested by borrowers whose loans are included in the Cover Pool. Decree-Law No. 10-J/2020, of 26 March, as amended also foresees the granting of guarantees by the Portuguese State, including to non-financial corporate entities, subject to certain conditions. For further details on the moratorium on loan payments see "*The Portuguese Mortgage Market and the Servicing of the Cover Pool*" below.

On 2 April 2020, the European Banking Authority ("**EBA**") issued guidelines (EBA/GL/2020/02) on public and private payment moratoria on loan repayments applied before 30 June 2020, aiming to clarify the following points in the context of the Covid-19 pandemic: (i) the criteria that payment moratoria have to fulfil not to trigger forbearance classification, (ii) the application of the prudential requirements in the context of these moratoria and (iii) ensuring the consistent treatment of such measures in the calculation of own funds requirements. In this context, these guidelines clarify that payment moratoria do not trigger classification as forbearance or distressed restructuring if the measures taken are based on the applicable national law or on an industry or sector-wide private initiative agreed and applied broadly by the relevant credit institutions. In addition, the Guidelines recall that institutions must continue to adequately identify those situations where borrowers may face longer-term financial difficulties and classify exposures in accordance with the existing regulation. The requirements for identification of forborne exposures and defaulted obligors remain in place. The application of the Guidelines was since extended to 30 September 2020 and, on 21 September 2020, EBA announced it would phase out its applicability in accordance with the end of September deadline. The regulatory treatment set out in the Guidelines will continue to apply to all payment holidays granted under eligible payment moratoria prior to 30 September 2020, thus avoiding cliff effects risks of having to reclassify existing loans abruptly at a later stage. NOVO BANCO can continue supporting their customers with extended payment moratoria also after 30 September 2020, such loans should be classified on a case-by-case basis according to the usual prudential framework.

Following the issue by the EBA, on 2 April 2020, of guidelines on public and private moratoria on loan operations in the light of the Covid-19 pandemic (EBA/GL/2020/02), on 16 April 2020, the members of the Portuguese Banking Association ("*Associação Portuguesa de Bancos*") (including NOVO BANCO) signed a protocol setting the basis for two types of private moratoria, both of which are for individuals who may be residents or non-residents in Portugal. One covers non-mortgage loans (i.e. personal or car loans) and the other mortgage loans.

Further measures implemented by the Portuguese Government or adopted by NOVO BANCO at its own initiative in order to mitigate the impact of the ongoing outbreak may affect NOVO BANCO and it is not possible at this stage to assess all the specific measures that will be implemented to contain the effects of the Covid-19 pandemic.

The Covid-19 pandemic, and any potential future outbreaks, may also have an adverse impact on the real estate market, including a decrease in the value of real estate assets, which could negatively affect NOVO BANCO's pool of real estate assets, as well as the Cover Pool. Temporary measures to curb the ongoing pandemic in Portugal include a temporary suspension of foreclosures of mortgages over real estate property used for permanent residence.

Any of these factors may have a material adverse effect on the NOVO BANCO's business, financial condition results of operations and prospects, therefore affecting the NOVO BANCO's ability to make the payments under the Covered Bonds.

Temporary framework relating to Covid-19 in Portugal

Changes in Portuguese legislation regarding banking commissions

Decree-law No. 10-H/2020, of 26 March 2020, established exceptional and temporary measures, in place until 30 June 2020, to promote the acceptance of card-based payments in the context of the Covid-19 pandemic. It establishes: (i) the suspension of the collection of the fixed component of any commission, for card payment transactions at automatic payment terminals; (ii) the prohibition of payment service providers from making increases in the variable components of fees per transaction, as well as other fixed fees which are due for the use of automatic payment terminals in card payment transactions and (iii) the prohibition of payment service providers from including in their pricing the possibility to charge for new fixed or variable fees relating to the acceptance of card payment transactions made at automatic

payment terminals. Law no. 7/2020, of 10 April 2020, as amended, establishes exceptional and temporary measures in the context of the Covid-19 pandemic, including the suspension, under certain circumstances, of the commission charged in payments made through digital platforms.

Apart from the temporary framework relating to the Covid-19 pandemic, other laws have recently been published, notably Law No. 44/2020, of 19 August, Law No. 53/2020, of 26 August and Law No. 57/2020, of 28 August, introducing limitations in relation to the charging of banking commissions in regards to certain banking operations and other laws may be further implemented in order to limit or suspend other type of commissions.

This and further limitations or reductions of commissions charged by banks in Portugal may adversely affect the business and performance of NOVO BANCO.

*Relief measures regarding asset quality deterioration and non-performing loans (**NPL's**)*

Following the Covid-19 pandemic, Banco de Portugal has relaxed some of the macroprudential measures for consumer credit. Banco de Portugal has decided that personal credit with maturities of up to two years and duly identified as intended to mitigate households' temporary liquidity shortage situations will no longer have to comply with a debt service-to-income ratio limit and is also exempted from observing the recommendation of regular principal and interest payments. This measure applies to new personal credit granted from 1 April 2020 until September 2020, date on which Banco de Portugal will reassess the adequacy of this change.

Under the Decree-Law No. 10-J/2020, of 26 March 2020, the Portuguese government approved a six-month moratorium on bank loan repayments for households and companies affected by the COVID-19 outbreak. Following the approval of Decree-Law 26/2020, of 16 June and Law 27-A/2020 of 27 July, the moratorium has been extended until 31 March 2021, with interested entities being able to request access to the moratorium until 30 September 2020. On 24 September 2020, the Portuguese Government announced it would extend the moratoria until 30 September 2021, in certain cases. The Portuguese Government also launched state-guaranteed credit lines for medium, small and micro enterprises in affected sectors which will be operated through the banking system.

In this context, the European Central Bank ("**ECB**") decided to temporarily exercise flexibility in the classification requirements and expectations on loss provisioning for NPLs that are covered by public guarantees and Covid-19 related public moratoria.

In particular, and on a temporary basis, supervisors will exercise flexibility regarding: (i) the classification of debtors as "unlikely to pay" when banks call on public guarantees granted in the context of coronavirus and (ii) loans under Covid-19 related public moratoria. Furthermore, loans which become non-performing and are under public guarantees will benefit from preferential prudential treatment in terms of supervisory expectations about loss provisioning. Lastly, when discussing with banks the implementation of NPL reduction strategies, the extraordinary nature of current market conditions will be taken into account.

In addition, excessive volatility of loan loss provisioning should be addressed to avoid excessive procyclicality of regulatory capital and published financial statements. Within its prudential remit, the ECB recommended that all banks avoid procyclical assumptions in their models to determine provisions and for banks to opt for the IFRS 9 transitional rules.

The implementation of these legal initiatives or other similar/broader initiatives that may arise in the future, and which content is unknown, may impact NOVO BANCO's business, financial condition, net income, capital, RWA and prospects.

Moratoria on loan repayments

Decree-Law No. 10-J/2020, of 26 March 2020, as amended, establishes extraordinary measures for debt protection in the context of the Covid-19 pandemic, to which a range of borrowers may adhere. Moratoria measures include: (i) prohibition of revocation of contracted credit lines and granted loans; (ii) extension of contracts with capital payment at the end of the contract; (iii) suspension of payments in respect of claims which are to be repaid in instalments or in respect of other instalments (and adjustment of the instalments calendar accordingly) and (iv) suspension of interest due during the extension period which will be capitalised into the value of the loan. Following the approval of Decree-Law 26/2020, of 16 June and Law 27-A/2020 of 27 July, the moratoria will remain in force until 31 March 2021, with interested

entities being able to request access to the moratorium until 30 September 2020. On 24 September 2020, the Portuguese Government announced it would extend the moratoria until 30 September 2021, in certain cases. Regarding loan moratoria, by the end of June 2020, NOVO BANCO approved operations amounting to €6,800,000,000, comprising more than 38 thousand clients. About 67% of the amount were from companies, 30% related to residential mortgage loans moratorium and the remaining related to consumer loans and other. See also above the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*". For further details on the moratoria on loan repayments see *"The Portuguese Mortgage Market and the Servicing of the Cover Pool"* below.

The implementation of these legal initiatives or other similar/broader initiatives that may arise in the future, and which content is unknown, may impact NOVO BANCO's business, financial condition, net income, capital, RWA and prospects (most notably after the end of moratoria when clients will be required to revert to usual payment of instalments and the prudential temporary framework for NOVO BANCO will likely not apply). Furthermore, the implementation of measures such as the abovementioned legal moratoria may negatively impact the amount of interest collections available to service payments on the Covered Bonds in case a Pass-Through Event occurs.

Some of the supervisory measures applied by the ECB to banks are temporary in nature, i.e., until further notice, creating further uncertainty. The ECB has acknowledged that it will monitor the situation and review this stance when the economic and financial distress related to Covid-19 fades. Similarly, Banco de Portugal has highlighted the heightened uncertainty about the magnitude and duration of the outbreak.

Risks relating to the Portuguese economy

As a financial group whose core business is banking (taking deposits and granting credit) operating mainly in Portugal, the NOVO BANCO Group is dependent on the performance of the Portuguese economy. Moreover, in the last two years the NOVO BANCO Group registered a stabilisation of the proportion of the business it conducts in Portugal, as it focused on its core retail and corporate banking business in Portugal and having divested from its non-core operations abroad, including as required by the commitments undertaken by the Portuguese State towards the European Commission ("**EC**"). For more information on such commitments, see the risk factor entitled "*The NOVO BANCO Group is subject to the commitments undertaken by the Portuguese State to the EC, and a failure to achieve the commitments may result in further corrective measures being implemented*" below. As at 31 December 2019 and 31 December 2018, approximately 90.0% and 91.7% respectively, of the NOVO BANCO Group's consolidated net assets related to its business activities in Portugal, and 87.8% and 97.0% of net income was generated by the operations in Portugal. Consequently, the business of the NOVO BANCO Group is particularly exposed to macroeconomic conditions, which affect growth, particularly in the Portuguese market, which in turn are affected by both domestic and international economic and political events. Furthermore, because the Group has significant exposure to large corporate and small and medium-sized enterprise ("**SME**") lending, the performance of which is closely linked to both trends in the economy and export activity, the Group could be more heavily affected by macroeconomic conditions in Portugal than other Portuguese banks with less exposure to the large corporate and SME segments.

In 2011 the Economic Adjustment Programme (the "**Financial Assistance Programme**") was created by a memorandum of understanding on financial assistance with the International Monetary Fund ("**IMF**"), the EC and the "ECB to address deteriorating economic conditions in Portugal stemming from the global financial crisis of 2007/2008. The performance of the Portuguese economy between 2011 and 2014 was highly dependent on the implementation of the Financial Assistance Programme. The need to reduce the public deficit was addressed by the adoption of very restrictive budgetary policies, with negative impacts on economic activity in the near term.

Economic conditions in Portugal have since then improved, with the Portuguese economy performing strongly up until the end of February 2020. However, the economic situation changed dramatically in March, when the Covid-19 pandemic hit. Authorities announced containment measures on 12 March and a state of emergency was declared on 18 March, with further restrictions on mobility. The Portuguese Government implemented a comprehensive package of measures, addressing the immediate health policy challenges and implementing social distancing measures. The package also included measures to

counter the negative economic impact of Covid-19, e.g. guarantee programmes for affected companies and income support measures. The economic and fiscal impact will depend on the duration and the magnitude of disruption at global and regional levels and the related policy response.

Economic activity reversed sharply with those significant disruptions, particularly to the country's large hospitality industry. Consequently, the gross domestic product ("**GDP**") fell by 3.8% quarter-on-quarter (2.3% year-on-year) in 2020-Q1 despite very positive data in the first two months of the year. Economic performance deteriorated at a much steeper pace of 14.1% quarter-on-quarter (16.5% year-on-year) in 2020-Q2 reflecting strong contractions in most of economic sectors (Source: Statistics Portugal). Tourism has been the most dramatically affected, with visits collapsing by almost 100% in April relative to a year earlier.

With the confinement starting to ease in May, economic activity is slowly picking up but for many businesses, such as airlines and hotels, it is expected to remain well below its pre-pandemic level over a longer period. In this context, after growing by 2.2% in 2019, the Portuguese economy may contract by around 9.8% in 2020, rebounding by 6% in 2021 (Source: European Commission Summer Forecast, July 2020).

The risks are still tilted to the downside, due to the large impact of foreign tourism, where the uncertainties over the medium term remain significant. A second wave of infections, leading to a reintroduction of more restrictive measures on activity and/or worsening of the health crisis in other European countries and worldwide, would see much larger declines in output in 2020 and potentially a weaker recovery in 2021. Such a scenario would exacerbate negative spill overs to the labour market, banking sector and public finances.

Unemployment rose from 6.2% in March to 7% of the labour force in June (Source: Statistics Portugal), a relatively contained deterioration, as temporary dismissals did not have an immediate statistical impact and government short-term work schemes also helped offset the shock. Many of the job cuts are likely to be temporary, but the expected slow recovery in tourism and related services is likely to have a negative impact on labour demand over a longer period. The unemployment rate is therefore set to rise from 6.5% in 2019 to about 9.5% in 2020 before improving to around 7.5% in 2021 (Source: European Commission Spring Forecast, May 2020).

It is expected that the economic and social consequences of the Covid-19 pandemic will cause a sizeable deterioration in the general government balance in 2020, reflecting the operation of the automatic stabilisers and the need for significant fiscal policy support. A general government deficit of 6.9% of GDP is projected for 2020 (Source: Ministry of Finance, June 2020), with the deterioration driven by increases in most expenditure items (particularly subsidies and social transfers), as well as decreases in current revenue reflecting a strong contraction in the relevant tax bases. Risks to the budgetary forecast are tilted to the downside, linked to uncertainties surrounding the country's epidemic evolution and the persistence of its economic and social effects, as well as the surge in public contingent liabilities on top of non-negligible pre-existing levels partly related to potential further fiscal impacts of additional bank support measures. The public debt ratio is expected to reach 134.4% of GDP in 2020 (Source: Ministry of Finance). For further details concerning the impacts of the Covid-19 pandemic see the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*" above).

Economic growth, the improvement in public accounts and the stabilization of the banking sector led to upgrades in the Portuguese sovereign rating by Fitch in December 2017 (from BB+ to BBB), having from April 2020 a "stable" outlook. Moody's also upgraded Portuguese sovereign long-term debt rating (from Ba1 to Baa3, stable outlook) in October 2018, having revised the outlook to "positive" in August 2019, and confirmed it in April 2020. Similarly, S&P upgraded Portugal rating from BBB- to BBB (stable outlook) in March 2019 with the outlook revised to "positive" in September 2019 and revised again to "stable" in April 2020. In October 2019, DBRS upgraded Portugal's sovereign long-term rating to BBB (high) after having upgraded it from BBB- to BBB in April 2018, and having the current "stable" outlook been affirmed in March 2020. With these decisions, Portugal's sovereign debt is considered investment grade by all main rating agencies. So, in the context of the Covid-19 pandemic, Fitch and S&P both revised the outlook from "positive" to "stable" in April 2020. These actions reflect the significant impact of the global Covid-19 pandemic on the Portuguese economy and the sovereign's fiscal position. According to Fitch, the shock is likely to interrupt previous improving trends in

economic growth, public debt-to-GDP, and resilience in the banking sector. Portugal's small and open economy, with its high dependence on tourism, is exposed to downside risks from the severity of the Covid-19 pandemic, particularly if the country's lockdown persists for a prolonged period.

With the economy expanding and credit agencies upgrading their rating of Portuguese sovereign debt, interest costs have declined. After peaking at 17% at the beginning of 2012, long-term interest rates on government bonds fell to a minimum of 0.07% in August 2019 (Source: Bloomberg). Debt-servicing costs have also been reduced by the ongoing amortization of bonds that were issued at higher interest rates during the financial crisis. Under a scenario of stable interest rates, debt-servicing costs should decline, given there is still a pipeline of high-cost public debt that is scheduled to mature over the coming years. However, a rise in interest rates could increase the cost of debt servicing. Since mid-March 2020, long-term sovereign debt yields have increased, to levels above 1% in late April, reflecting some uncertainty about the strength of the common response, at the European level, to the Covid-19 crisis. This increase has been common to the other peripheral economies of the Euro area, namely those – like Italy and Greece – with higher public debt-to-GDP ratios. The approval of the EU Recovery Fund (Next Generation EU) by the European Council on the 21st July 2020 has led to a visible reduction of the spread between peripheral economies' debt yields vs. Germany. With a total size of EUR 750bn (EUR 390 bn as grants and EUR 360 bn as loans), the EU Recovery Fund was perceived as a key step towards deepening European fiscal integration and an important instrument to promote a more robust recovery of activity in Europe. In this context, the yield of the Portuguese government 10-year bond decreased to 0.35% in the end of July 2020.

Independent of the Covid-19 measures, there were pressures on the expenditure side of the budget, in particular on compensation of employees, as well as on pension and healthcare spending. The high public debt-to-GDP ratio was expected to continue decreasing to around 100% by 2023, according to the 2019 Stability Programme. Thereafter, the path of public debt will be highly dependent on the pace of fiscal consolidation and the Portuguese Government's ability to introduce new measures that offset the rising costs of ageing.

The Portuguese economy continues to be characterised by high levels of public and private debt, among other factors, and thus remains vulnerable to negative external shocks. A deterioration of investor sentiment associated with political, geopolitical and financial market uncertainty could increase volatility in global financial markets and have a negative impact on financing conditions. Risks to the outlook thus include a tightening in financial conditions, particularly an increase in interest rates, potentially stemming from a lack of confidence in the power and efficiency of the European coordinated response to the Covid-19 crisis. The ECB announced a new Pandemic Emergency Purchase Programme ("**PEPP**"), which will have an overall envelope of EUR 1350 billion, and that could be increased. Purchases will be conducted until the end of 2020 – could be extended – and will include all the asset categories eligible under the existing asset purchase programme ("**APP**"), aiming at eliminating any risks to the smooth transmission of its monetary policy in all jurisdictions of the Euro area. The ECB will be flexible conducting these purchases, and it will accept some bonds below investment grade as collateral for its loans, in order to ensure Euro area banks can access central bank cash during the coronavirus pandemic. To qualify as collateral, the bonds must have been rated as investment grade on April 7, 2020 (by at least one rating agency recognised by the ECB). This new instrument should contribute to contain any significant increase of Portuguese bond yields, even if it would be downgraded to levels below investment grade. However, the ECB's monetary policy has come under scrutiny after the German Constitutional Court ruled that some aspects of the institution's earlier bond-buying program are not backed by EU treaties and needed to be fixed. Worries that more similar lawsuits could undermine the ECB's PEPP have fuelled unease and uncertainty in European sovereign debt markets, and its future intervention could become more conditioned.

The EC had underlined that the Covid-19 crisis risks leading to a further widening of economic divergences in the EU. While the Covid-19 pandemic is a symmetric shock, the impacts differ across Member States, reflecting the severity of the pandemic and stringency of related containment measures, different exposures due e.g. to the size of the tourism sector, and the available space for discretionary fiscal policy responses. The EC emphasized the need for a strong European recovery plan, that can complement national action to compensate for the differences in the policy space among Member States. The risk otherwise is that the crisis will lead to severe distortions within the single market of the European Union and to entrenched economic, financial and social divergences between Euro area

Member States that could ultimately threaten the stability of the Economic and Monetary Union.

Domestic risks also include potential economic and fiscal impacts of the ongoing adjustments in the banking sector in Portugal, given the still high stock of non-performing exposures and the constraints to the banks' profitability. The stock of NPLs has consistently declined (from a peak of 17.9% of total loans in June 2016 to 6.1% in December 2019 (Source: Bank of Portugal, Portuguese Banking System Statistics, April 2020). However, the ratio of NPLs to total loan exposures is still relatively high, weighing on banks profitability.

Concerns relating to macroeconomic conditions in Portugal, including regarding Portuguese public finances and political and social stability, have affected and may continue to affect the business and results of operations of financial institutions in Portugal, including the Bank and other members of the NOVO BANCO Group. For example, difficulties in achieving further structural fiscal consolidation could prevent further improvements in economic conditions. The parliamentary elections that took place in October 2019 did not return a parliamentary majority of any of the parties and the current Portuguese Government, led by the Socialist Party, may have difficulties in the future in gaining parliamentary support, including for the approval of State Budgets. These factors could impair the implementation of certain economic policies, and in turn, could affect the long-term growth potential of the Portuguese economy, thereby reducing the prospective profitability of the Bank's business. All of these factors could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

These concerns may result in, among other things, static or worsening economic conditions in Portugal, lower market values for Portuguese sovereign debt, limited liquidity in the Portuguese banking system, decreased demand for banking products, increased competition for, and thus cost of, customer deposits, limited credit extension to customers and a deterioration of credit quality. Macroeconomic conditions also adversely affect the behaviour and financial condition of the Group's customers given, for example, lower demand for credit or increased credit risk and defaults, and consequently impact the supply and demand for the products and services that the Group offers and therefore overall business volumes and profitability. In particular, and despite the economic progress since 2014, the high unemployment rates, the low profitability and the high level of indebtedness of many companies will likely continue to have a negative influence on the ability of the NOVO BANCO Group's customers to pay back loans, which, consequently, could cause an increase in overdue loans and in impairments related to loans and other financial assets. The support measures announced by the Portuguese Government in the context of the Covid-19 pandemic (mainly a sector-wide debt moratorium on interest and principal payments for at least six months), in addition to European-level support will underpin banks' asset quality in the short term and, to a lesser extent, revenue generation. However, a longer-than-expected crisis would threaten the banking sector's viability.

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

Risks relating to international economic and financial conditions

The NOVO BANCO Group's businesses and performance are being and may continue to be negatively affected by current local and global economic conditions and adverse perceptions of those conditions and future economic prospects.

External risks include changes in the framework of the EU, or uncertainties or consequences arising from the United Kingdom's exit from the EU (commonly referred to as "Brexit") in January 2020, including the possibility that other Member States may seek to leave the EU in the future, or any other significant changes to the structure of the EU and/or European Monetary Union, as well as the increased shift in the focus of some national governments toward more protectionist or restrictive economic and

trade policies, which in some cases have led to the imposition of trade tariffs.

Sustainable economic growth in the Euro area continues to be a challenge in certain countries of the Euro area, including Portugal. Slow economic growth or recession in major EU economies, the restructuring or default by an EU Member State on its sovereign debt obligations or withdrawal from the Eurozone, could significantly increase volatility and uncertainty in financial and currency markets. Prolonged political instability in some European countries, rising populism and anti-integration movements in Europe could be reflected in a deterioration of market sentiment towards Portugal. It is not yet possible to determine the total impact that the United Kingdom's departure from the EU and/or any related matters may have on the Group. Furthermore, the process of the United Kingdom departing from the EU may introduce significant new uncertainties and instability in financial markets, as well as political instability in Europe, and it may materially affect the economies of countries, including Portugal, which have political and economic ties with the United Kingdom. For further details see the risk factor entitled "*The United Kingdom's departure from the EU could adversely affect the Bank's activity*" below.

A trade war that results in a significant increase in policy barriers to trade between the European Union and other large economies, such as the US, could additionally deteriorate the outlook for activity, given the economy's increased reliance on the external sector. Similarly, turbulence that is transmitted across emerging markets could have a negative impact on the Portuguese business sector. For example, Brazil and Angola account for over 10% of the stock of Portugal's outward foreign direct investment. A weaker performance of the European economy could lead to a persistence of very low interest rates. Upside risks to growth of the Portuguese economy should be mainly associated with stronger than expected growth could come from a more benign growth scenario in Europe, with favourable outcomes from political risks and expansionary fiscal policies.

Adverse economic and market conditions pose various challenges and exert downward pressure on asset prices and on credit availability, increase funding costs, and impact credit recovery rates and the credit quality of the NOVO BANCO Group's businesses, customers and counterparties, including issuers of sovereign debt. In particular, the NOVO BANCO Group has significant exposure to customers and counterparties in the European Union (particularly in Portugal) that would be affected by the restructuring of the terms, principal, interest or maturity of their borrowings.

Any significant deterioration in the global economy, including in the credit profiles of other European Union member states or in the solvency of Portuguese or international banks, or other economic changes in the Eurozone could:

- negatively affect the capacity of the Portuguese Republic to satisfy its financing needs;
- have a material adverse effect on the value of portfolios of sovereign debt securities of peripheral Eurozone countries;
- have a significant adverse effect on the NOVO BANCO Group's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- significantly restrict the NOVO BANCO Group's ability to obtain liquidity; and
- negatively affect NOVO BANCO Group's capital position, its operational results and its financial condition.

The United Kingdom's departure from the EU could adversely affect the Bank's activity

On 23 June 2016, the United Kingdom held a referendum on the country's membership of the EU, according to which the United Kingdom voters elected to leave the EU ("**Brexit**"). After a negotiation process for the exit, it officially occurred in the end of January 2020, with the United Kingdom formally leaving the EU on 31 January 2020. The terms of the new relationship are still undefined and are expected to be negotiated until the end of December 2020. A transition period is currently in place until 31 December 2020, the aim of which is to allow both sides to put together a deal on their future relationship. That period could be extended, if requested until 30 June 2020, which did not occur. If the post-Brexit transition period reaches its end on the 31 December 2020 without a free-trade deal between the United Kingdom and the EU, the British economy could face additional negative risks to activity.

Implications for the European financial sector could be acute, especially in terms of access to financial market infrastructures, the ability to perform contractual obligations under existing contracts, access to funding markets, and the use of English law in issuances of minimum requirement for own funds and eligible liabilities ("**MREL**") eligible instruments.

Should international trade between the United Kingdom and the Member States become significantly restricted in the future, the Portuguese economy could be adversely affected, given the importance of the United Kingdom as a market for the export of goods, with a 6.1 per cent. average share in 2019 (Source: Portugal's National Statistics Institute, February 2020) and as a source of tourism, with 19.2 per cent. of tourists arriving in Portugal from the United Kingdom in January – December 2019 (Source: Portugal's National Statistics Institute, February 2020).

Given the current uncertainties and the range of possible outcomes, no assurance can be given in relation to the possible impact of any of the matters described above neither can there be an assurance that such matters would not adversely affect the Issuer and/or its ability to satisfy its obligations, including under the Covered Bonds.

Portugal may be subject to rating downgrades

Rating agencies S&P, Moody's, Fitch and DBRS have downgraded the long-and short-term ratings and outlook of Portugal on several occasions since 2010 due to the uncertainties and risks of a prolonged recession, the outlook for modest GDP growth, high levels of unemployment, limited fiscal flexibility, the high leverage of the private sector and the level of sustainability of Portugal's public debt. Since July 2014, however, each of these rating agencies have raised their long-term ratings or outlook for Portugal. Economic growth, the improvement in public accounts and the stabilization of the banking sector led to upgrades in the Portuguese sovereign rating by Fitch in December 2017 (from BB+ to BBB) having from April 2020, a "stable" outlook. Moody's also upgraded Portuguese sovereign long-term debt rating (from Ba1 to Baa3, stable outlook) in October 2018, having revised the outlook to "positive" in August 2019, and confirmed it in April 2020. Similarly, S&P upgraded Portugal rating from BBB- to BBB (stable outlook) in March 2019 with the outlook revised to "positive" in September 2019 and confirmed in March 2020. In October 2019, DBRS upgraded Portugal's sovereign long-term rating to BBB (high) after having upgraded it from BBB- to BBB in April 2018, and having the current "stable" outlook been affirmed in March 2020. With these decisions, Portugal's sovereign debt is considered investment grade by all main rating agencies. In the context of the Covid-19 pandemic, Fitch and S&P both revised the outlook from "positive" to "stable" in April 2020. These actions reflect the significant impact of the global Covid-19 pandemic on the Portuguese economy and the sovereign's fiscal position. According to Fitch, the shock is likely to interrupt previous improving trends in economic growth, public debt-to-GDP, and resilience in the banking sector. Portugal's small and open economy, with its high dependence on tourism, is exposed to downside risks from the severity of the Covid-19 pandemic, particularly if the country's lockdown persists for a prolonged period.

The ability to use Portuguese public debt as an asset eligible for collateral for financing with the ECB will depend on the maintenance of an "investment grade" rating by at least one rating agency recognised by the ECB. The non-eligibility for the ECB could have a material and negative impact on the market value, cost of funding and overall demand for Portuguese public debt.

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

Since mid-March 2020, long-term sovereign debt yields have increased, to levels around 0.9% in May, reflecting the uncertainty about the strength of the common response, at the European level, to the Covid-19 crisis. This increase has been common to the other peripheral economies of the Euro area, namely those – like Italy and Greece – with higher public debt-to-GDP ratios. The approval of the EU Recovery Fund (Next Generation EU) by the European Council on the 21st July 2020 has led to a

reduction of the spread between peripheral economies' debt yields vs. Germany, with the yield of the Portuguese government 10-year bond decreasing to 0.35% in the end of July 2020. See the risk factor entitled "*The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*".

B. Risks relating to the Issuer's Business

The NOVO BANCO Group is exposed to significant credit risk

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

The following indicators characterised NOVO BANCO Group's credit risk exposure as at 31 December 2019:

- the ratio of overdue loans greater than 90 days to gross loans (Overdue loans> 90 days/Gross loans) was 4.0%, compared to 12.1% as at 31 December 2018, with a coverage ratio (the ratio of provisions to overdue loans greater 90 days) of 171.0% (114.3% as at 31 December 2018);
- the ratio of non-performing loans for the NOVO BANCO "Recurrent"[1] portfolio was 3.6%, compared to 5.4% as at 31 December 2018, with a coverage ratio of 68.3% (46.8% as at 31 December 2018).

The NOVO BANCO Group is exposed to many different counterparties in the normal course of its business, but its exposure to counterparties in the financial services industry is also significant. This exposure can arise through trading, lending, deposit taking, clearance and settlement and numerous other activities and relationships. These counterparties include institutional clients, brokers and dealers, commercial banks and investment banks. Many of these relationships expose the NOVO BANCO Group to credit risk in the event of default of a counterparty or client. In addition, NOVO BANCO Group's credit risk may be exacerbated when the collateral it holds cannot be realised at, or is liquidated at prices not sufficient to recover, the full amount of the loan or derivative exposure it is due to cover. Many of the hedging and other risk management strategies used by the NOVO BANCO Group also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of NOVO BANCO Group's hedging and other risk management strategies, which could in turn have a material adverse effect on NOVO BANCO Group's financial condition and results of operations.

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

Moreover, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, the collateral and security provided to the NOVO BANCO Group may

[1] NOVO BANCO disclosed its 2018 and 2019 annual results presenting separately the financial results of NOVO BANCO "Recurrent", which include all the core banking activity, and those of NOVO BANCO "Legacy", which includes loans to clients, integrating not only loans included in the CCA, as well as other credits, bonds, real estate and discontinued operations, mostly considered as non-strategic in the commitments imposed by DGCOMP after the Resolution Measure. 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.

be insufficient to cover the exposure, for example, as a result of sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations this could have a material adverse effect on NOVO BANCO Group's financial condition and results of operations.

Additionally, the NOVO BANCO Group is subject to a concentration of credit risk in particular industries, countries, counterparties, borrowers, issuers and customers. The Group's loans and advances to customers, which comprised a net amount of approximately 55.5% of the Group's assets as at 31 December 2019 (51.2% as at 31 December 2018), had significant exposure with respect to the services sector and real estate activities, which represented 13.7% and 7.8%, respectively, of its loans and advances to customers as at 31 December 2019 (16.7% and 8.3%, respectively, as at 31 December 2018). Macroeconomic downturn or deterioration in real estate values, adverse business conditions, market disruptions or greater volatility in those industries as the result of lower prices in such industries or other factors could result in significant credit losses for the Group. See also the risk factor entitled "*The NOVO BANCO Group is exposed to fluctuations in the value of Portuguese real estate*". Additionally, the NOVO BANCO Group is also exposed to risks arising from the high concentration of individual exposures in its loan portfolio, with the 10 largest loan exposures of the Group as of 31 December 2019 represented 13% of the total loan portfolio (gross) (16% as of 31 December 2018).

Expectations about future credit losses maybe incorrect for a variety of reasons. A prolonged decline in general economic conditions, particularly of those in Portugal, unanticipated political events, a lack of liquidity in the economy or a sharp increase in interest rates may result in losses which exceed the amount of NOVO BANCO Group's provisions or the maximum probable losses envisaged by its risk management models.

In the foreseeable future, as a result of the Covid-19 outbreak, economy activity worldwide and, with particular relevance for NOVO BANCO, in Portugal, is expected to remain considerably depressed, with severe consequences on business activity and unemployment. The Covid-19 pandemic may have a material adverse effect on the ability of NOVO BANCO's customers to fulfil their obligations, as well as on the value of the collateral securing their payment obligation, thereby increasing NOVO BANCO's exposure to credit risk and cost of risk, especially on the industry sectors that are being most affected, such as tourism, restaurants, entertainment and others. The depth and duration of this economic crisis will largely depend on the ability to control de pandemic, either through an effective vaccine/treatment and the effectiveness of the measures taken by the various governments and monetary authorities. For further details on the impacts of the Covid-19 pandemic see the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*".

An increase in NOVO BANCO Group's provisions for loan losses or any losses in excess of the provisions mentioned above could have a material adverse effect on the NOVO BANCO Group's financial condition and results of operations.

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

In connection with the state aid granted in the context of the application of a resolution measure by the Bank of Portugal to Banco Espírito Santo, S.A. ("**BES**"), on 3 August 2014 (as amended and supplemented by related decisions, including by Bank of Portugal's decisions of 29 December 2015 (the "**Decisions of 29 December 2015**") and Bank of Portugal's decision of 29 December 2015 on the retransfer of senior bonds back to BES (the "**Decision of 29 December 2015 on Retransfer**"), the "**Resolution Measure**") and of the incorporation of NOVO BANCO in 2014, the Portuguese State undertook certain commitments towards the EC, including a commitment to sell NOVO BANCO within two years of its incorporation. In December 2015, the EC agreed to extend the deadline for the sale of NOVO BANCO by one year, based on a revised set of commitments agreed with the Portuguese Government. These commitments were superseded by a new set of commitments agreed in October 2017 (the "**Commitments**"), in connection with the sale of 75% of the share capital of NOVO BANCO to the US private equity firm Lone Star Funds ("**Lone Star**") agreed in 31 March 2017 and completed

on 18 October 2017 (the "**Lone Star Sale**").

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

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

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

Such occurrences could materially and adversely impact the business, financial condition and results of operations of the NOVO BANCO Group and could result in the NOVO BANCO Group being liquidated under normal insolvency proceedings.

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

As part of the conditions of the Lone Star Sale, the Resolution Fund and the Issuer have entered into the CCA. Currently there are legal proceedings filed in the Portuguese courts challenging the validity of the CCA and of the obligations of the Resolution Fund in connection with it. Any court decision that considers the CCA illegal, void or otherwise invalid, in whole or in part, or that prevents the Resolution Fund from making any payments under the CCA may have a significant effect on the Group and its financial position, including as a result of any required repayment of funds already disbursed under the CCA. For further details on proceedings relating to the sale of NOVO BANCO see *Tax, Legal and Accounting Risks - Risks related to Legal Proceedings - Proceedings Relating to the sale of Novo Banco* and *Description of the Issuer and of the NOVO BANCO Group - Legal, Administrative and Arbitration Proceedings – Proceedings relating to the Sale of Novo Banco*.

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

In addition, if, following any SREP exercise carried out by the SSM, the SREP total capital ratio of the Issuer falls below the SREP total capital requirement, and NOVO BANCO is not able to address such shortfall through payments to be made under the CCA, the Portuguese Government has agreed in the context of the Lone Star Sale and the related state aid measures to provide additional capital to NOVO BANCO (the "**Capital Backstop**"), provided that: (a) routine capital measures implemented by NOVO BANCO to make up the shortfall within the nine months following the breach are unsuccessful; (b) Lone Star does not provide the necessary capital following a request by NOVO BANCO; and (c) the required capital cannot be raised from market sources. Therefore, if the requirements above apply, NOVO BANCO is subject to the Portuguese Republic's commitment to inject additional capital in NOVO BANCO when needed.

The additional capital may take the form of a public capital injection or additional tier 1 instruments that may be (i) issued to the market with a coupon guaranteed by the Portuguese State or (ii) fully

underwritten by Portugal directly, in each case with additional capital being raised in the amount necessary to ensure solvency of NOVO BANCO in an adverse scenario. If public funds are used in the Capital Backstop, NOVO BANCO will be obliged to further reduce the perimeter of the Bank (branches and employees) and submit a new restructuring plan.

Any of the events described above, if materialised, could have a material adverse effect on the NOVO BANCO Group and its financial position.

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

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

Interest rates are sensitive to several factors that are out of the NOVO BANCO Group's control, including tax and monetary policies of governments and central banks, as well as domestic and international political conditions. Changes in market interest rates can affect the interest rates that the NOVO BANCO Group receives on its interest-earning assets in a different way when compared to the rates that the NOVO BANCO Group pays for its interest bearing liabilities. This difference may reduce the net interest margin, which could have an adverse effect on NOVO BANCO Group's results of operations.

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

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

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

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

The ongoing availability of customer deposits to fund the NOVO BANCO Group business is subject to a variety of factors, such as depositors' concerns relating to the Portuguese economy in general, the financial services industry or the NOVO BANCO Group specifically, economic conditions in Portugal impacting the availability of funds for deposits, the availability and extent of deposit guarantees and the existence of alternative and competitive savings products. Customer deposits, consisting of repayable on demand deposits, time deposits and savings accounts are the principal source of funding for the NOVO BANCO Group, and accounted for 67.4% and 63.9% of total liabilities as at 31 December 2019 and 31 December 2018, respectively.

If the NOVO BANCO Group's depositors withdraw their funds at a rate faster than borrowers repay their loans, or if the NOVO BANCO Group is unable to obtain the necessary liquidity by other means, the NOVO BANCO Group may be unable to maintain its current levels of liquidity. If additional liquidity were needed, the NOVO BANCO Group might be required to obtain additional funding at significantly higher funding costs, liquidate certain of its assets, increase its central bank funding through monetary policy operations of the ECB or ultimately, as a last resort, NOVO BANCO may seek Emergency Liquidity Assistance ("**ELA**") provided by the Bank of Portugal, as Portugal's Eurosystem National Central Bank (the "**National Central Bank**") (which allows for the support of solvent financial institutions facing temporary liquidity problems under exceptional terms). In the past the Issuer has experienced pressure on its customer deposits following public announcements or other relevant developments about its financial position or prospects and even resorted to ELA funding in 2014.

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

NOVO BANCO Group's inability to attract customer deposits may impact the NOVO BANCO Group's ability to fund its operations and meet its minimum liquidity requirements (notwithstanding the availability of ELA funds under certain circumstances) and have a material adverse effect on its business, financial condition or results of operations.

NOVO BANCO Group's liquidity could also be impaired by other limitations on its ability to raise liquidity when required, such as an inability to access wholesale funding, an inability to sell assets or redeem its investments, or to do so at an acceptable value, and other unexpected outflows of cash or collateral deterioration. These situations may arise due to factors such as a deterioration of risk perception of NOVO BANCO Group or to circumstances that the Group is unable to control, such as continued general market disruption, loss of confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties. As a result of the recent Covid-19 outbreak, financial markets have been extremely volatile and are expected to remain unstable in the near future, as uncertainty on the evolution of the pandemic and its impact on the world economy is very high. For further details on the impacts of the Covid-19 pandemic see the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*".

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

- Increased difficulty in selling NOVO BANCO Group assets, particularly if other participants in distressed situations are seeking to sell similar assets or because the market value of assets, including financial instruments underlying derivative transactions, has become difficult to ascertain, which has occurred in the recent past and may occur again.
- Financial institutions with which the NOVO BANCO Group interacts may exercise set-off rights or the right to require additional collateral.
- Customers with whom the NOVO BANCO Group has outstanding but undrawn lending commitments may draw down an amount on these credit lines that is higher than the Group is anticipating.

- The NOVO BANCO Group contingency plan for liquidity stress scenarios relies largely on its ability to raise funds on open market operations with the ECB. If the ECB were to suspend its programme, and if no similar source of financing were to exist in the market, this could severely impede the NOVO BANCO Group ability to manage a period of liquidity stress. For further details see the risk factor entitled "*The NOVO BANCO Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*".
- An increase in interest rates and/or credit spreads, including as a result of concerns relating to the NOVO BANCO Group, such as the need to raise additional capital, as well as any restriction on the availability of funding, including, but not limited to, inter-bank funding, could impact NOVO BANCO Group's ability to borrow on a secured or unsecured basis, which may have a material adverse effect on NOVO BANCO Group's liquidity and results of operations.

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

The NOVO BANCO Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be suitable to eliminate liquidity risk.

As of 31 December 2019 the LCR stood at 143%, up from 125% as of 31 December 2018. There is no assurance that NOVO BANCO will always be able to comply with these requirements, particularly in relation to the new Basel III liquidity ratios - Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**"), or other that maybe introduced in the future.

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

NOVO BANCO Group's access to capital markets has been very limited since its establishment. As a result, in addition to deposits, the NOVO BANCO Group has made significant use of funding from the ECB. The ECB, which currently makes funding available to European banks that satisfy certain conditions, including pledging eligible collateral, was a major funding source for the majority of Portuguese banks during the financial crisis and the European sovereign debt crisis. NOVO BANCO Group had approximately €4.7 billion and €5.9 billion net exposure with the European central banks as at 31 December 2019 and 31 December 2018, respectively

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

Although the monetary policy followed by the ECB in past years has contributed to improve the liquidity conditions of European banks, and most recently in response to the Covid-19 outbreak, the ECB has further improved financing conditions by reducing the interest rate on the TLTRO III and announced a package of collateral easing measures, if the ECB starts to remove the monetary stimulus

progressively, which, despite the lower level of the net funding of the Issuer, could require the NOVO BANCO Group to find alternative funding sources, some of which may be more costly or may not be available at all, or to dispose of assets at a potentially significant discount in relation to their respective book values, with a corresponding negative impact on the NOVO BANCO Group's capital position and results of operations.

NOVO BANCO may also be eligible for ELA funding. National Central Banks in the Eurosystem may provide ELA funding to solvent financial institutions with temporary liquidity problems in their respective jurisdictions, unless the ECB restricts such funding if it considers that these operations interfere with the objectives and tasks of the Eurosystem or the funding conditions. At 31 December 2019, the NOVO BANCO Group portfolio of assets eligible as collateral for rediscounting operations with the ECB (net of haircut) totalled €15.3 billion (€14.6 billion on 31 December 2018).

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

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

The NOVO BANCO Group is exposed to fluctuations in the value of Portuguese real estate, both directly through assets related to its operations or obtained in lieu of payment, or indirectly, through real estate that secures loans or by financing real estate projects. The NOVO BANCO Group's real estate assets registered as investment properties amounted to €0.7 billion as at 31 December 2019 (€1.1 billion as at 31 December 2018), and the real estate assets registered as other assets amounted to €1.0 billion as at 31 December 2019 (net of impairment which amounted to €0.4 million) and €1.6 billion as at 31 December 2018 (net of impairment which amounted to €1.0 million). During 2019 and 2018, the NOVO BANCO Group recognised a loss of €216.1 million and a loss of €16.5 million, respectively, related to the fair value of investment properties. Concerning the real estate registered in other assets, the impairment charge of 2019 and 2018 amounted to €270.0 million and €229.2 million, respectively. The NOVO BANCO Group is also exposed to the real estate market through the exposure to real estate subsidiaries that were acquired for resale in the short-term, through real estate funds as well as through holdings of real estate restructuring funds (funds managed by external parties that were established by the Portuguese banking system to deal with the financial recovery of companies which were in financial stress). A decrease in the value of Portuguese real estate market prices will decrease the value of the real estate assets held by the Issuer, directly or indirectly, as well as of the collateral provided with respect to such loans, thus adversely affecting the financial condition and results of the operations of the NOVO BANCO Group.

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

Furthermore, as at 31 December 2019, 37.9% of the NOVO BANCO Group's loans and advances to customers consisted of mortgage loans (33.3% as at 31 December 2018). While the NOVO BANCO Group has experienced a relatively low level of defaults in these types of loans, a decrease in house

prices, which can happen at any time in the future, could negatively affect the recovery value of the loans and/or increase the NOVO BANCO Group's impairment charges or capital requirements, as they depend, among others, on the loan to value ratio (which would increase in such circumstances).

The NOVO BANCO Group's loans and advances to customers in the real estate sector represented 7.8% of all its loans and advances to customers as at 31 December 2019 (8.3% as at 31 December 2018). If the real estate sector faces economic or other difficulties, this can also negatively impact the recovery value of the loans or increase the impairment charge or capital requirements. Any such changes could negatively affect the financial condition, results of operations and capital position of the NOVO BANCO Group, as well as the appraisal and, if applicable, disposal value of real estate assets comprised within the Cover Pool.

The risk of a significant devaluation of Portuguese real estate prices has increased as a result of the economic crisis resulting from the Covid-19 pandemic, including, without limitation, through 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. A decrease in the value of Portuguese real estate market prices will decrease the value of the real estate assets held by NOVO BANCO, directly or indirectly, as well as of the collateral provided with respect to such loans, thus adversely affecting the financial condition and results of the operations of the NOVO BANCO Group. For further details on the impacts of the Covid-19 pandemic see the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*".

Risk relating to changes in legislation on deferred tax assets could have a material effect on the NOVO BANCO Group

The CRR requires that Deferred Tax Assets ("**DTA's**") be deducted from CET1 Capital.

However, the CRR contains an exception for DTA's that are not contingent on future profitability, foreseeing that such DTA's are not deducted from CET1 capital. For such purposes, DTA's are deemed to not be contingent on future profitability when:

a) They are automatically and mandatorily replaced with a tax credit, in the event that the institution reports a loss when its annual financial statements are formally approved, or in the event of its liquidation or insolvency;

b) The abovementioned tax credit may, under national tax law, be offset against any tax liability of the institution or any other undertaking included in the same consolidation as the institution for tax purposes under tax law or any other undertaking subject to supervision on a consolidated basis; and

c) Where the amount of tax credits referred to in point b) above exceeds the tax liabilities referred to in that same point, any such excess is replaced with a direct claim on the central government of the Member State in which the institution is incorporated.

The deduction of DTA's from CET1 capital would thus have an impact on credit institutions established in Member States where national tax law imposes a time mismatch between the accounting and tax recognition of certain gains and losses.

In this regard, the Portuguese Government, through the Law No. 61/2014 of 26 August 2014 (as amended from time to time), ("**Law 61/2014**"), enacted amendments to national tax law that allow for the conversion of DTA's into tax credits, with the aim of fulfilling the requirements for non-deductibility of DTA's from CET1 capital of resident credit institutions.

Law 61/2014 foresees that any DTA's arising from loan impairment losses and from post-employment and long-term employment benefits into tax credits. These DTA's accounted in taxable periods starting on or after 1 January 2015, or registered in the taxpayer's accounts in the last taxable period prior to that date, can be converted into tax credits when the taxpayer: (i) reports an annual accounting loss when the institution´s annual financial statements are formally approved; (ii) enters into a liquidation procedure, as a result of voluntary dissolution, court-ordered insolvency or, if applicable, cancellation of authorization by the regulator or supervisory body.

The amount of DTA’s is declared by corporate income taxpayers in their annual Corporate Income Tax return. The amount of the declared tax credit must subsequently be certified by the auditors and confirmed by the Portuguese Tax Authorities.

The tax credits obtained with the conversion of the DTA’s may be offset against any State taxes on income and on assets payable by the taxpayer.

The conversion of DTA’s entails the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increased by 10 per cent., and conversely, the issuance of symmetric warrants to the Portuguese State. The warrants entitle the Portuguese State (i) to demand the increase of NOVO BANCO’s share capital through conversion of the special reserve and subsequent issue a delivery of ordinary shares representing NOVO BANCO’s share capital; or (ii) to freely dispose of them, including by sale to third parties, which may subsequently demand such increase of NOVO BANCO’s share capital (“**State Rights**”).

The amendments to the DTA’s conversion regime, enacted by Law No. 23/2016 of 19 August 2016, establish that the DTA’s conversion is not applicable to any DTA’s arising from the mismatch between the accounting and tax regimes from 1 January 2016 onwards, without precluding its applicability to DTA’s generated with respect to the previous fiscal years.

Law No. 98/2019 of 4 September, amending the tax treatment of the impairment of credit institutions and other financial institutions, introduced changes to the special regime applicable to deferred tax assets approved by Law no. 61/2014 (the abovementioned conversion regime). According to the amended regime, impairments losses for credit risk become generically deductible, provided that they relate to exposures (analysed on an individual or collective basis) resulting from the normal activity of such institutions, and they are recorded according to the accounting and regulatory standards applicable in the tax periods beginning on or after 1 January 2019. As regards the rules applicable to impairment losses recorded in the periods of taxation beginning before 1 January 2019, deductibility is generally limited to the amount corresponding to the application of the mandatory minimum limits set out in the notice of Banco de Portugal no. 3/95 (in the wording in force prior to its revocation), provided that certain conditions are met.

For the application of the amended regime, law No. 98/2019 provides for a period of adaptation for credit institutions and other financial institutions. In the five tax periods beginning on or after 1 January 2019, the former regime still applies (observing the provisions of the regulatory Decree no. 13/2018), becoming the application of the amended regime compulsory only in the period of taxation initiated from 1 January 2024, unless the option for the application of the new regime is communicated to the Tax Authority until the end of the 10th month of the current tax period, with effects in that tax period and in the following tax periods. Regarding the DTA Special Regime, amendments include a significant reduction of the period for the capital increase of taxable persons as a result of the exercise of the rights of conversion conferred to the State and in turn object of potestative rights to acquire by the Shareholders. In accordance with the amended rules, the registration of the capital increase of the taxable person shall be made immediately after that period, by the amount resulting from the exercise of the rights of conversion, after the expiry of the period for the exercise of the potestative right to acquire the conversion rights, which may not exceed three years (not less than one year after the entry into force of the new law for the current situations) counted from the confirmation by the Tax Authority of the conversion of deferred tax assets into tax credit.

NOVO BANCO adhered to the special regime applicable DTAs approved by Law 61/2014, which applies to DTAs 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. 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%. 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. The shareholders of NOVO BANCO have the unilateral right to acquire the conversion rights from the State. It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015 and 2019 will confer a shareholding of up to

approximately 13.2% of the share capital of NOVO BANCO, which will only dilute, in accordance to the sale contract, the Resolution Fund stake. For further details see *Description of the Issuer and the Novo Banco Group – Ownership Structure (Including Government Relationship).*

As at 31 December 2019, the NOVO BANCO Group held EUR 892.3 million of DTA's in its accounts, of which EUR 0.8 million related to reported losses and EUR 891.5 million related to temporary differences. Of these, EUR 516.9 million are protected under the Portuguese special fiscal regime. If any DTA's are not recovered, this could have an adverse impact on the profitability and equity of NOVO BANCO and its Group.

DTA's related to reported losses are deducted from regulatory capital, whereas DTA's related to temporary differences that depend on future profitability are partially deducted to capital (the portion that exceeds the thresholds of 10 per cent. and 15 per cent. of CET1) and partially weighed at 250 per cent. DTA´s related to temporary differences protected by the Portuguese special fiscal regime are weighed at 100 per cent. Any future changes to the way in which the Portuguese fiscal regime operates could result in previously protected DTA's no longer being protected.

The estimation of DTAs requires the application of a complex set of judgements, considering the uncertainties regarding the future. Changes in the assumptions used in the estimation of future results or in the interpretation of tax legislation may have a material impact on the recoverability of DTAs originated by tax losses. As the economic impact of the Covid-19 pandemic is still very uncertain it is not possible to determine to what extent the assumptions may need to be revised. Any change to the base assumptions can have a significant impact on the estimated recoverable amount of DTA and as a result the NOVO BANCO Group's financial condition and results of operations may be materially and adversely affected.

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

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

In addition to such losses requiring contribution to the NOVO BANCO Group's Pension Fund, these actuarial losses may have the effect of reducing NOVO BANCO's CET1, undermining NOVO BANCO's capital ratios and negatively impacting NOVO BANCO's shareholders' equity. Until 1 January 2018, NOVO BANCO was required to deduct from its CET1 the portion of actuarial losses exceeding 10% of its pension liabilities or the value of its pension assets, adjusted by a phase-in factor (20% per year). After 1 January 2018, actuarial losses are deducted from CET1 in full. As at 31 December 2019, the Group's pension obligations in the Pension Fund amounted to €1,849 million, and the fair value of the Pension Fund allocated to NOVO BANCO as at the same date was €1,696 million. The unfunded liabilities amounted to €153.1 million as at 31 December 2019 (€27.4 million as at 31 December 2018). Regarding the net liabilities of the base plan and complementary plan, the NOVO BANCO Group has already made the contribution in the beginning of 2020.

The NOVO BANCO Group is exposed to market risks

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

As at 31 December 2019, the NOVO BANCO Group's securities portfolio amounted to €12.0 billion, of which 65.0% was public debt instruments, 23.9% were classified as bonds and 11.1% were shares and other variable income securities.

Additionally, as at 31 December 2019 76.5% of such assets were classified as Level 1 (those that are quoted on a recognised market as of such date), 0.2% as Level 2 (those for which valuation methods with prices and standards that are observable in the markets are used), 9.8% as Level 3 (those for which valuation methods with prices and standards that are not observable in the markets are used) and the remaining 13.5% were registered at acquisition cost. As at 31 December 2018, the NOVO BANCO Group's securities portfolio amounted to €10.9 billion (excluding the securities portfolio of Gama Life, formerly GNB Vida, which was at the time treated as a discontinued operation and has since been sold), of which 67.9% were public debt instruments, 16.9% were classified as bonds and 15.2% were shares and other variable income securities. Additionally, 72.9% of such assets were classified as Level 1, 0.2% as Level 2, 14.1% as Level 3 and the remaining 12.8% were registered at acquisition cost.

As at 31 December 2019, the NOVO BANCO Group had a value at risk ("**VaR**") of €81.9 million in its trading positions in respect of equities, interest rates, volatility and credit spread, total commodities position and total foreign exchange position and liquidity management portfolios, compared to €38.7 million as at 31 December 2018. The NOVO BANCO Group's VaR is calculated using the "Monte Carlo" simulation method, with a 99% confidence level and a holding period of ten days.

NOVO BANCO has, in its securities portfolio, investments in restructuring funds in an amount of €839.9 million as at December 2019, most of which are covered by the CCA. These funds are Level 3 assets according to the fair value hierarchy of IFRS13 (quotations provided by third parties whose inputs used are unobservable in the market, as mentioned above). In compliance with the guidance by the European Central Bank, during the first half of 2020, NOVO BANCO obtained an independent valuation of its exposure on these funds. The valuation resulted in a market value of €557.2 million for the total investment held in these assets, leading to a loss of -€260.6 million in the 1st half of 2020. Further devaluations might be registered in these assets. If NOVO BANCO is required to recognise further losses on these assets, its financial condition and its results of operations may be adversely affected.

The deterioration of the global economic outlook and high uncertainty surrounding the effects of the Covid-19 pandemic resulted in strong increases in volatility and risk aversion in financial markets. Government and monetary stimulus have supported the markets but the outlook remains very uncertain. For further details on the impacts of the Covid-19 pandemic see the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*".

NOVO BANCO's proprietary trading securities portfolio is highly concentrated on sovereign exposure and its trading activities are mainly concentrated on the provision of these services/product offerings to its customers and risk management of the balance sheet. Nevertheless, proprietary trading involves a certain degree of risk. Protracted adverse market movements, particularly price declines, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to losses if NOVO BANCO Group cannot close out deteriorating positions in a timely way.

The NOVO BANCO Group is exposed to the risk of public debt securities within the credit portfolio where the main exposure is to peripheral Eurozone countries

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

As at 31 December 2019, NOVO BANCO Group's public debt securities of Eurozone countries portfolio

comprised approximately €4.1 billion in Portuguese public debt, approximately €2.2 billion in Spanish public debt, approximately €0.2 billion in Irish public debt, approximately €0.1 billion in Italian public debt, and no exposure to Greek public debt, which together represents 55% of the Group's total securities portfolio. As at 31 December 2018, the Group's public debt securities of Eurozone countries portfolio comprised approximately €4,4 billion in Portuguese public debt, approximately €2.0 billion in Spanish public debt, approximately €0.1 billion in Italian public debt and no exposure to Greek public debt.

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

Depreciations in the public debt portfolio can have the effect of reducing the NOVO BANCO's Common Equity Tier 1 capital used to determine its capital ratios and could adversely affect its results of operations. Any decrease of the NOVO BANCO's solvency ratios could hinder its ability to operate its business in accordance with its strategy.

The NOVO BANCO Group faces significant competition in the markets in which it operates

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

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

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

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

Credit ratings affect the cost and other terms upon which the NOVO BANCO Group is able to obtain funding, including the availability of certain funding instruments. Rating agencies regularly evaluate NOVO BANCO, and its long-term credit ratings are based on a number of factors, including its financial strength, the credit rating of Portugal and the conditions affecting the financial services industry generally and the Portuguese banking system in particular. On the date hereof, NOVO BANCO's long-term credit ratings are the following: "Caa2" for long term senior unsecured debt with a stable outlook and "B2" for long term deposits with a stable outlook by Moody's, and "B (high)" issuer rating and long-term senior debt rating with a negative trend and "BB (low)" long-term deposits rating with a negative trend by DBRS Rating GmbH. There can be no assurance that the rating agencies will maintain the current ratings or outlooks.

Rating agencies have been recently revising the ratings of the European banks in different geographies

due to the disruption caused by the Covid-19 outbreak and a reassessment of the Portuguese market by some rating agencies was already done. There is no guarantee that further rating actions or outlook revisions will not be made in the future.

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

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

The NOVO BANCO Group's business is subject to operational risks

The NOVO BANCO Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised fraud, as a result of the NOVO BANCO Group's financial operations), fraud by the NOVO BANCO Group's own employees or management, breach or delays in the provision of services, breach of confidentiality obligations with regards to customer information and compliance with risk management requirements.

The Group may be unable to successfully monitor or prevent all or part of these risks in the future. Any failure to successfully execute the NOVO BANCO Group's operational risk management and control policies could result in reputational damage and/or have a material adverse effect on the NOVO BANCO Group's financial condition and results of operations.

NOVO BANCO's activity is subject to reputational risks

NOVO BANCO is exposed to reputational risks understood as the probability of negative impacts for NOVO BANCO resulting from an unfavourable perception of its public image, whether proven or not, among customers, suppliers, analysts, employees, investors, media and any other bodies with which NOVO BANCO may be related, or even public opinion in general.

Recently, on 11 February 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, outside the scope of and in non-compliance with the internal procedures defined by the Bank. The verification of the veracity of the facts and quantification of the potential damages and identification of customers that may be at stake 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 potential liability of NOVO BANCO is, for the moment, insusceptible determined or quantified. In any case, this may result in reputational risk to NOVO BANCO.

Furthermore, NOVO BANCO is subject to continuous political and public scrutiny (including, but not limited to) in relation to its incorporation and the Lone Star Sale and also as a result of the rules introduced by Law No. 15/2019 of 12 February, on transparency of information concerning granting of credits of significant value.

NOVO BANCO cannot assure potential investors that it will be able to foresee and mitigate the impacts of these risks if the same occur and, should that be the case, such circumstances could materially adversely affect NOVO BANCO's business activities, financial condition and results of operations.

The NOVO BANCO Group is exposed to IT and cybercrime risks

The NOVO BANCO Group's businesses and its ability to remain competitive depend on the ability to process a large number of transactions efficiently and accurately, and on the NOVO BANCO Group's ability to rely on its digital technologies, computer and email services, software and networks, as well

as on the secure processing, storage and transmission of confidential and other information in the NOVO BANCO Group's computer systems and networks. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The NOVO BANCO Group cannot guarantee that its systems, software and networks are invulnerable to unauthorised access, misuse, computer viruses or other malicious code, and other events that could have an impact on security levels. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. There can be no assurances that the NOVO BANCO Group will not suffer material losses from operational risk in the future, including that relating to cyber-attacks or other such security breaches. Furthermore, as cyber-attacks continue to evolve, the NOVO BANCO Group may incur significant costs in its attempt to modify or enhance its protective measures or to investigate or remediate any vulnerabilities. There is a risk that cyber-security risk is not adequately managed or, even if adequately managed, a cyber-attack can take place and be successful, which could lead to breach of regulations, investigations and administrative enforcement by supervisory authorities in claims that may materially and adversely affect the NOVO BANCO Group's business, reputation, results of operations, financial condition, prospects and its position in legal proceedings.

C. Legal and Regulatory Risks

Risks related to Legal Proceedings

NOVO BANCO is the subject of actual and threatened litigation and other proceedings related to its incorporation under the resolution measure applied to BES.

In addition, as regulated entities, the Issuer and the NOVO BANCO Group are, from time to time, the subject of supervisory and administrative inquiries, inspections and investigations by regulators in the jurisdictions in which they operate. So far as the Issuer is aware, and except as disclosed below, none of the Issuer or other NOVO BANCO Group entities is, as at the date of this Base Prospectus, subject to any such inquiries, inspections or investigations that may have a significant effect on the NOVO BANCO Group's financial position or profitability. See also the risk factor entitled "*Risks relating to regulatory requirements*" below. Furthermore, as a large financial institution, the NOVO BANCO Group is the subject of actual and threatened litigation and other proceedings in the ordinary course of its banking and financial intermediary business.

Proceedings in connection with the resolution measure applied to BES and the incorporation of NOVO BANCO

According to the Resolution Measure and related decisions of the Bank of Portugal, NOVO BANCO should only be liable in respect of matters or claims arising on or after 3 August 2014, which is the date on which the Issuer was established, or that such matters or claims were otherwise transferred to the Issuer pursuant to the Resolution Measure and related decisions of the Bank of Portugal.

Currently, a relevant number of proceedings that seek to challenge the application of the Resolution Measure to BES and the related decisions of the Bank of Portugal, the establishment of the Issuer and the resulting impact on other parties and their rights, including shareholders, members of corporate bodies, senior and subordinated creditors and clients is still pending.

The application and impacts of the Resolution Measure and the incorporation of NOVO BANCO are being and may continue to be publicly and judicially challenged by several parties and creditors. These proceedings include also the challenges to the transfer of certain assets and liabilities to NOVO BANCO as a result of the Resolution Measure and the decisions of the Bank of Portugal, as well as proceedings requesting the set-off of liabilities that were not transferred to NOVO BANCO against credits transferred and held by NOVO BANCO. Several judicial proceedings have been initiated against the Bank of Portugal, the Resolution Fund and/ or NOVO BANCO and it is likely that other

similar proceedings will be submitted within the applicable legal time limits.

There are two legal proceedings, one initiated by a shareholder of BES and another by several holders of subordinated bonds issued by BES, before the Lisbon Administrative Court, which where aggregated and designated as pilot-proceedings (*processos-piloto*). In both legal proceedings the plaintiffs challenged the validity of the Resolution Measure applied to BES on the basis of alleged illegalities and unconstitutionalities. NOVO BANCO was counter-interested party in both proceedings. On 12 March 2019, the Lisbon Administrative Court fully dismissed the claims of the plaintiffs. This court decision is without prejudice to the plaintiffs' right of appeal.

For further details on proceedings in connection with the resolution measure applied to BES and the incorporation of NOVO BANCO see *Description of the Issuer and of the NOVO BANCO Group - Legal, Administrative and Arbitration Proceedings - Proceedings Relating to the Resolution Measure*".

Should any or all of such proceedings be successful and the Indemnification Mechanism not be available or be insufficient to fully compensate the NOVO BANCO Group, the resulting costs and/or damages could materially and adversely affect the NOVO BANCO Group's financial position, results of operations and reputation, even in situations where the Issuer is not a party to such proceedings.

Ultimately, if a court were to declare the Resolution Measure invalid and, despite its disruptive effects, determine the invalidity and ineffectiveness of all contracts and legal acts performed by NOVO BANCO since its incorporation, the establishment of the Programme, the security created over cover pool and the issue of the Covered Bonds would become void and investors could suffer substantial losses.

Successful claims of this or a similar nature could have a material adverse financial effect on the Issuer and the NOVO BANCO Group or cause significant reputational harm, which in turn could have a material adverse effect on the financial condition of the NOVO BANCO Group. In addition, while the Indemnification Mechanism may help mitigate economic risks arising from litigation related to the Resolution Measure and related decisions of the Bank of Portugal, there can be no assurance that it will be applied or, if applied, upheld. Even if the Indemnification Mechanism is successfully applied, such claims may result in adverse reputational impact on the Issuer and/or the Group. See also the risk factor entitled "*NOVO BANCO's activity is subject to reputational risk*" above.

Proceedings Relating to the sale of Novo Banco

Following the conclusion of the Lone Star Sale, certain legal suits have been lodged, related to the conditions of the sale, notably (i) the administrative action brought by Banco Comercial Português, S.A. ("**BCP**") against the Resolution Fund, of which NOVO BANCO is not a party, and, according to the public disclosure 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, and (ii) an action seeking the annulment of the decision of the European Commission C (2017 / N) of 11 October 2017 which considers the CCA compatible with the internal market.

On 9 September 2020, BCP informed that it had decided not to continue the legal proceeding before the General Court of the European Union with a view to partially annul the European Commission's decision regarding its approval of the CCA of NOVO BANCO. Other participants in the proceedings were invited to state their opinion on BCP's withdrawal until 24 September 2020, pending a decision by the Court. In any case, should the procedure continue and Court ultimately decides to uphold the Applicants' request in its entirety and partially annul the European Commission's decision, the annulment would cause the decision to disappear from the European Union's legal framework from the date on which the decision entered into force; i.e. the situation will be as if the European Commission had not decided at all on the State aid measure and the Indemnification Mechanism will cease to be available to fully compensate the NOVO BANCO Group, the resulting costs and/or damages could materially and adversely affect the NOVO BANCO Group's financial position, results of operations and reputation.

For further details on proceedings relating to the sale of NOVO BANCO see *Description of the Issuer and of the NOVO BANCO Group - Legal, Administrative and Arbitration Proceedings - Proceedings*

Relating to the Resolution Measure".

Any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of NOVO BANCO to carry out its obligations under this Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement, the Reserve Account Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme (the "**Programme Documents**") and/or the Covered Bonds, without prejudice to the protection granted to the holders of the Covered Bonds in the terms and subject to the limits provided for in the applicable legislation, as mentioned in the "*Insolvency of the Issuer*" section of this Base Prospectus.

Other Proceedings

There are two pending proceedings related to the granting of security. In one of them, the plaintiff requires the declaration of invalidity of a financial pledge existing over shares. In the other, NOVO BANCO was notified to grant a guarantee in the approximate amount of EUR 51 million due to an alleged failure to comply with an arrest order for bank accounts.

For further details on the other proceedings mentioned above see *Description of the Issuer and of the NOVO BANCO Group - Legal, Administrative and Arbitration Proceedings– Other Proceedings*.

Should any or all of such proceedings be successful, the resulting costs and/or damages could materially and adversely affect the NOVO BANCO Group's financial position, results of operations and reputation. Ultimately, if a court were to declare the financial pledge agreement invalid, that could have a material adverse financial effect on the Issuer and the NOVO BANCO Group or cause significant reputational harm, which, in turn, could have a material adverse effect on the financial condition of the NOVO BANCO Group. It is not possible to determine when the relevant courts will issue final awards regarding any of the proceedings mentioned in this risk factor or any future legal proceedings, or to determine or make a full assessment of the impact or likely outcomes of any such legal proceedings or of future legal proceedings or the consequences arising therefrom for NOVO BANCO or the Covered Bonds.

Holders of Covered Bonds should be aware that the legal proceedings and consequences arising therefrom may adversely affect the incorporation, financial condition and/or the capacity of NOVO BANCO to carry out its obligations under the Programme Documents and/or the Covered Bonds.

Risks relating to regulatory requirements

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

Moreover, the NOVO BANCO Group is subject to ongoing supervision from the Single Supervisory Mechanism ("**SSM**"), including the ECB and Banco de Portugal, as well as from the CMVM and Autoridade de Supervisão de Seguros e Fundos de Pensões ("**ASF**", the Portuguese Insurance and Pension Funds Supervisory Authority), under their respective competencies. Non-compliance with rules and regulations enforced by the ECB, SSM, Banco de Portugal, CMVM or ASF may result in severe penalties and other sanctions such as bans, inhibitions and suspensions, which would directly impact the NOVO BANCO Group's ability to perform its activities.

NOVO BANCO is required by the SSM, ECB and the regulators in Portugal and other countries in which it undertakes regulated activities to maintain minimum levels of capital and liquidity. In jurisdictions in which it has branches, including within the EEA, NOVO BANCO is also subject to the regulatory capital and liquidity requirements of such jurisdictions. NOVO BANCO, its regulated subsidiaries and its branches may be subject to the risk of having insufficient capital resources to meet the minimum regulatory capital and/or liquidity requirements. In addition, those minimum regulatory capital requirements may increase in the future, or the methods of calculating capital resources may change. Likewise, liquidity requirements may have come under heightened scrutiny, and may place additional stress on NOVO BANCO's liquidity demands in the jurisdictions in which it operates.

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

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

NOVO BANCO is subject to the SREP review on an annual basis. Where the SREP review identifies risks or elements of risk that are not adequately covered by pillar 1 capital requirements or the combined buffer requirement the ECB can determine the appropriate level of the institution´s own funds under CRD IV and assess whether additional own funds shall be required.

According to Council Regulation (EU) no. 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to NOVO BANCO in 4 December 2019 that the NOVO BANCO Group should comply with an own funds requirement of 3.00% to be held in excess of the minimum own funds requirement, to be made up entirely of CET 1 capital. Without prejudice to the foregoing, the measures announced by the ECB on 12 March 2020, following the Covid-19 outbreak, are also applicable to NOVO BANCO (for further details see *Description of the Issuer and the NOVO BANCO Group – Supervision and Regulation – European Central Bank - Non-exhaustive summary of recent regulatory developments following the Covid-19 pandemic*). There can be no assurance that the SREP review to be conducted in the following years will not increase the minimum own funds requirement.

In addition, credit institutions identified as other systemically important institutions ("**O-SIIs** are subject to an additional buffer requirement (the "**O-SII Buffer**"). According to Banco de Portugal's decision the O-SII buffer is not applicable to NOVO BANCO from 2020 onwards.

As at 31 December 2019, NOVO BANCO's CET1 ratio was 13.5% (phased-in) and 12.8% (fully implemented) (12.8% (phased-in) and 11.9% (fully implemented) as at 31 December 2018). If the NOVO BANCO Group does not satisfy these or other minimum capital ratio requirements in the future, it may be required to raise additional capital or be subject to measures or sanctions by Banco de Portugal or the ECB or SSM. If NOVO BANCO is required to raise further capital in the future after failing to satisfy the minimum capital ratio requirements, but is unable to do so or to do so on acceptable terms, NOVO BANCO may be required to further reduce the amount of the Bank's risk-weighted assets and engage in the disposition of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to NOVO BANCO. Any failure to maintain minimum regulatory capital ratios could result in administrative actions or other sanctions, which in turn may have a material adverse effect on NOVO BANCO' operating results, financial condition and

prospects. The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the NOVO BANCO Group. It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which NOVO BANCO Group conducts its business, the products and services it can offer and the value of its assets.

On 23 November 2016, the EC presented legislative proposals for amendments to the CRR, the CRD IV Directive, the BRRD and the Single Resolution Mechanism (collectively, the "**Reforms**"). After the European Parliament confirmed its position on the Reforms, the European Parliament and Council of the EU reached agreement on the main elements of the Reforms. The agreed text was endorsed on 16 April 2019 by the European Parliament and sets out a comprehensive set of reforms to strengthen further resilience and resolvability of EU banks.

On 14 May 2019, the European Council announced that it had adopted the Reforms. The Reforms were published in the Official Journal in the course of June and entered into force, although most of the new rules will start applying in mid-2021. As per the European Council's press release, the Reforms include the following key measures:

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new market risk framework for reporting purposes, including measures reducing reporting and disclosure requirements and simplifying market risk and liquidity rules for small non-complex banks in order to ensure a proportionate framework for all banks within the EU;
- a requirement for third-country institutions with significant activities in the EU to have an EU intermediate parent undertaking;
- a new total loss absorbing capacity ("**TLAC**") requirement for global systemically important institutions;
- enhanced Minimum Requirement for own funds and Eligible Liabilities ("**MREL**") subordination rules for global systemically important institutions ("**G-SIIs**") and other large banks;
- a new moratorium power for the resolution authority.

In addition, on 7 December 2017, the Basel Committee and the GHOS presented reforms to the Basel III regulatory framework also known as "Basel IV". The final Basel III reforms include several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for undue variation in capital requirements for banks across the globe. The measures comprise revisions to the standardised approach for credit risk, internal ratings-based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework and a revised output floor. The proposals contained in the Basel III reforms are intended to be applied from 2022 with a transitional period for the output floor until 2027, although these timelines remain unclear until such rules are implemented into draft European and Portuguese legislation.

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

Following the Covid-19 outbreak, the ECB announced measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy as the economic effects of Covid-19 become apparent. For further details see the section "*Description of the Issuer and the NOVO BANCO Group – Supervision and Regulation*".

New regulations may increase capital, liquidity and other requirements and can result in additional requirements of capital and/or other type of financial instruments, preparatory work, disclosure needs, restrictions on certain types of transactions, limitations or changes to the Issuer's strategy. Any of the

above could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Risks relating to the Bank Recovery and Resolution Directive

In May 2014, the EU Council and the EU Parliament approved a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/UE of the European Parliament and of the Council, of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended, the "**BRRD**"). The aim of the BRRD is to equip national authorities with harmonised tools and powers to tackle crises at banks and certain investment firms at the earliest possible moment and to minimise costs for taxpayers. For further details see the section "*Description of the Issuer and the NOVO BANCO Group – Supervision and Regulation*".

Under an early intervention, the authorities are notably entitled to replace managers or directors and require that the institution draws up and submits for consultation a plan for debt restructuring with its creditors according to a recovery plan.

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

Until 31 December 2015, Banco de Portugal was the relevant resolution authority and from 1 January 2016 the SRM applies.

In order to ensure the effectiveness of a resolution measure, the relevant resolution authority may exercise, among others, the following powers: (i) suspension of payment or delivery obligations of the institution under existing agreements; (ii) suspension of enforcement rights benefiting holders of any security over assets of the institution; (iii) suspension of the rights to accelerate, terminate, or otherwise decide the termination under existing agreements; (iv) closing of agencies of the institution; exercise of rights attached to shares and other instruments representing share capital of the affected institution; (vi) amendment of terms applicable to debt instruments and other eligible claims held vis-à-vis the institution, such as clauses on maturity dates and payable interest; (v) liquidation and termination of financial agreements and derivative agreements; (vi) suspension of the negotiation of a financial instrument (Article 145-AB of RGICSF).

The implementation of any resolution measure is not subject to the prior consent of the credit institution's shareholders nor of the contractual parties related to assets, liabilities, off-balance-sheet items and assets under management to be sold or transferred. The relevant authorities are also not required to provide any advance notice to holders of Covered Bonds of their decision to exercise any resolution power. Therefore, holders of Covered Bonds may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Covered Bonds.

Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 (regarding the ranking of unsecured debt instruments in insolvency hierarchy), which amended BRDD, was implemented in Portugal through Law no. 23/2019, of 13 March 2019, creating a new asset class of "non-preferred" senior debt that ranks in insolvency above own-funds instruments and subordinated liabilities that do not qualify as own funds, but below other senior liabilities. Further, it confers a preferential claim to generally all deposit *vis-à-vis* senior debt.

Although the bail-in powers are not intended to apply to secured debt (such as the Covered Bonds), to the extent that the cover pool is insufficient to meet all claims of the holders of Covered Bonds, such holders of Covered Bonds will have an unsecured claim over the Issuer for the uncovered claims, thus being subject to bail-in. In addition, the determination of which securities issued by the Issuer will be

subject to write-down, conversion or bail-in is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. There may be many factors, including factors not directly related to the Issuer, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a bail- in power may occur which would result in a principal write off or conversion to other securities, including equity. Moreover, as the criteria that the relevant resolution authority will be obliged to consider in exercising any bail-in power provide it with considerable discretion, holders of the securities issued by the Issuer may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Issuer and the securities issued by the Issuer. Potential investors in the securities issued by the Issuer should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

Other powers contained in the RGICSF and required by the BRRD may affect the value of an investment in the Covered Bonds. The exercise of these powers may impact how the Issuer is managed as well as, in certain circumstances, the rights of creditors. There can be no assurance that actions taken under the RGICSF will not adversely affect holders of Covered Bonds.

Minimum Requirement for own funds and Eligible Liabilities could have a material effect on NOVO BANCO

BRRD II was implemented with the formal adoption of Regulation (EU) 2019/876 of the European Parliament and of the Council, which entered into force on 27 June 2019. BRRD II must be transposed into national law no later than 28 December 2020 with national regulators having until 1 January 2024 at the latest to impose full MREL requirements on firms. Under BRRD II, banks, such as NOVO BANCO, shall be subject to an entity-specific MREL regime, under which they will be required to issue a sufficient amount of eligible instruments to absorb expected losses in resolution and to recapitalise the institution or the surviving part thereof.

In accordance with Portuguese law, Article 145-Y of the RGICSF, financial institutions will be required to meet certain MREL requirements. NOVO BANCO received the notification of the decision last 16 April 2020 by the Single Resolution Board ("**SRB**"), together with the Bank of Portugal (CRI/2020/0008813 and CRI/2020/0008820). According to the decision taken on 13 March 2020, the bank should comply with MREL on a sub-consolidated basis at the level of 17,61% of Total Liabilities and Own Funds ("**TLOF**") that shall be reached by 31 December 2023 and from that date shall be met at all times.

In order to comply with this requirement, NOVO BANCO may be requested, in the future, to issue own funds and additional liabilities which will be eligible to count toward the MREL requirement.

The SRB also expects larger EU banks to meet a minimum subordination requirement. G-SIIs are required to meet a minimum subordination level equal to 16 per cent. of consolidated risk exposure amount ("**REA**") plus the combined buffer requirement, pending further assessment by the SRB of "no creditor worse off than in liquidation" ("**NCWOL**") risks and the implementation of BRRD II. The subordination requirement should generally be met by own funds and subordinated MREL eligible liabilities. According to the SRB's MREL policy paper published on 16 January 2019, subordination levels will be set based on a combination of a general level, applicable buffer requirements and a metric, taking account of the bank specific nature of the assessment of NCWOL risk in the senior layer. A floor of 14 per cent. of REA plus the combined buffer requirement will apply for O-SIIs.

According to the abovementioned decision a minimum of 11,92% of TLOF shall be met by NOVO BANCO on a sub-consolidated basis with subordinated instruments (subordination requirement) which shall be reached by 1 January 2024 and from that date shall be met at all times.

If, until the applicable deadlines, NOVO BANCO is unable to issue or can only issue on unfavourable conditions own funds and additional liabilities which will be eligible to count toward the MREL requirement, this may have a material adverse effect on NOVO BANCO's business, financial condition, results of operations , its prospects and activities in terms which cannot be predicted at this stage.

The NOVO BANCO Group is required to make contributions to the Resolution Fund

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

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

The NOVO BANCO Group's contribution will vary from time to time depending on the liabilities and own funds of NOVO BANCO and applicable members of the NOVO BANCO Group, as compared to other participating institutions. Contribution to the Resolution Fund is adjusted to the risk profile and systemic relevance of each participating institution, in consideration of its solvency profile. For the year ended 31 December 2019, the Group paid €12.2 million in contributions to the Resolution Fund, €27.1 million in Bank Levies to the Resolution Fund and € 22.5 million in contributions to the Single Resolution Fund (compared to €11.0 million, €27.3 million and €20.7 million, respectively, for the year ended 31 December 2018).

With regard to additional periodic contributions, credit institutions established in Portugal, such as NOVO BANCO and certain other members of the NOVO BANCO Group, are required to pay such contributions to the Resolution Fund in accordance with the provisions of Decree-Law No 24/2013, of 19 February 2013 (*ex vi* Article 14(5) of Law No. 23-A/2015, of 26 March 2015, as amended). Following the agreement from the Portuguese Government and the EC to change the terms of the financing granted to the Resolution Fund, the Resolution Fund considered that the full payment of its liabilities, as well as its respective remuneration, was assured without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector. Despite the public announcement, there cannot be any assurance that the NOVO BANCO Group will not be required to make special contributions or any other type of extraordinary contributions to finance the Resolution Fund. Any requirement for NOVO BANCO or the NOVO BANCO Group to make special contributions or an increase in required levels of periodic contributions to the Resolution Fund would have a material adverse effect on the NOVO BANCO Group's business, financial condition and results of operations.

Risks relating to the adoption of a harmonised deposit guarantee scheme throughout the EU

On 2 July 2014, Directive 2014/49/EU, as amended, providing for the establishment of deposit guarantee schemes (the "**Recast DGSD**") entered into force. The recast DGSD introduces harmonised funding requirements (including risk-based levies), protection for certain types of temporary high balances, a reduction in pay-out deadlines, harmonisation of eligibility categories (including an extension of scope to cover deposits by most companies regardless of size) and new disclosure requirements. The recast DGSG was implemented in Portugal by Law 23-A/2015, of 26 March 2015, as amended, which amended the RGICSF.

As a result of these developments, the NOVO BANCO Group may incur additional costs and liabilities which may adversely affect NOVO BANCO Group's results of operations and its financial condition. The additional indirect costs of the deposit guarantee systems may also be significant, even if they are much lower than the direct contributions to the fund, as in the case of the costs associated with the provision of detailed information to clients about products, as well as compliance with specific regulations on advertising for deposits or other products similar to deposits, thus affecting the activity of the relevant banks and consequently their business activities, financial condition and results of operations.

Risks relating to data protection and privacy

The processing of personal data by NOVO BANCO and the NOVO BANCO Group is subject, notably, to: (i) the General Data Protection Regulation, approved by Regulation (EU) 2016/679 of 27 April 2016, as amended ("**GDPR**"); (ii) Law no. 58/2019, of 8 August 2019; (iii) any law approved for the adaptation of specific rules of the GDPR to the Portuguese jurisdiction; (iv) Directive 2002/58/EC, of 12 July 2002, as amended on privacy and electronic communications; and (v) Law no. 41/2004, of 18 August 2004, as amended.

NOVO BANCO remains potentially exposed to the risk that the procedures implemented and the measures adopted with respect to the storage and processing of personal data relating to data subjects may prove to be inadequate and/or not in compliance with the laws and regulations in force from time to time and/or may not be promptly or properly implemented by employees and associates. Thus, the data could be subject to damage, loss, theft, disclosure or processing for purposes other than those authorised by the data subjects, or even use by unauthorised parties (whether third parties or employees of companies of NOVO BANCO). If any of these circumstances occur there could be a material adverse effect on the NOVO BANCO Group's business, including its reputation, financial condition, results of operation or prospects.

Risks associated with the disposal of non-performing assets

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

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

NOVO BANCO has approved a five-year NPA reduction plan (2017–2022), which is expected to materially reduce the stock of NPAs (which mostly relates to NPLs), including various sales to the market, potentially in the near term.

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

On 19 July 2017, the European Council agreed an action plan to address the problems of NPLs in the banking sector. On 31 October 2016, the EBA published the final guidance on management of non-performing and forborne exposures. These guidelines specify sound risk management practices for credit institutions in their management of NPAs and forborne exposures, including requirements on NPA reduction strategies, governance and operation of NPA workout framework, internal control framework and monitoring.

The regulation amending the CRR to introduce common minimum coverage levels for potentials losses stemming from newly originated loans that become nonperforming has been published in Official Journal on 17 April 2019 (Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) no. 575/2013). This regulation establishes a requirement for credit institutions to build their loan loss reserve up to common minimum levels to cover the incurred and expected losses on newly originated loans that become non-performing. Where the minimum coverage requirements is not met, the different between the actual coverage level and the requirement should be deducted from a bank's own funds ("**CET1**"). The new rules should not be applied in relation to exposures originated prior to 26 April 2019.

Other risks exist in relation to further requirements that may be imposed by the ECB, through guidelines or legislation, to accelerate the reduction of NPAs, such as the following, which are currently under discussion by the ECB: (i) reforms of insolvency and debt recovery frameworks, (ii) development of

secondary markets for distressed assets, (iii) accelerated loss recognition with backstop provision limits, and (iv) requirements on the use of templates for information on NPLs. Furthermore, an increase in the entry levels of new NPLs may hinder the Issuer's ability to reduce its NPL stock.

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

The Issuer was subject to Targeted Review of Internal Models

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

The TRIM exercise entails a large number of on-site inspections performed by the ECB teams over several years. These inspections are being applied to banks with internal ratings-based model certification, such as NOVO BANCO.

Two on-site inspections took place: the first one started in January 2018 for retail-secured by real estate non-SME exposure class portfolios and the second one in November 2018 for Low Default portfolios. The add-on related to the last inspection was already reflected on the 2020 half year accounts.

As the final conclusions of the last inspections are not yet known and further on-site inspections will be performed in the future, further add-ons might be required in the future, which can have a negative effect the Issuer business, financial condition, results of operations and prospects.

Banking institutions were legally obliged to apply the negative index value only to loans for Acquisition or Construction of Own Housing

Law No. 32/2018, of 18 July, amending Decree-Law 74-A/2017, of 23 June, on credit agreements for consumers relating to residential real estate property, entered into force on 19 July 2018 and, in the context of residential loan agreements, imposes on banking institutions the obligation to reflect the existence of negative rates in the calculation of interest rates applicable to the loans.

According to this law, when the sum of the relevant index rate (such as EURIBOR) and the relevant margin is negative, this negative interest rate amount will have to either (i) be discounted from the principal amounts outstanding of the relevant loans or (ii) be converted into a credit which may in the future set off against positive interest rates (and ultimately be paid to the borrowers if it has not fully been set off at maturity). NOVO BANCO has decided to apply the first option, i.e., to deduct the negative index interest rates from the principal amounts of outstanding debts. This could result in material adverse effects on the Issuer's business, financial condition, results of operations and prospects.

The use of standardised contracts and forms carries certain risks

NOVO BANCO and its subsidiaries maintain contractual relationships with a large number of clients. In all of NOVO BANCO and its subsidiaries' business areas and departments, the management of such a large number of legal relationships involves the use of general terms and conditions and standard templates for contracts and forms. This standardisation implies that for subjects that need clarification, contain drafting errors or require individual terms and conditions, the use of standard contracts and forms may pose a significant risk due to the large number of contracts entered into under these conditions. In light of amendments to the applicable legal frameworks as a result of new laws or judicial decisions, it is possible that not all standard contracts and forms used by NOVO BANCO comply with every applicable legal requirement at all times.

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

D. Tax and Accounting Risks

Implementation of legislation relating to taxation of the financial sector could have a material adverse effect on NOVO BANCO's results of operations

On 14 February 2013, the EC published a proposal (the "**Commission's Proposal**" or "**FTT Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has since stated that it will not participate.

Currently, after the withdrawal of the Republic of Estonia as a Member State wishing to participate in the establishment of the enhanced cooperation, ten countries are participating in the negotiations on the proposed directive.

The FTT Proposal, including prospective amendments, still remains under discussion and subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

There can be no assurance that a FTT or similar additional bank taxes and national financial transaction taxes will not be adopted, at any moment, by the authorities of the jurisdictions where NOVO BANCO operates.

Also, any such additional levies and taxes could have a material adverse effect on NOVO BANCO's business, financial condition, results of operations and prospects.

Changes to tax legislation, regulations, higher taxes or lower tax benefits could have an adverse effect on NOVO BANCO's activity

NOVO BANCO might be adversely affected by changes in the tax legislation and other regulations applicable in Portugal, the European Union and other countries in which it operates, as well as by changes of interpretation by the competent tax authorities of legislation and regulation. In addition, NOVO BANCO might be adversely affected by difficulties in the interpretation of or compliance with new tax laws and regulations. The materialisation of these risks may have a material adverse effect on NOVO BANCO's financial condition, results of operations and prospects.

2. RISKS RELATING TO THE COVERED BONDS ISSUED UNDER THE PROGRAMME

A. Risks relating to the Nature of the Covered Bonds

Obligations under the Covered Bonds are obligations of the Issuer only

The Covered Bonds will constitute unsubordinated obligations of the Issuer secured by a special creditor privilege created under the Covered Bonds Law over the Cover Pool (as defined in *Terms and Conditions of the Covered Bonds* below) maintained by the Issuer. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any person. In addition, an investment in Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds.

Accordingly, the Covered Bonds will not represent an obligation or be the responsibility of the Arranger, the Common Representative or the Dealers or any person other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security

holders or incorporators.

Issuer's Repurchase Commitment

The Issuer may provide a Repurchase Commitment to purchase a Series of Covered Bonds on its Repurchase Date. Such Repurchase Commitment will be an unsecured obligation of the Issuer (for the avoidance of doubt, it will not be secured on the Assets comprised in the Cover Pool) and failure by the Issuer to comply with its Repurchase Commitment will not constitute an event of default under the Terms and Conditions of the corresponding Series of Covered Bonds.

The Repurchase Commitment will only apply to certain Series of Covered Bonds, as per the applicable Final Terms, and will be given solely for the benefit of Qualified Investors (as defined below). Accordingly, non-qualified investors or Qualified Investors of Series of Covered Bonds that do not benefit from the Repurchase Commitment should be aware that they will not benefit from the Repurchase Commitment and are therefore subject to extension risk. For further details see *Repurchase Commitment* below.

Covered Bonds may be subject to Extended Maturity

There is a risk of occurrence of a Pass-through Event. In that event, the maturity of all Covered Bonds issued under the Programme will automatically be extended to the Extended Maturity Date as defined in the relevant Final Terms, and all outstanding Series of Covered Bonds issued under the Programme become pass-through Covered Bonds on the Pass-through Date.

In that event, NOVO BANCO will redeem at par all or part of the principal amount outstanding of those Covered Bonds on any Interest Payment Date falling in any month after the Pass-through Date up to and including the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms. In that event also, the interest payable on the principal amount outstanding of those Covered Bonds will change as provided in the applicable Final Terms and such interest may apply on a fixed or floating basis.

The extension of the maturity of the principal amount outstanding of those Covered Bonds from the Pass-through Date up to the Extended Maturity Date will not result in any right of the holders of Covered Bonds to accelerate payments on those Covered Bonds or constitute an event of default for any purpose (even if the Covered Bonds are not redeemed until the relevant Extended Maturity Date) and no payment will be due to the holders of Covered Bonds in that event other than as set out in the *Terms and Conditions of the Covered Bonds*, which will result in a longer investment period than that initially envisaged by the holders of Covered Bonds.

Risks relating to all outstanding Covered Bonds becoming pass-through Covered Bonds upon occurrence of an Insolvency Event in respect of the Issuer

If an Insolvency Event has occurred in respect of the Issuer, all outstanding Covered Bonds will become pass-through Covered Bonds. If, as a result of the occurrence of such events, all Covered Bonds become pass-through Covered Bonds, there is a risk that holders of Covered Bonds with a Maturity Date after such date receive principal repayments prior to the Maturity Date and therefore earlier than expected, which may result in a lower yield on such holder of Covered Bonds' investment than expected.

Benefit of special creditor privilege ("*privilégio creditório*")

The holders of Covered Bonds issued by the Issuer under the Programme, whether outstanding at the date hereof or in the future, benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common Representative and any Hedge Counterparties at the date hereof and in the future are also preferred creditors of the Issuer which benefit from the abovementioned special creditor privilege ("*privilégio creditório*"). None of the assets comprised in the Cover Pool are or will be exclusively available to meet the claims of the holders of certain Covered Bonds ahead of other holders of Covered Bonds or

of Other Preferred Creditors of the Issuer at the date hereof or in the future.

The value of and return on any Covered Bonds linked to a benchmark may be adversely affected by ongoing national and international regulatory reform in relation to benchmarks

Interest rates and indices which are deemed to be "benchmarks" (such as LIBOR or EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a benchmark.

Regulation (EU) 2016/1011, as amended (the "**Benchmarks Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU (which for these purposes, until the end of the transition period under the UK-EU Withdrawal Agreement, includes the United Kingdom). Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU (which for these purposes, until the end of the transition period under the UK-EU Withdrawal Agreement, includes the United Kingdom)supervised entities of benchmarks provided by administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Covered Bonds linked to or referencing a "benchmark", in particular if the methodology or other terms of the relevant "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing the rate or level or of otherwise affecting the volatility of the published rate or level of the relevant "benchmark".

More broadly, any of the international or national reforms or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. The UK Financial Conduct Authority ("**FCA**") has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Separately, on 21 January 2019, the euro risk free-rate working group for the Euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without fallback provisions) may increase the risk to the euro area financial system. It is not possible to predict with certainty whether, and to what extent, LIBOR and EURIBOR will continue to be supported going forwards. This may cause LIBOR and EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks (including LIBOR and EURIBOR): (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the relevant "benchmark" and/or (iii) leading to the disappearance of the relevant "benchmark". The potential elimination of "benchmarks", such as LIBOR or EURIBOR, the establishment of alternative reference rates or changes in the manner of administration of a "benchmark" could also require adjustments to the terms of benchmark-linked securities and may result in other consequences, such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form.

Based on the foregoing, prospective investors should in particular be aware that:

(a) any of these reforms or pressures described above or any other changes to a relevant interest rate "benchmark" (including EURIBOR and LIBOR) could affect the level of the published rate, including causing it to be lower and/or more volatile than it would otherwise be;

(b) the elimination of EURIBOR or LIBOR or any other "benchmark", or changes in the manner of administration of any "benchmark", could require or result in an adjustment to the interest calculation provisions of the *Terms and Conditions of the Covered Bonds*, or result in adverse consequences to holders of any Covered Bonds linked to such "benchmark". Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such "benchmark" may adversely affect such "benchmark" during the term of the relevant Covered Bonds, the return on the Covered Bonds and the trading market for securities (including the Covered Bonds) based on the same "benchmark"; and

(c) if EURIBOR or any other relevant interest rate "benchmark" is discontinued or is otherwise unavailable, then the rate of interest on the Covered Bonds will be determined for a period by the relevant fallback provisions, although such provisions, being dependent in part upon the provision by reference banks of offered quotations for leading banks (in the Eurozone interbank market in the case of EURIBOR), may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time).

Moreover, any of the above matters or any other significant change to the setting or existence of EURIBOR or LIBOR or any other interest rate "benchmark", could have a material adverse effect on the value or liquidity of, and the amount payable under, any Covered Bonds linked to, referencing, or otherwise dependent (in whole or in part) upon, a "benchmark".

No assurance may be provided that relevant changes will not occur with respect to EURIBOR or LIBOR or any other relevant interest rate "benchmark" and/or that such "benchmarks" will continue to exist. Investors should consider these matters, consult their own independent advisers and make their own assessment about the potential risks in making any investment decision with respect to the Covered Bonds.

Investors in Floating Rate Covered Bonds which reference EURIBOR or LIBOR should be mindful of the applicable interest rate fall-back provisions applicable to such Floating Rate Covered Bonds and the adverse effect this may have on the value or liquidity of, and return on, any Floating Rate Covered Bonds which are linked to EURIBOR or LIBOR, as applicable.

The Terms and Conditions provide that the Terms and Conditions may be varied following a Benchmark Event without any requirement for consent or approval of the holders of the Covered Bonds

Any changes to the administration of a "benchmark" or screen rate or the emergence of alternatives to such "benchmark" or screen rate as a result of these potential reforms, may cause the relevant "benchmark" or screen rate to perform differently from in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of a "benchmark" or screen rate or changes to its administration could require changes to the way in which the Rate of Interest is calculated on Covered Bonds referencing such "benchmark" or screen rate (as applicable). Uncertainty as to the nature of alternative reference rates and as to potential changes to the "benchmarks" or screen rates referenced by the Covered Bonds may adversely affect the return on the Covered Bonds and the trading market for securities referencing such "benchmarks" or screen rates. The development of alternatives to "benchmarks" or screen rates may result in Covered Bonds referencing such "benchmarks" or screen rates performing differently than would otherwise have been the case if such alternatives had not developed. Any such consequence could have a material adverse effect on the value of, and return on, any Covered Bonds referencing a "benchmark" or screen rate.

The Terms and Conditions also provide for certain fallback arrangements in the event that a Benchmark Event occurs in relation to Covered Bonds for which Screen Rate Determination applies. Either (i) the Issuer will appoint an Independent Adviser to determine a Successor Rate or, failing which, an Alternative Reference Rate is to be used in place of the Original Reference Rate or (ii) if the Issuer is

unable to appoint an Independent Adviser or the Independent Adviser appointed is unable to determine the relevant rates, the Issuer may (after consulting with the Independent Adviser (if any)) determine a Successor Rate or, failing which an Alternative Reference Rate is to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Rate of Interest may result in the Covered Bonds performing differently (including paying a lower Rate of Interest for any Interest Period) than they would do if the Original Reference Rate were to continue to apply.

Furthermore, if a Successor Rate or Alternative Reference Rate is determined by an Independent Adviser or the Issuer, as the case may be, the Terms and Conditions provide that the Issuer may vary the Terms and Conditions and the Set of Agency Procedures as necessary, to ensure the proper operation of such Successor Rate or Alternative Reference Rate, without any requirement for consent or approval of the holders of the Covered Bonds.

If a Successor Rate or Alternative Reference Rate is determined by an Independent Adviser or, as the case may be, the Issuer, the Terms and Conditions also provide that an Adjustment Spread may be determined by the Independent Adviser or, as the case may be, the Issuer to be applied to such Successor Rate or Alternative Reference Rate. The aim of the Adjustment Spread is to reduce or eliminate, so far as is reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as the case may be) to holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to holders of the Covered Bonds. If no Adjustment Spread is determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest. Furthermore, there is no guarantee that a Successor Rate or an Alternative Reference Rate will be determined or applied. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on the Covered Bonds.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Reference Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page.

Any of the above matters or any other significant change to the setting or existence of the Original Reference Rate could adversely affect the ability of the Issuer to meet its obligations under the Covered Bonds and could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Covered Bonds linked to or referencing a “benchmark”.

B. Risks relating to the Nature of the Covered Pool

Dynamic Nature of the Cover Pool

The Cover Pool may contain mortgage credits, other eligible assets, substitution assets and hedging contracts, in all cases subject to the limitations provided for in the Covered Bonds Law. At the date hereof, the Cover Pool contains mortgage credits and other eligible assets in accordance with the Covered Bonds Law. The Covered Bonds Law permits the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the composition of mortgage credits (and other permitted assets) comprised in the Cover Pool will change from time to time in accordance with the Covered Bonds Law. See *The Covered Bonds Law*.

Other Assets/Hedging Contracts

The Covered Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging

contracts subject to certain restrictions under the Covered Bonds Law. The aggregate amount of other eligible assets cannot exceed 20 per cent. of the total value of the mortgage credits and other eligible assets comprised in the Cover Pool. See *Characteristics of the Cover Pool*.

Hedging Contracts

Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. The Issuer is entitled but not required to enter into hedging contracts under the Covered Bonds Law, except if the Covered Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any rate risk coverage. See *Characteristics of the Cover Pool – Hedging Contracts*.

Risk relating to the effect of depreciation in the value of the relevant property on the Cover Pool

As described above (see the risk factor entitled "*Benefit of special creditor privilege ("privilégio creditório")*" above), the holders of Covered Bonds benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The security for a mortgage credit included in the Cover Pool consists of, among other things, a mortgage over a property granted in favour of the Issuer. The value of this property and accordingly the level of recovery on the enforcement of the mortgage, may be affected by, among other things, a decline in the value of the relevant property and no assurance can be given that the values of the relevant properties will not decline in the future. However, the Covered Bonds Law establishes that any mortgage credits which are delinquent for over 90 days must be substituted. See *The Covered Bonds Law*.

Amortisation of Mortgage Credits

Mortgage credits which are included in the Cover Pool are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgage credits may result in the Issuer being required to include further mortgage credits and/or substitution assets in the Cover Pool in order for the Issuer to comply with the financial matching requirements under the Covered Bonds Law.

No Due Diligence on the Cover Pool

None of the Arranger or the Dealers has or will undertake any investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pool but will instead rely on representations and warranties provided by the Issuer in the Programme Agreement.

C. <u>Risks relating to the Market Generally</u>

Liquidity risk under the Covered Bonds

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or incorporating pass-through redemption features or that have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of Covered Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risks that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings assigned to the Covered Bonds may not reflect all the risks associated with an investment in those Covered Bonds

One or more independent credit rating agencies may assign credit ratings to the Covered Bonds. There is no obligation of the Issuer to maintain any rating for the Covered Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be lowered, withdrawn or qualified by the rating agency at any time. In case any credit rating initially assigned to the Covered Bonds is subsequently lowered, withdrawn or qualified for any reason, no person will be obliged to provide any credit facilities or credit enhancement to the Issuer for the original rating to be restored, nor will the Issuer have any obligation to restore the original rating. Any such lowering, withdrawal or qualification of a rating may have an adverse effect on the liquidity and market value of the Covered Bonds.

In general European (including the United Kingdom) regulated institutions are in general restricted from using credit ratings for regulatory purposes under the CRA Regulation, unless such ratings are issued by a credit rating agency established in the EU (or, until the end of the transition period under the UK-EU Withdrawal Agreement, in the United Kingdom) and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU and non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered (or, until the end of the transition period under the UK-EU Withdrawal Agreement, UK-registered) credit rating agency or the relevant non-EU and non-UK rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended) subject to transitional provisions that apply in certain circumstances. If the status of a rating agency rating the Covered Bonds changes, European (including, until the end of the transition period under the UK-EU Withdrawal Agreement, United Kingdom) regulated investors may no longer be able to use the rating for regulatory purposes and the Covered Bonds may have a different regulatory treatment. This may result in European (including, until the end of the transition period under the UK-EU Withdrawal Agreement, United Kingdom) regulated investors selling the Covered Bonds which may impact the value of the Covered Bonds and any secondary market. The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings referred to in this Base Prospectus and/or the Final Terms will be disclosed in the Final Terms.

Other Risks

The past performance of Covered Bonds or other mortgage covered securities issued by the Issuer may not be a reliable guide to future performance of the Covered Bonds.

The Covered Bonds may fall as well as rise in value.

Income or gains from Covered Bonds may fluctuate in accordance with market conditions and taxation arrangements.

Other than as set out in this Base Prospectus, it may be difficult for investors in Covered Bonds to sell or realise the Covered Bonds and/or obtain reliable information about their value or the extent of the risks to which they are exposed.

D. Risks relating to Tax and other Relevant Laws

The new covered bonds directive may trigger the need to make some adjustments to the Programme

On 12 March 2018, the EC published a "Proposal for a Directive of the European Parliament and of the Council on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU". In November 2019, the European Parliament and the Council adopted the legislative package on covered bond reforms made up of a new covered bond directive and a new regulation. The new covered bond directive, Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 (the "**CBD**"), and the new regulation, Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019, were published in the Official Journal on 18 December 2019 and came into effect on 7 January 2020.

The CBD has to be implemented in national regulation by 8 July 2021 and member states shall apply national implementing regulation, at the latest, from 8 July 2022. The CBD replaces current Article 52(4) of Directive 2009/65/EC on undertakings for collective investment in transferable securities (the "**UCITS Directive**") and establishes a revised common base-line for the issue of covered bonds for EU regulatory purposes (subject to various options that members states may choose to exercise when implementing the new directive through national laws.

Regulation (EU) 2019/2160 will be directly applicable in the EU from 8 July 2022. It amends Article 129 of the CRR and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the CRR regime. The amendments build on the current prudential treatment but add requirements on minimum overcollateralisation and substitution assets Given that the aspects of the new regime will require transposition through national laws, the final position is not yet known. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

In addition, it should be noted that the CBD provides for permanent grandfathering with respect to certain requirements of the new regime for Article 52(4) UCITS Directive-compliant covered bonds issued before 8 July 2022 and includes an option for the EU Member States to allow tap issues with respect to grandfathered covered bonds (for up to 24 months after 8 July 2022), provided such tap issues comply with certain prescribed requirements. Prospective investors should therefore make themselves aware of the changes (and any corresponding national implementing measures) in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds.

Administrative cooperation in the field of taxation

Council Directive 2011/16/EU, as amended from time to time, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depository and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more

individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, income paid or credited in the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Portugal has implemented Directive 2011/16/EU through Decree-law 61/2013, of 10 May, as amended from time to time. Also, Council Directive 2014/107/EU was implemented through Decree-law 64/2016, of 11 October, as amended from time to time.

U.S. Foreign Account Tax Compliance Withholding

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and, potentially, a 30% withholding tax with respect to: (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It may also affect payment to any ultimate investor that fails to provide its broker (or other custodian or intermediary form which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding.

Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax advisor to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged once it has made payment via the Interbolsa system and the Issuer therefore has no responsibility for any amount thereafter transmitted through the ICSDs or Interbolsa and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) form payments they make.

The United States has reached a Model 1 Intergovernmental Agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016.

Portugal has implemented, through Law 82-B/2014, of 31 December, and Decree-law 64/2016, of 11 of October, both as amended from time to time, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "Financial Reporting Regime") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation, the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America.

There can be no assurance, however, that the Issuer will be treated as a deemed-compliant FFI, or that it will in the future not be required to deduct FATCA withholding tax from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold under FATCA if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

FATCA is particularly complex. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds.

Risks related to withholding tax

Under Portuguese law, income derived from the Book Entry Covered Bonds integrated in and held through a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative cooperation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorised by the member of the government in charge of finance (currently the Finance Minister), in other centralised systems held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-law 193/2005, of 7 November 2005, as amended, ("**Decree-law 193/2005**") and in force as from 1 January 2006, may benefit from withholding tax exemption, provided that certain procedures and certification requirements are complied with.

Failure to comply with procedures, declarations, certifications or others, will result in the application of the relevant Portuguese domestic withholding tax to the payments without giving rise to an obligation to gross up by the Bank.

It should also be noted that, if interest and other income derived from the Covered Bonds issued by the Bank is paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities (e.g., typically "jumbo" accounts) such income will be subject to withholding tax in Portugal at a rate of 35 per cent. unless the beneficial owner of the income is disclosed. Failure by the investors to comply with this disclosure obligation will result in the application of the said Portuguese withholding tax at a rate of 35 per cent. and the Bank will not be required to gross up payments in respect of any withheld accounts in accordance with Condition 7 (*Taxation*).

Further, interest and other types of investment income obtained by non-resident holders (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable that are domiciled in a country, territory or region included in the "tax havens" list approved by Ministerial order 150/2004, of 13 February 2004 (as amended from time to time) is subject to withholding tax at 35 per cent., which is the final tax on that income, unless Decree-law 193/2005 applies and the beneficial owners are central banks and government agencies, international organisations recognised by the Portuguese State, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force.

The Bank will not be required to gross up payments in respect of any such non-resident holders, in accordance with Condition 7 (*Taxation*).

See details of the Portuguese taxation regime in the section *Taxation—Portugal*.

Change of law

The *Terms and Conditions of the Covered Bonds* are governed by Portuguese law in effect as at the date of issue of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to Portuguese laws, including the Covered Bonds Law, or administrative practice after the date of issue of the relevant Covered Bonds.

E. Risks related to the structure of a particular issue of Covered Bonds

Risks related to the structure of particular issues of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. Covered Bonds may have features which contain particular risks for potential investors, who should consider the terms of the Covered Bonds before investing.

Risks relating to Fixed Rate Covered Bonds.

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

A holder of a Floating Rate Covered Bonds is exposed to the risk of fluctuating interest rate levels which make it impossible to determine the yield of Floating Rate Covered Bonds in advance and to the risk of uncertain interest income.

Floating Rate Covered Bonds bear a variable interest income. A holder of a Floating Rate Covered Bond is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of Floating Rate Covered Bonds in advance. Interest on Floating Rate Covered Bonds may be payable plus or minus a margin.

If the Issuer has the right to redeem the Covered Bonds at its option, this may limit the market value of the Covered Bonds concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Covered Bonds from a fixed rate to a floating rate or vice versa, this may affect the secondary market and the market value of the Covered Bonds concerned.

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds tends to be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate tends to be lower than then prevailing market rates.

Covered Bonds which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been filed with the Central Bank of Ireland, shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

a) the Articles of Association (including an English language translation thereof) of the Issuer; Available at:

https://www.novobanco.pt/SITE/cms.aspx?srv=207&stp=1&id=898461&fext=.pdf

b) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2018, together with the auditors' reports prepared in connection therewith; Available at:

https://www.novobanco.pt/site/cms.aspx?plg=27a557cb-0060-4ed4-9445-3a11a4d18359

c) the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2019, together with the auditors' reports prepared in connection therewith; Available at:

https://www.novobanco.pt/site/cms.aspx?plg=94156108-1179-4ab1-8a19-4155d48ef68d

d) the press release and presentation regarding NOVO BANCO Group's unaudited results for the first quarter of 2020;

Available at:

https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1003209&fext=.pdf and https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1003208&fext=.pdf

e) the press release and presentation regarding NOVO BANCO Group's unaudited results for the first half of 2020;

Available at:

https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1011025&fext=.pdf and https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1011027&fext=.pdf

f) the interim report and accounts of the Issuer in respect of the six-month period ended 30 June 2020, which are unaudited but contain a limited review report of the Auditors;

Available at:

https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1012688&fext=.pdf

g) information on Alternative Performance Measures contained on pages 157 to 159 of the Group's 2018 Annual Report.

Available at:

https://www.novobanco.pt/site/cms.aspx?plg=27a557cb-0060-4ed4-9445-3a11a4d18359

h) information on Alternative Performance Measures contained on pages 104 to 106 of the Group's 2019 Annual Report.

Available at:

https://www.novobanco.pt/site/cms.aspx?plg=94156108-1179-4ab1-8a19-4155d48ef68d

i) information on Alternative Performance Measures contained on pages 44 to 48 of the Group's interim report and accounts in respect of the six-month period ended 30 June 2020.

Available at:

https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1012688&fext=.pdf

j) solely for the purposes of any issues of Covered Bonds which are expressed to be consolidated and form a single Series with a Tranche of Covered Bonds issued under an earlier Base Prospectus published by the Issuer, the terms and conditions of the Covered Bonds, on pages 62 to 85 of the Base Prospectus dated 5 October 2015 (available at

https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1013893&fext=.pdf), on pages 65 to 88 of the Base Prospectus dated 21 December 2016 (available at https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1013891&fext=.pdf) and on pages 85 to 109 of the Base Prospectus dated 18 July 2019 (available at https://www.novobanco.pt/site/cms.aspx?srv=207&stp=1&id=1013892&fext=.pdf), each as prepared by the Issuer in connection with the Programme.

The information incorporated by reference in a) to i) above is a direct and accurate translation from their original Portuguese form. In the event of a discrepancy the original Portuguese version will prevail.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with article 23 of the Prospectus Regulation.

The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Base Prospectus which may affect the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and from the specified offices of the Agent and of the Common Representative for the time being.

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

The Issuer confirms that any non-incorporated parts of a document referred to herein are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The content of websites and hyperlinks to which reference is made in this Base Prospectus other than in this "*Documents Incorporated by Reference*" section does not form part of this Base Prospectus.

FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

The Covered Bonds will be held through a central securities depositary ("**CSD**") which will be the Portuguese domestic CSD, **Interbolsa** - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários ("**Interbolsa**").

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Interbolsa (together with any other clearing system which may be chosen from time to time, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Arrangers or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arrangers or any of the Dealers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such interests.

Interbolsa holds securities for its participants and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective participants. Interbolsa provides various services including safekeeping, administration, clearance and settlement of domestically and internationally traded securities and securities lending and borrowing.

The address of Interbolsa is Avenida da Boavista, 3433, 4100-138 Porto, Portugal.

Any reference herein to Interbolsa shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction (see *Subscription and Sale* and *Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

Covered Bonds held through Interbolsa

General

Interbolsa holds securities through a centralised system ("*sistema centralizado*") composed by interconnected securities accounts, through which such securities (and inherent rights) are held and transferred, and which allows Interbolsa to control at all times the amount of securities so held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all the procedures required for the exercise of ownership rights inherent to the covered bonds held through Interbolsa.

In relation to each issue of securities, Interbolsa's centralised system comprises, *inter alia*, (*i*) the *issue account*, opened by the relevant issuer in the centralised system and which reflects the full amount of issued securities; and (*ii*) the *control accounts* opened by each of the financial intermediaries which participate in Interbolsa's centralised system, and which reflect the securities held by such participant on behalf of its customers in accordance with its individual securities accounts.

Covered Bonds held through Interbolsa will be attributed an International Securities Identification Number ("**ISIN**") code through the codification system of Interbolsa and will be accepted for clearing through LCH.Clearnet, S.A., the clearing system operated at Interbolsa, as well as through the clearing systems operated by Euroclear and Clearstream, Luxembourg and settled by Interbolsa's settlement

system.

Form of the Covered Bonds held through Interbolsa

The Covered Bonds of each Series will be in dematerialised book-entry form ("*forma escritural*") and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. The Covered Bonds shall be in registered form (*nominativas)* which means that Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer.

The Covered Bonds of each Series will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by each Interbolsa Participant on behalf of the holders of the Covered Bonds. Such control accounts reflect at all times the aggregate of Covered Bonds held in the individual securities accounts opened by the holders of the Covered Bonds with each of the Interbolsa Participants. The expression "**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

Covered Bonds that are in book-entry form and registered with Interbolsa in its capacity as a securities settlement system, may be eligible for Eurosystem monetary policy. Registering the Covered Bonds with Interbolsa, however, does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life, as such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Payment of principal and interest in respect of Covered Bonds held through Interbolsa

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (*i*) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the TARGET2 payment current-accounts held by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (*ii*) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to Covered Bonds and all necessary information for that purpose. In particular, such notice must contain:

a) the identity of the Paying Agent responsible for the relevant payment; and

b) a statement of acceptance of such responsibility by the Paying Agent.

The Interbolsa Participant must, at the request of Interbolsa, inform the Paying Agent of the bank accounts to which the relevant payments shall be made. Interbolsa must notify the Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Interbolsa Participants.

In the case of a partial payment, the amount held in the TARGET2 current account of the Paying Agent must be apportioned pro-rata between the accounts of the Interbolsa Participants. After a payment has been processed, whether in full or in part, the Paying Agent must confirm that fact to Interbolsa.

The holders of Covered Bonds must rely on the procedures of Interbolsa to receive payment under the Covered Bonds. The records relating to payments made in respect of beneficial interests in the Covered

Bonds are maintained by the Affiliate Members of Interbolsa and the Issuer accepts no responsibility for, and will not be liable in respect of, the maintenance of such records.

Transfer of Covered Bonds held through Interbolsa

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bonds. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and the applicable procedures of Interbolsa.

FINAL TERMS FOR COVERED BONDS

The form of Final Terms that will be issued in respect of each Tranche of Covered Bonds issued under the Programme, subject only to the deletion of non-applicable provisions, is set out below:

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

PRIIPs / IMPORTANT – PROHIBITION OF SALE TO EEA [AND UK] RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") [or in the United Kingdom (the "**UK**")]. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2016/97/UE (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA [or in the UK] has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA [or in the UK] may be unlawful under the PRIIPs Regulation.

Final Terms dated [●]

Novo Banco, S.A.

Issue of [***Aggregate Nominal Amount of Tranche***] [**[●]** per cent./Floating Rate/Zero Coupon] Covered Bonds due **[●]**

under the €10,000,000,000.00 Conditional Pass-through Covered Bonds Programme

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW NO. 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE "COVERED BONDS LAW") AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

This document constitutes the Final Terms relating to the issue of Covered Bonds described herein.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "Terms and Conditions") set forth in the Base Prospectus dated 28 September 2020 [and the supplement dated [●]] which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (as amended, the "**Prospectus Regulation**"). [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with such Base Prospectus [as so supplemented] in order to obtain all relevant

information.][2] The Base Prospectus [and the supplement] [is] [are] available for viewing during normal business hours at Novo Banco, S.A., Avenida da Liberdade, 195, 1250-142 Lisbon, and physical copies may be obtained from the same address and electronic copies from the website of the Issuer (www.novobanco.pt).

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*]

1	Issuer:	Novo Banco, S.A. (with LEI 5493009W2E2YDCXY6S81)
2	(i) Series Number:	[●]
	(ii) [Tranche Number:	[●]
		(*If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible.*)]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Covered Bonds:	[●]
	A. Series:	[●]
	B. [Tranche:	[●]]
	Specify whether Covered Bonds to be admitted to trading	[Yes (*if so, specify each Series/Tranche*) / No]
5	(i) Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
	(ii) [Net Proceeds (Required only for listed issues)]	[●]]
6	Specified Denominations:	[€100,000 / *equivalent in other currencies*]
7	(i) Issue Date:	[●]
	(ii) [Interest Commencement Date:	[Issue Date] [Not Applicable]]
8	Maturity Date:	(*specify date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*)
9	Extended Maturity Date:	[insert date] (*The date should not fall later than 50 years after the Issue*

[2] Include for listed Covered Bonds only.

		Date of such Series.)
10	Interest Basis:	
	(i) Period to (and including) Maturity Date or the Pass-through Date, as applicable:	[[●] per cent. Fixed Rate] [Libor/Euribor] +/- [●] per cent. Floating Rate] [Zero Coupon]
	(ii) Period from (but excluding) the Pass-through Date up to (and including) Extended Maturity Date:	[Not Applicable] / [[●] per cent. Fixed Rate] [Libor/Euribor] +/- [●] per cent. Floating Rate] (further particulars specified below)
11	Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date in the following basis: [Redemption at par] [Instalment] If the maturity of the Covered Bonds is extendedpursuant to Condition 6.8, redemption will be made in accordance with Condition 6.9.
12	Change of Interest or Redemption/Payment Basis	*(Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 16 and 17 below and identify there* [Not Applicable].*)*
13	Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable] [(further particulars specified below)]
14	(i) Status of the Covered Bonds:	The Covered Bonds will be direct, unconditional and unsubordinated and secured obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law.
	(ii) [Date of [Board] approval for issuance of Covered Bonds obtained]:	[●] [Not applicable]
15	Method of distribution:	[Syndicated / Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16 Fixed Rate Covered Bonds Provisions

• To Maturity Date or Pass- through Date, as applicable:	[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
• From Pass-through Date up to Extended Maturity Date:	[Applicable / Not Applicable] (*If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph*) (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
(i) Rate [(s)] of Interest:	
• To Maturity Date or Pass- through Date, as applicable:	[●] per cent. per annum [payable in arrear on each Interest Payment Date]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [●] per cent per annum. [payable in arrear on each Interest Payment Date] (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)
(ii) Interest Payment Date(s):	
• To Maturity Date or Pass- through Date, as applicable:	[[●] in each year up to and including the Maturity Date or Pass-through Date, as applicable / [●](*specify other*)]
• From Pass-through Date up to Extended Maturity Date:	In each month up to the Extended Maturity Date, on the same day of the month of the Pass-through Date. For the avoidance of doubt, the first Interest Payment Date after the Pass-through Date will fall on the same day of the month of the Pass-through Date in the immediately following month. (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)

(iii) Fixed Coupon Amount [(s)]:

• To Maturity Date or Pass- through Date, as applicable:	[[●] per [●] in nominal amount]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [[●] per [●] in nominal amount] (*State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)

(iv) Broken Amount:

• To Maturity Date or Pass- through Date, as applicable:	[●] *(Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate)*
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [●] (*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate)* *(State "Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)

(v) Day Count Fraction

• To Maturity Date or Pass- through Date, as applicable:	[30/360] [Actual/Actual (ICMA)]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [30/360] [Actual/Actual (ICMA)] (State *"Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date.*)

(vi) Determination Date(s):

• To Maturity Date or Pass- through Date, as applicable:	[[●] in each year] (*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative*)

- From Pass-through Date up to Extended Maturity Date: [Not Applicable] [[●] in each year] (*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative*)

  (State *"Not Applicable" unless the Covered Bonds are Fixed Rate Covered Bonds after the Pass-through Date*.)

17 Floating Rate Covered Bonds Provisions

- To Maturity Date or Pass- through Date, as applicable: [Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*)

- From Pass-through Date up to Extended Maturity Date: [Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.*)

  (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(i) Specified Period(s)/Specified Interest Payment Dates:

- To Maturity Date or Pass- through Date, as applicable:

- From Pass-through Date up to Extended Maturity Date: In each month up to the Extended Maturity Date, on the same day of the month of the Pass-through Date. For the avoidance of doubt, the first Interest Payment Date after the Pass-through Date will fall on the same day of the month of the Pass-through Date in the immediately following month.

  (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)

(ii) Business Day Convention:

- To Maturity Date or Pass- through Date, as applicable: [Floating Rate Convention] / [Following Business Day Convention] / [Modified Following Business Day Convention] / [Preceding Business Day

	Convention]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [Floating Rate Convention] / [Following Business Day Convention] / [Modified Following Business Day Convention] / [Preceding Business Day Convention] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass- through Date.*)
(iii) Additional Business Centre(s):	
• To Maturity Date or Pass- through Date, as applicable:	
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable]/ [●] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date*.)
(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:	
• To Maturity Date or Pass- through Date, as applicable:	[Screen Rate Determination] / [ISDA Determination]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [Screen Rate Determination] / [ISDA Determination] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date*.)
(v) Party responsible (the "**Calculation Agent**") for calculating the Rate of Interest and Interest Amount (if not the Agent):	
• To Maturity Date or Pass- through Date, as applicable:	[●]
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable]/ [●] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date, as applicable*.)

(vi) Screen Rate Determination:

i. To Maturity Date or Pass- through Date, as applicable:	[Applicable] / [Not Applicable]
Reference Rate:	[Libor/Euribor]
Interest Determination Date:	[●] (*Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day of on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR*)
Relevant Screen Page:	[●] (*in the case of Euribor, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions accordingly*)
ii. From Pass-through Date up to Extended Maturity Date:	[Applicable] / [Not Applicable] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date, as applicable.*)
Reference Rate:	[Libor/Euribor]
Interest Determination Date:	[●] (*Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day of on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR*)
Relevant Screen Page:	[●] (*in the case of Euribor, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions accordingly*)

(vii) ISDA Determination:

i. To Maturity Date or Pass- through Date, as applicable:	[Applicable] / [Not Applicable]

Floating Rate Option:	[●]
Designated Maturity:	[●]
Reset Date:	[●]
ii. From Pass-through Date up to Extended Maturity Date:	[Applicable] / [Not Applicable] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
Floating Rate Option:	[●]
Designated Maturity:	[●]
Reset Date:	[●]
(viii) Margin(s):	
• To Maturity Date or Pass- through Date, as applicable:	[+/-] [●] per cent. per annum
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [[+/-] [●] per cent. per annum] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
(ix) Minimum Rate of Interest:	
• To Maturity Date or Pass- through Date, as applicable:	[●] per cent. per annum
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [[●] per cent. per annum] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
(x) Maximum Rate of Interest:	
• To Maturity Date or Pass- through Date, as applicable:	[●] per cent. per annum
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] / [[●] per cent. per annum] (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
(xi) Day Count Fraction:	
• To Maturity Date or Pass- through Date, as applicable	[Actual/365] [Actual/365 (Fixed)]

	[Actual/365 (Sterling)] [Actual/360] [30/360] [30E/360] (*see Condition 4 (Interest) for alternatives*)
• From Pass-through Date up to Extended Maturity Date:	[Not Applicable] [Actual/365] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [30E/360] (*see Condition 4 (Interest) for alternatives*) (*State "Not Applicable" unless the Covered Bonds are Floating Rate Covered Bonds after the Pass-through Date.*)
18 Zero Coupon Covered Bonds Provisions	[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i) Accrual Yield:	[●] per cent. per annum
(ii) Reference Price	[●]

PROVISIONS RELATING TO REDEMPTION

19 **Call Option**	[Applicable]/[Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) of each Covered Bond:	[●] per Covered Bond of [●] Specified Denomination
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[●]
(b) Maximum Redemption Amount:	[●]
(iv) Notice period (if other than as set out in the Terms and Conditions):	[●] (*NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the*

	practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
20 **Put Option**	[Applicable] / [Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) of each Covered Bond:	[●] per Covered Bond of [●] Specified Denomination
(iii) Notice period:	[●] (*NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
21 Final Redemption Amount of each Covered Bond	[●] per Covered Bond of [●] Specified Denomination [subject to Condition 6.7 (*NB in case of Zero Coupon Covered Bonds*)]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

22 Form of Covered Bonds:	Book-entry form Registered (*nominativas*) Held through Interbolsa
23 Additional Financial Centre(s):	[Not Applicable] / [●] (*give details*) (*Note that this item relates to the place of payment and not Interest Period end dates to which item 17 relates*)
24 Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit	[Not Applicable] / [●] (*give details*)

	the Covered Bonds and interest due on late payment:	
25	Details relating to Instalment Covered Bonds:	
	(i) Instalment Amount(s):	[Not Applicable / [●] (*give details*)
	(ii) Instalment Date(s):	[Not Applicable / [●] (*give details*)
26	Redenomination applicable:	[Applicable] / [Not Applicable]

DISTRIBUTION

27	(i) If syndicated, names of Dealers:	[Not Applicable] / [●] (*give names and date of relevant agreement*)
	(ii) Stabilisation Manager (if any):	[Not Applicable] / [●] (*give names*)
	(iii) Commission Payable/Selling Concession:	[●]
28	If non-syndicated, name of relevant Dealer:	[Not Applicable] / [●] (*give names and date of relevant agreement*)
29	Whether TEFRA D or TEFRAC rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable]]
30	Prohibition of Sales to EEA [and UK] Retail Investors	[Not Applicable] / [Applicable] (*If the Covered Bonds clearly do not constitute "packaged products" or the Covered Bonds do constitute a "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Covered Bonds may constitute "packaged products" and no key information document will be prepared, "Applicable" should be specified.*)

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of the Covered Bonds described herein pursuant to the €10,000,000,000.00 Conditional Pass-through Covered Bonds Programme of Novo Banco, S.A.

RESPONSIBILITY

The Issuer is responsible for the information contained in these Final Terms. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ....

Duly authorised

PART B – OTHER INFORMATION

1 Listing and admission to trading

(i) Listing:	[Euronext Dublin] / [other] (*specify*) / [None]
(ii) Admission to trading:	[Application [has been made/is expected to be made] for the Covered Bonds to be admitted to trading on [the Euronext Dublin Regulated Market]/[other] (specify with effect from [●].] [Not Applicable.] (*Where documenting a fungible issue need to indicate that original securities are already admitted to trading*.)
(iii) Estimate of total expenses related to admission to trading	[●]

2 Rating

Rating	[The Covered Bonds to be issued [have been] [are expected to be] rated:] [The Covered Bonds issued under the Programme generally [have been] [are expected to be] rated:] [Moody's: [●]] [DBRS: [●]] (*The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*.)

[*Insert a brief explanation of the meaning of the ratings if this has previously been published by the rating provider*]

3 [Notification

Central Bank of Ireland [has been requested to provide/has provided - *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation.]

4 [Interests of Natural and Legal Persons Involved in the [Issue/Offer]

Save for fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers and its affiliates in the ordinary course of business. (*amend as appropriate if there are other interests)*

When adding any other description, consideration should be given as to whether such matters described constitute "*significant new factors*" *and consequently trigger the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.)*]

5 Estimated Net Proceeds and Total Expenses

[(i)	Estimated net proceeds	[●]]
[(ii)	Estimated total expenses:	[●]]

6 [YIELD - Fixed Rate Covered Bonds only]

Indication of yield:	[●] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7 Operational Information

(i)	ISIN Code:	[●]
(ii)	Common Code:	[●]
(iii)	CFI:	[[●]/Not Applicable]
(iv)	FISN:	[[●]/Not Applicable]
(v)	Any clearing system(s) other than Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários and the relevant	[Not Applicable] / [●] (give *name(s), number(s) and adress(es))*)

identification number(s) and addresses:	
(vi) Delivery:	Delivery [against/free of] payment
(vii) Names and addresses of additional Paying Agent(s) (if any):	[●]
(viii) [Intended to be held in a manner which would allow Eurosystem eligibility:]	[[Yes] [No] [Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] (*Include this text if "yes" selected*)

8 Repurchase Commitment

(i) Applicability of the Repurchase Commitment:	[Yes] [No]
(ii) Repurchase amount	[●]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Covered Bond (as defined below). The applicable Final Terms (or the relevant provisions thereof) will be incorporated by reference into each Covered Bond. Reference should be made to ''Final Terms for Covered Bonds'' for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

THE COVERED BONDS (AS DEFINED IN THESE TERMS AND CONDITIONS) ARE MORTGAGE COVERED BONDS ("*OBRIGAÇÕES HIPOTECÁRIAS*") ISSUED IN ACCORDANCE WITH THE COVERED BONDS LAW (AS DEFINED). THE ISSUER (AS DEFINED IN THESE TERMS AND CONDITIONS) IS A CREDIT INSTITUTION WITH THE CAPACITY TO ISSUE COVERED BONDS PURSUANT TO THE

COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS LAW ARE SECURED ON THE ASSETS THAT COMPRISE THE COVER POOL (AS DEFINED BELOW) MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW. THE COVER POOL IS AUTONOMOUS FROM ANY OTHER COVER POOL MAINTAINED BY THE ISSUER IN RELATION TO ANY OTHER PROGRAMMES THAT IT HAS OR MAY ESTABLISH IN THE FUTURE.

This Covered Bond is one of a Series (as defined below) of mortgage covered bonds issued by Novo Banco, S.A. (the "**Issuer**") in accordance with the procedures set out in the Set of Agency Procedures (as defined below).

References herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean, whilst the Covered Bonds are held through Interbolsa, the book-entries corresponding to the Specified Denomination in the Specified Currency (as specified in the applicable Final Terms).

The Covered Bonds have the benefit of a set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time, the "**Set of Agency Procedures**") dated 5 October 2015 and made and agreed by Novo Banco, S.A. (acting in its capacity as Agent and Paying Agent, which expressions shall include any successors, and as Issuer) and by any subsequent agent, paying agent, transfer agent and/or agent bank appointed by the Issuer.

Any reference to "**holders of Covered Bonds**" shall mean, while the Covered Bonds are held through Interbolsa, the person or entity registered as such in the relevant individual securities account held with the relevant Interbolsa Participant.

As used herein, Tranche means Covered Bonds which are identical in all respects (including as to listing) and Series means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

Copies of the Set of Agency Procedures are available for inspection during normal business hours at the specified office of each of the Paying Agents (such Paying Agents being together referred to as the "**Agents**"). Copies of the applicable Final Terms are obtainable during normal business hours at the specified office of each of the Agents and at the Euronext Dublin's website – www.ise.ie, save that, if these Covered Bonds are unlisted, the applicable Final Terms will only be obtainable by a holder holding one or more unlisted Covered Bonds and such holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity. The Covered Bonds holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Set of Agency Procedures and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Set of Agency Procedures.

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

As used herein, **outstanding** means in relation to the Covered Bonds all the Covered Bonds issued

other than:

(a) those Covered Bonds which have been redeemed and cancelled pursuant to these Terms and Conditions;

(b) those Covered Bonds in respect of which the date for redemption under these Terms and Conditions has occurred and the redemption moneys (including all interest (if any) accrued to the date for redemption and any interest (if any) payable under these Terms and Conditions after that date) have been duly paid to or to the order of the Agent in the manner provided in the Set of Agency Procedures (and, where appropriate, notice to that effect has been given to the Covered Bonds holders in accordance with these Terms and Conditions);

(c) those Covered Bonds which have been purchased and cancelled under these Terms and Conditions;

(d) those Covered Bonds which have become prescribed under these Terms and Conditions;

(e) (for the purpose only of ascertaining the principal amount of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost or destroyed and in respect of which replacements have been issued under these Terms and Conditions.

In connection with the issue of any Tranche (as defined in *General Description of the Programme*), the Dealer or Dealers (if any) named as the stabilisation manager(s) (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, will be in compliance with all relevant laws and regulations and may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in registered form (*nominativas*). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds held through Interbolsa will be in book-entry form and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Covered Bonds. Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein. Book Entry Covered Bonds shall be registered covered bonds ("*nominativas*") which means that Interbolsa, at the Issuer's request, can ask the Affiliated Members of Interbolsa for information regarding the identity of the holders of Covered Bonds.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown and as specified in the applicable Final Terms.

Terms applicable to other types and structures of Covered Bonds that the Issuer and any Dealer(s) may agree to issue under the Programme will be set out in the applicable Final Terms.

The Covered Bonds may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds in respect of the period from the Issue Date to and including the Maturity Date or the Pass-through Date, as applicable, and Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Pass-through Date up to and including the Extended Maturity Date, subject as specified in the applicable Final Terms.

The Covered Bonds may be Instalment Covered Bonds depending upon the Redemption/Payment Basis

shown, and as specified, in the applicable Final Terms.

The Covered Bonds to be issued on or after the date hereof will be issued in denomination per unit equal to or higher than €100,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) as may be agreed between the Issuer and the relevant dealer(s), as specified in the relevant Final Terms and provided that each series of Covered Bonds will have one denomination only.

2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

Covered Bonds held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bond. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese Law and with the applicable procedures of Interbolsa.

Subject as set out below, title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code, the applicable CMVM regulations and the provisions of the Set of Agency Procedures. The Issuer, the Paying Agent and the Common Representative will (except as otherwise required by law) deem and treat the registered holder of any Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

Any reference herein to Interbolsa shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms. The holders of Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE COVERED BONDS

The Covered Bonds issued under the Programme and any interest thereon, if applicable, constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds are mortgage covered securities issued in accordance with the Covered Bonds Law, which are secured by a Cover Pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law.

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Subject as provided in Condition 4.4, interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date or the Pass-through Date, as applicable (as specified in the relevant Final Terms).

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with

this Condition 4.1:

(i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:

(a) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

1. the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

2. the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

(i) "**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

(ii) "**Principal Amount Outstanding**" means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof.

(iii) "**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

4.2 Interest on Floating Rate Covered Bonds

(A) Interest Payment Dates

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any

Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(i) in any case where Specified Periods are specified in accordance with Condition 4.2.(ii) above, the Floating Rate Convention (as specified in the applicable Final Terms), such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(ii) the Following Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(iii) the Modified Following Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(iv) the Preceding Business Day Convention (as specified in the applicable Final Terms), such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(B) Rate of Interest

The rate of interest payable from time to time in respect of Floating Rate Covered Bonds ("**Rate of Interest**") will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Covered Bonds:* Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph, "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the "**ISDA Definitions**") and under which:

1. the Floating Rate Option is as specified in the applicable Final Terms;

2. the Designated Maturity is the period specified in the applicable Final Terms; and

3. the relevant Reset Date is either (A) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or the Euro-zone inter-bank offered rate (EURIBOR) for a currency, the first day of that Interest Period, or (B) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph 4.2.(B), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Covered Bonds*: Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or
2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) or, as applicable, the relevant Calculation Agent, of such offered quotations.

The Set of Agency Procedures contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

(C) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4.2 above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If no minimum interest rate is specified or if the minimum interest rate is specified as Not Applicable in the applicable Final Terms, then the minimum interest rate shall be zero.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 4.2 above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(D) Determination of Rate of Interest and calculation of Interest Amounts

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will calculate the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination (each an "**Interest Amount**") for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest

Period:

(i) if "**Actual/365**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(E) Benchmark discontinuation

(i) Independent Adviser

Notwithstanding the provisions in Condition 4.2 above, if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, but no later than 10 days prior to the Interest Determination Date relating to the next Interest Period for which the Rate of Interest (or the relevant component part thereof) is otherwise to be determined by reference to the Original Reference Rate (the "**IA Determination Cut-Off Date**", at its own costs to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4.2(E) (ii) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 4.2(E)(v) and (vi), respectively). In making such determination, Independent Adviser appointed pursuant to this Condition 4.2(E) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Agents or the Noteholders for any determination made by it pursuant to this Condition 4.2(E).

(ii) Issuer Determination

If (a) the Issuer is unable to appoint an Independent Adviser; or (b) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 4.2(E) prior to the relevant IA Determination Cut-Off Date /Interest Determination Date, the Issuer acting in good faith and in a commercially reasonable manner may itself determine (but shall not be obliged to determine) (1) a Successor Rate or Alternative Rate and (2) in either case an Adjustment Spread and/or any Benchmark Amendments in accordance with this Condition 4.2(E) (with the relevant provisions in this Condition 4.2(E) applying mutatis mutandis to allow such determinations to be made by the

Issuer without consultation with the Independent Adviser). In the event that the Issuer decides to make a determination in accordance with this condition 4.2(E), without prejudice to the definitions hereof, for the purpose of determining any Successor Rate, Alternative Rate, Adjustment Spread and/or Benchmark Amendments (as the case may be), the Issuer shall take into account published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets.

(iii) Issuer's failure to determine a Successor Rate or Alternative Rate

If the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate, or otherwise decides not to determine a Successor Rate or Alternative Rate in accordance with the Condition 4.2(E)(ii) prior to the relevant IA Determination Cut-Off Date, the Rate of Interest applicable to the next succeeding Accrual Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of the immediately preceding Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Accrual Period from that which applied to the last preceding Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Accrual Period only and any subsequent Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 4.2(E).

(iv) Successor Rate or Alternative Rate

If the Independent Adviser, determines that:

(i) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Covered Bonds (subject to the operation of this Condition 4.2(E)); or

(ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Covered Bonds (subject to the operation of this Condition 4.2(E)).

(v) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(vi) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4.2(E) and the Independent Adviser or Issuer, as the case may be, acting in good faith and in a commercially reasonable manner, determines (1) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "Benchmark Amendments") and (2) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4.2(E)(vii), without any requirement for the consent or approval of Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 4.2(E)(vi), the Issuer shall comply with the rules of any stock exchange on which the Covered Bonds are for the time being listed or admitted to trading.

(vii) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any

Benchmark Amendments determined under this Condition 4.2(E) will be notified promptly by the Issuer to the Common Representative, the Agent, the Calculation Agent and, in accordance with Condition 11, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Common Representative of the same, the Issuer shall deliver to the Common Representative a certificate signed by Authorised Signatories of the Issuer:

a) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4.2(E); and

b) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Common Representative, the Calculation Agent and the Agent shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Common Representative's or the Calculation Agent's or the Agent's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Common Representative, the Calculation Agent, the Agent and the Noteholders.

(viii) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 4.2(E), the Original Reference Rate and the fall back provisions provided for in Condition 4.2(E) will continue to apply unless and until a Benchmark Event has occurred.

(ix) Definitions:

As used in this Condition 4.2(E):

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer, in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

i. in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

ii. the Independent Adviser, failing which, the Issuer determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser, failing which, the Issuer determines that no such spread is customarily applied);

iii. the Independent Adviser, failing which, the Issuer, determines is recognised or acknowledged as being the industry standard for over-the-counter in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, failing which, the Issuer determines has replaced the Original Reference Rate in accordance with Condition 4.2(E) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part

thereof) in the same Specified Currency as the Covered Bonds and with an interest period of a comparable duration to the relevant Interest Period.

"**Benchmark Amendments**" has the meaning given to it in Condition 4.2 (E) (i).

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist or be administered; or

(b) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will on or prior to a specified date cease to publish the Original Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(c) the making of a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, on or before a specified date, be permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate will be prohibited from being used either generally, or in respect of the Covered Bonds, or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date ; or

(e) it has, or will on or prior to a specified date, become unlawful for the Agent, the Calculation Agent, the Issuer or other party, as the case may be, to calculate any payments due to be made to the holders of the Covered Bonds using the Original Reference Rate; or

(f) the making of a public statement by the supervisor of the administrator of such Original Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used,

provided that in the case of sub-paragraphs (b), (c) and (d), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise in the international debt capital markets transactions appointed by the Issuer under Condition 4.2 (E).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Covered Bonds in respect of any Interest Period(s).

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

i. the central bank for the currency to which the relevant benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the relevant benchmark or screen rate (as applicable); or

ii. any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the relevant benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the relevant benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(F) Notification of Rate of Interest and Interest Amounts

The Agent, or where the applicable Final Terms specifies a Calculation Agent for this purpose, the

Calculation Agent so specified, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and to any Stock Exchange or other relevant competent listing authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded and notice thereof to be published in accordance with Condition 11 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Common Representative and each Stock Exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to the holders of Covered Bonds in accordance with Condition 11 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(G) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents, any Calculation Agent, the Common Representative and all holders of Covered Bonds and (in the absence of wilful default or bad faith) no liability to the Issuer, any Calculation Agent, the holders of Covered Bonds shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Accrual of interest

Subject as provided in Condition 4.4, interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until (i) the date on which all amounts due in respect of such Covered Bond have been paid; and (ii) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Agent, as the case may be, and notice to that effect has been given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

4.4 Interest rate and Payments from the Pass-through Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date

(A) If the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8, the Covered Bonds shall bear interest from (and including) the Pass- through Date to (but excluding) the earlier of the relevant Interest Payment Date after the Pass-through Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3. Interest shall be payable on each Interest Payment Date following the Pass-through Date on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in respect of the Interest Period ending immediately prior to such relevant Interest Payment Date, or as otherwise provided in the applicable Final Terms, in accordance with the provisions of Condition 6.9. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

(B) If the maturity of the Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8, the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Pass- through Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Pass- through Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.

5. PAYMENTS

5.1 Method of payment

Payments of principal and interest in respect of Covered Bonds held through Interbolsa may be made in Euro, United States Dollar, Pound Sterling, Japanese Yen, Swiss Franc, Australian Dollar and Canadian Dollar or in any other currency as may be accepted from time to time by Interbolsa and payments in a currency other than euro, will be settled through the Non-euro Currency Settlement System (SLME) of Interbolsa.

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the relevant TARGET2 payment current-accounts of the Affiliate Member of Interbolsa whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa.

Payments will be subject in all cases to the provisions of Condition 7 (*Taxation*), to (i) any tax or other laws and regulations applicable thereto in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding ordeduction.

5.2 Payment Day

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, Payment Day means any day which (subject to Condition 8 (*Prescription*)) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

   (A) the relevant place of presentation; or

   (B) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System isopen.

5.3 Interpretation of principal

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

(i) the Final Redemption Amount of the Covered Bonds;

(ii) the Optional Redemption Amount(s) (if any) of the Covered Bonds;

(iii) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms);and

(iv) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the CoveredBonds.

5.4 Reserve Account

While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Account Bank on behalf of the Programme and which will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which

are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times. The Issuer will be required to maintain at all times in the Reserve Account funds in an amount equal to or in excess of the Total Target Reserve Amount. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts standing in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may release the excess amounts, without prejudice to the obligation of compliance with the maintenance of overcollateralisation obligation pursuant to Condition 15.1.

Upon redemption of all Series of Covered Bonds, any funds remaining to the credit of the Reserve Account will be paid to the Issuer.

The Account Bank will at all times have the minimum rating and comply with other requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool. The Reserve Account will form part of the Cover Pool, over which the holders of the relevant Covered Bonds have a statutory special creditor privilege, provided that the amounts standing to the credit of such Reserve Account (together with the remaining Other Assets) do not at any time exceed 20 per cent. of the value of the mortgages loans and other eligible assets allocated to the Cover Pool.

Funds held in the Reserve Account, given their nature of Cover Pool assets, are available to meet amounts due in relation to the Covered Bonds and shall not be applied towards a partial principal redemption of the Covered Bonds prior to their Extended Maturity Date, subject to Conditions 6.8 and 6.9.

At the Issuer's option, the Reserve Account may be replaced by a liquidity facility, through a Liquidity Facility Agreement to be settled with a Liquidity Facility Provider pursuant to which the Issuer, or any entity managing the Cover Pool, will be entitled to make liquidity drawings equal to the interest payable on the Covered Bonds on any Interest Payment Dates following the occurrence of a Liquidity Event up to a maximum amount equal to Total Target Reserve Amount. This replacement will be subject to the confirmation that it will not result in any credit rating then assigned to the Covered Bonds by the Rating Agencies being reduced, removed, suspended or placed on credit watch.

6. REDEMPTION AND PURCHASE

6.1 Final redemption

Subject to Condition 6.8, unless previously redeemed or purchased and cancelled or extended as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms, in the relevant Specified Currency on the Maturity Date. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than two years or in excess of 50 years.

6.2 Redemption at the option of the Issuer (Call Option)

If Issuer Call Option is specified in the applicable Final Terms, the Issuer may, having given (unless otherwise specified, in the applicable Final Terms) not less than 30 nor more than 60 days' notice to the Common Representative, the Agent and, in accordance with Condition 11 (*Notices*), the holders of Covered Bonds (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, whilst the Covered Bonds are held through Interbolsa, the nominal amount of all outstanding Covered Bonds will be redeemed proportionally.

6.3 Redemption at the option of the holders of Covered Bonds (Put Option)

If Investor Put Option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the

terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date, subject to a Pass-through Event not having occurred in the terms provided for in Conditions 6.8 and 6.9. To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must deliver, at the specified office of any Paying Agent while the Covered Bonds are held through Interbolsa at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. If the Covered Bonds are held through Interbolsa, the right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

6.4 Instalments

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates.

6.5 Purchases

The Issuer or any of its subsidiaries may at any time purchase or otherwise acquire Covered Bonds at any price in the open market or otherwise. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, cancelled by Interbolsa.

6.6 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled. All Covered Bonds so cancelled and any Covered Bonds purchased and cancelled pursuant to Condition 6.5 above cannot be held, reissued or resold.

6.7 Zero Coupon Covered Bonds

Following the occurrence of a Pass-through Event or in case of a late payment of any Zero Coupon Covered Bonds pursuant to paragraph 6.8 below upon redemption of any Zero Coupon Covered Bond pursuant to paragraph 6.1, 6.2 or 6.3 above, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

$$RP \times (1 + AY)^{y}$$

where:

RP means the Reference Price; and

AY means the Accrual Yield expressed as a decimal; and

y is a fraction, the denominator of which is 360 and the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid;

(ii) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds either in accordance with Condition 11 (*Notices*) or individually; and

(iii) for the purpose of determining the Final Redemption Amount, the Pass-through Date.

6.8 Extension of Pass-through Date up to Extended Maturity Date

(A) Each Series of Covered Bonds issued under the Programme will be issued with an Extended Maturity Date. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series.

(B) Such Extended Maturity Date, as defined in the relevant Final Terms for each Series of Covered Bonds, will apply if the Issuer fails to redeem any Series of Covered Bonds in full on the Maturity Date or within two Business Days thereafter or if an Insolvency Event in respect of the Issuer occurs (both constituting a "**Pass-through Event**"). Following such Pass-through Event, the maturity of all Covered Bonds issued under the Programme and the date on which the Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the relevant Extended Maturity Date. In that event, the Issuer will redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Pass-through Date up to and including the Extended Maturity Date in accordance with the Pass-through provision set out in Condition 6.9.. The Issuer or any entity appointed to manage the Cover Pool shall give to the holders of Covered Bonds (in accordance with Condition 11(*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any suchperson.

(C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Pass-through Date for the purposes of this Condition 6.8 the principal amount outstanding shall be the amount calculated in accordance with Condition6.7.

(D) Any extension of the maturity of Covered Bonds under this Condition 6.8 shall be irrevocable. Where this Condition 6.8 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.8 shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms andConditions.

(E) In the event of the extension of the maturity of Covered Bonds under this Condition 6.8, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Pass-through Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition4.4.

(F) After the Pass-through Date, the redemption shall be made rateably across all Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.

(G) If the maturity of any Covered Bonds is extended in accordance with this Condition 6.8, subject to otherwise provided for in the applicable Final Terms, for so long as those Covered Bonds remain in issue, the Issuer shall not issue any further mortgage covered bonds, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

(H) For the sake of clarity, a failure to redeem the Covered Bonds at the relevant Maturity Date or within two Business Days thereafter or the occurrence of any other Pass-through Event will not constitute any event of default under the Covered Bonds of any Series.

6.9 Pass-through Provision

(i) Pursuant to the occurrence of a Pass-through Event, all outstanding Series of Covered Bonds issued under the Programme will be mandatorily redeemed, *pro rata* and *pari passu*, on each Interest Payment Date falling after the Pass-through Date in an amount equal to the Available Principal Distribution Amount, and the Interest Distribution Amount will be used to pay *pro rata* and *pari passu*, the Interest Amount due under the Covered Bonds and any amounts payable to Other Preferred Creditors due on such Interest PaymentDate.

(ii) For the purposes of these Conditions, as of a given Interest Payment Date falling after the Pass-through Date:

"**Interest Distribution Amount**" means the aggregate of the amount required to pay:

1. the Interest Amount due under the Covered Bonds on such Interest Payment Date; and

2. any sums payable to Other Preferred Creditors due on such Interest Payment Date.

"**Available Principal Distribution Amount**" means, in respect of such Interest Payment Date ("**the relevant Interest Payment Date**"), the result of:

1. the principal component of the assets comprised within the Cover Pool, *plus*

2. the interest component of the assets comprised within the Cover Pool,

in both cases, (a) which are received by the Issuer between, and including, the sixth Business Day prior to the Interest Payment Date immediately preceding the relevant Interest Payment Date up to, but excluding, the sixth Business Day prior to the relevant Interest Payment Date and (b) including, for the avoidance of doubt, the proceeds arising from any disposal thereof,

3. less the Interest Distribution Amount payable on such Interest Payment Date.

The Issuer and/or any entity managing the Cover Pool will be obliged to use and employ its best efforts to sell (in whole or in part) the assets comprised in the Cover Pool along commercial acceptable terms then possible in order to redeem, to the extent possible, the Covered Bonds prior to the relevant Extended Maturity Date, provided such sale and subsequent redemption of the respective Covered Bonds will not result in a reduction in Overcollateralisation under the prescribed Overcolateralisation Percentage outlined in Condition 15.1. Failure by the Issuer and/or any entity managing the Cover Pool to sell or refinance the assets comprised in the Cover Pool will not constitute an event of default.

The Interest Distribution Amount and the Available Principal Distribution Amount will be calculated by the Agent, pursuant to the terms of the Set of Agency Procedures.

The pass-through provision applies without prejudice to the obligation of compliance with the maintenance of overcollateralisation obligation at all times pursuant to Condition 15.1.

7. TAXATION

7.1. Payments free of taxes

All payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any Taxes unless the Issuer or any Paying Agent (as the case may be) is required by law to make any such payment subject to any such withholding or deduction. In that event, the Issuer or any Paying Agent (as the case may be) shall be entitled to withhold or deduct the required amount for or on account of Tax from such payment and shall account to the relevant Tax Authorities for the amount so withheld or deducted.

7.2 No payment of additional amounts

Neither the Issuer nor the Paying Agent will be obliged to pay any additional amounts to the holders of Covered Bonds in respect of any Tax Deduction made in accordance with Condition 7.1 above.

7.3 Taxing Jurisdiction

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Portuguese Republic, references in these Terms and Conditions to the Portuguese Republic shall be construed as references to the Portuguese Republic and/or such other jurisdiction.

7.4 Tax Deduction not event of default

Notwithstanding that the Issuer or any Paying Agent is required to make a Tax Deduction in accordance with Condition 7.1 above, this shall not constitute an event of default by the Issuer.

8. PRESCRIPTION

The Covered Bonds will become void unless presented for payment within 20 years (in the case of principal) and 5 years (in the case of interest) in each case from the Relevant Date therefor, subject in each case to the provisions of Condition 5 (*Payments*). As used in these Terms and Conditions, "Relevant Date" means the date on which such payment first becomes due, except that, if the full

amount of the moneys payable has not been duly received by the Agent, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11

(*Notices*).

9. INSOLVENCY EVENT AND ENFORCEMENT

9.1 Insolvency Event

If an Insolvency Event in respect of the Issuer occurs, the provisions of Conditions 6.8 and 6.9 apply. Notwithstanding the foregoing, pursuant to the Covered Bonds Law, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, for which purpose the Covered Bonds held by the Issuer or on its behalf shall not be counted nor entitle voting rights, to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest. For the sake of clarity, the serving of such an Acceleration Notice will supersede the provisions of Conditions 6.8 and 6.9, the Covered Bonds becoming immediately due and payable as aforementioned.

For the purposes of these Terms and Conditions: "**Insolvency Event**" means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-law 199/2006, of 25 October 2006, as amended, the RGICSF, and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-law 53/2004, of 18 March 2004, as amended). Investors should see the *Insolvency of the Issuer* section.

9.2 Enforcement

(A) Following the approval of a Resolution as described in Condition 9.1, the holders of the Covered Bonds (or the Common Representative on their behalf, provided it has been indemnified and/or secured to its satisfaction) may at any time after service of an Acceleration Notice, at its discretion and without further notice, take such proceedings against the Issuer, and/or any other person as it may deem fit to enforce the provisions of the Covered Bonds.

(B) In exercising any of its powers and discretions the Common Representative shall only have regard to the interests of the holders of Covered Bonds of all Series.

(C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme Document unless the Common Representative, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. AGENT AND PAYING AGENTS

(A) The names of the Agent and the Paying Agent and their initial specified offices are set out below. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.

(B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) there will at all times be an Agent;

(ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in continental Europe;

(iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or as the case may be, other relevant authority.

11. NOTICES

All notices regarding the Covered Bonds shall be published in a manner which complies with the

applicable listing rules of the Euronext Dublin and also with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication.

All notices regarding the Covered Bonds shall comply with the applicable Portuguese law requirements, notably CMVM Regulation 5/2008, as amended.

12. MEETINGS OF HOLDERS OF COVERED BONDS

(A) The Portuguese Companies Code contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.

(B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding. Each Covered Bond grants its holder one vote.

(C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; (ii) if in respect to a Resolution regarding a Reserved Matter except for the one set out in (iii) below, at least 50 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting 2/3 of the votes cast at the relevant meeting or (iii) if in respect to a Resolution regarding an increase in the obligations of the holders of Covered Bonds, all holders of the relevant Series of Covered Bonds.

For the purposes of these Terms and Conditions, a "Reserved Matter" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Conditions 12(C)(ii) and 12(C)(iii);

A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph (C) shall apply thereto *mutatis mutandis*.

(D) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or to direct the Common Representative to take any enforcement action (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series the outstanding.

(E) Any such meeting to consider a Programme Resolution may be convened by the Common Representative or, if it refuses to convene such a meeting, by the Chairman of the General

Meeting of Shareholders of the Issuer; if both the Common Representative and the Chairman of the General Meeting of Shareholders of the Issuer refuses to convene the meeting, then 5 per cent. of the holders of Covered Bonds of any Series may petition the court to order a meeting to be convened.

(F) A Programme Resolution passed at any meeting of the holders of Covered Bonds of all Series shall be binding on all holders of Covered Bonds of all Series, whether or not they are present at the meeting.

(G) In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

13. INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER

(A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such holders of Covered Bonds by a Resolution or by a written resolution of such holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

(B) The Common Representative shall not be required to expend its own funds or otherwise incur or risk incurring any liability in the performance of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has grounds for believing the repayment of such funds is not reasonably assured to it under the Covered Bonds Law or if it has not been provided with adequate indemnity against or security for such risk or liability. Notwithstanding any Programme Resolution or any other Resolution approved at any meeting or any written resolution of any holders of Covered Bonds, the Common Representative may (i) refrain from taking any action until it has been provided with sufficient funds or adequate indemnity against or security for any liability it may incur as a result of any such actions and (ii) refrain from doing anything which might in its opinion be contrary to any law of any jurisdiction or which might otherwise render it liable to any person and (iii) do anything which is in its opinion necessary to comply with any such law, and in no circumstances shall be liable to the holders of Covered Bonds for any consequences of such actions or inaction. The Common Representative Appointment Agreement contains further provisions for the indemnification of the Common Representative and for its relief from responsibility.

14. REPLACEMENT OF COVERED BONDS

Should any Covered Bond be lost or destroyed, it may be replaced, in accordance with article 51 of the Portuguese Securities Code.

15. OVERCOLLATERALISATION, VALUATION OF COVER POOL AND ISSUER COVENANTS

15.1 Maintenance of overcollateralisation

For so long as the Covered Bonds are outstanding, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulations) of the Cover Pool shall at all times be a minimum of 105.26 per cent. of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the Issuer pursuant to article 21.2 of the Covered Bonds Law and not cancelled or such other percentage under such other conditions as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the "**Overcollateralisation**"), provided that the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below the applicable legal percentage applicable from time to time pursuant to article 19 of the Covered Bonds Law (or other provision that amends or substitutes the same).

15.2 Issuer Covenants

For so long as any of the Covered Bonds are outstanding, the Issuer shall ensure that:

(A) Loan to Value: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80

per cent. of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60 per cent. of the Current Property Value, in case of a Property intended primarily for commercial purposes;

(B) Asset Cover: the aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool;

(C) Average Maturity: the remaining average Maturity of all outstanding Covered Bonds is at all times shorter than the remaining average Maturity of the Cover Pool entered in the Register;

(D) Interest Cover: the total amount of interest receivable on the Cover Pool will at all times be at least equal to or exceed the total amount of interest payable on the outstanding Covered Bonds;

(E) Valuations: all the required valuations of Covered Bonds, Mortgage Credits, Hedging Contracts, Other Assets and Properties will be made in compliance with the requirements of the Covered Bonds Law and the Bank of Portugal Regulations (in particular Regulation 5/2006 and Regulation 6/2006);

(F) Cover Pool Monitor: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 14 in accordance with the Covered Bonds Law;

(G) Mortgage Credits: the Mortgage Credits included in the Cover Pool are not Non-Performing Mortgage Credits; and

(H) Liabilities: The net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis points parallel shifts of the yieldcurve.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the holders of Covered Bonds to create and issue further securities with the same terms and conditions of the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

17. GOVERNING LAW AND JURISDICTION

The Common Representative Appointment Agreement, the Set of Agency Procedures, the Covered Bonds, and the other Programme Documents (including any non-contractual obligations arising out of, or in connection with said documents), except for the Reserve Account Agreement, are governed by, and shall be construed in accordance with, Portuguese law unless specifically stated to the contrary.

The courts of Lisbon shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with this Agreement (including any Proceedings relating to any non-contractual obligations arising out of or in connection with this Agreement) may be brought in such courts, subject to mandatory applicable laws.

18. DEFINITIONS

In these Terms and Conditions, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Insolvency Event and Enforcement*).

"**Account Bank**" means Société Générale London Branch, in its capacity as Account Bank, with its head office at SG House, 41 Tower Hill, London, EC3N 4SG, or any successor account bank, appointed from time to time by the Issuer in connection with the Reserve Account and under the Reserve Account Agreement, when applicable.

"**Agent**" means Novo Banco, S.A., in its capacity as Agent with head office at Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal

regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006 and Regulation 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

"**Book Entry Covered Bonds**" means any Covered Bonds issued in book entry form.

"**Clearstream, Luxembourg**" means Clearstream Banking société anonyme, Luxembourg.

"**CMVM**" means the *Comissão do Mercado de Valores Mobiliários*, the Portuguese Securities Market Commission.

"**Common Representative**" means BNP Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at 10 Harewood Avenue, London NW1 6AA, United Kingdom.

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register. The Cover Pool is autonomous from any other cover pool maintained by the Issuer in relation to any other programmes that it has or may establish in the future.

"**Cover Pool Monitor**" means Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178and with registered office at Av. da República no. 90, 1700-157 Lisbon.

"**Covered Bond**" means any conditional pass-through mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-law 59/2006, of 20 March 2006, as amended from time to time.

"**CRA Regulation**" means Regulation (EU) no. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended from time to time.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property;

"**DBRS**" means any entity that is part of DBRS Group and any successor to the relevant rating agency.

"**Dealers"** means J.P. Morgan Securities plc, Novo Banco, S.A. and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.

"**Euro**", "**€**" or "**euro**" means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms.

"**Final Terms**" means, in relation to each Tranche, the final terms applicable to such Covered Bonds.

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**Instruction 13/2006**" means the regulatory instruction ("*Instrução*") 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Interbolsa**" means Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas

Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**Liquidity Event**" means the Interest Payment Date of any Covered Bond in relation to which the Issuer has given a 5 day prior notice to the Liquidity Facility Provider of not having enough available funds to make the payment of the Interest Amount due on the Covered bonds.

"**Liquidity Facility Provider**" means an eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Moody's**" means Moody's Investors Service España, S.A., and any of its successors and affiliates;

"**Mortgage"** means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

(a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;

(b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;

(c) it is a receivable secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

(a) is in the course of being foreclosed or otherwise enforced; or

(b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

(a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating as required pursuant to the Covered Bonds Law and which will include, for the avoidance of doubt, funds standing to the credit of the Reserve Account which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and the counterparties under the Hedging Contracts.

"**Overcollateralisation**" has the meaning given in Condition 15.1.

"**Overcollateralisation Percentage**" means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time pursuant and subject to the terms of Condition 15.1 and notified to the Cover Pool Monitor.

"**Pass-through Date**" means the date which falls 15 days after the date in which a Pass-through Event occurs.

"**Pass-through Event**" means the occurrence of any of the following events: a) the Issuer fails to repay any Series of Covered Bonds in full on its Maturity Date or within two Business days thereafter, or b) an Insolvency Event in respect of the Issuer.

"**Paying Agents**" means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

"**Property**" means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and "**Properties**" means all of them.

"**Property Valuation**" means, in relation to any Property:

(a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and

(b) the amount determined by resorting to the use of adequate and recognized indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Rating Agencies**" means Moody's and DBRS.

"**Register**" means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations;

"Regulation 5/2006" means the regulatory notice ("*Aviso*") 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"Regulation 6/2006" means the regulatory notice ("*Aviso*") 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") 8/2006 issued by the Bank of Portugal and

published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Reserve Account**" means the account held by the Issuer with the Account Bank, as set out in Condition 5.4.

"**Reserve Account Agreement**" means the agreement so designated entered into between the Issuer and the Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on 6 October 2015 (as amended, supplemented and/or restated from time to time from time to time).

"**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Conditions 12(C)(ii) and12(C)(iii).

"**Resolution"** means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

"Securities Act" means the United States Securities Act of 1933, as amended.

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 5 October 2015 and made and agreed by Novo Banco, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent, transfer agent, agent bank and/or registrar appointed by the Issuer.

"**Stock Exchange**" means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

"**TARGET2 Day**" means any day on which the TARGET2 System is open.

"**TARGET2 System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer System.

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions shall be construed accordingly.

"**Tax Authority**" means any government, state, municipal, local, federal or other tax, revenue, customs or excise authority, body or official anywhere in the world exercising a tax, revenue, customs or excise function.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Total Target Reserve Amount**" means on any date, the amount equal to the Interest Amount payable on the Covered Bonds on the three months following such date plus € 100,000.00.

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**Value**" means:

(a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;

(b) in relation to any Other Assets:

   i. the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

   ii. the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

CHARACTERISTICS OF THE COVER POOL

INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

In general, only duly licensed credit institutions allowed by law to grant mortgage loans, and having own funds not lower than €7,500,000, may issue covered bonds. The Issuer complies with these requirements and is thus allowed to issue covered bonds under the Covered Bonds Law.

ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Covered Bonds only if it maintains a related Cover Pool in compliance with the Covered Bonds Law. Pursuant to the Covered Bonds Law, the Cover Pool may contain mortgage credit assets, substitution assets and other eligible assets (including hedging contracts), subject to the limitations provided for therein. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Covered Bonds, the Issuer has established and will maintain a segregated register (the "**Register**") in relation to the Cover Pool for the purposes of the Covered Bonds Law.

The Issuer plans to issue from time to time Covered Bonds under the Programme and will include in the Cover Pool Mortgage Credits, Hedging Contracts and Other Assets as security for those Covered Bonds, in accordance with relevant provisions of the Covered Bonds Law, as further detailed below.

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, to take all possible steps to prevent the contravention from continuing or being repeated.

ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

Only mortgage credits or receivables which comply with the legal eligibility criteria described below may be included in the Cover Pool:

Mortgage Credits Eligibility Criteria

Mortgage Credits should be pecuniary credit receivables of the Issuer not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which:

a) are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or

b) are secured by a junior mortgage but where all mortgage credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

c) are secured by (*i*) a personal guarantee granted by a credit institution, or (*ii*) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing the characteristics described above.

"Other Assets" Eligibility Criteria:

The following assets may also be included in the Cover Pool as Other Assets:

a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Covered Bonds Law; and

c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

For the sake of clarity, on the date hereof the legal minimum rating requirement in respect of b) above is "A-" or equivalent.

The aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the mortgage assets and other assets allocated as collateral to all Covered Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool Mortgage Credits which are located in Portugal and secured primarily on residential property for the purposes of the Covered Bonds Law and a deposit to be held with the Account Bank. The Cover Pool may also include mortgage credit that has been granted under the subsidised credit regime, pursuant to Decree Law 349/98, of 11 November 1998 (as amended).

The Issuer does not intend at the date of this Base Prospectus to include either (*i*) Mortgage Credits which have their primary security over commercial property or (*ii*) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal, without first notifying (in each case for so long as the Covered Bonds are rated by such rating agency) Moody's and DBRS to ascertain whether any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

HEDGING CONTRACTS

The Covered Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Covered Bonds Law and described in this section.

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (*i*) in a regulated market of an EU Member State, or (*ii*) recognised market of an OECD country, or (*iii*) with a counterparty which is a credit institution with a rating of at least "A-" or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice ("*Aviso*"), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (*i*) the Covered Bonds to which the relevant Hedging Contract relates; (*ii*) the corresponding Cover Pool; (*iii*) the nominal value of the Hedging Contract; (*iv*) the Hedge Counterparty; and (*v*) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits, as and when comprised in the Cover Pool, will be managed through Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

The terms of any Hedging Contracts to be entered into with a Hedge Counterparty, will include, among other termination events, provisions that provide that if the rating of any Hedge Counterparty long-term unsecured, unsubordinated debt obligations falls below "A3" by Moody's and "A (low)" by DBRS (or ceases to be rated) at any time, the Hedge Counterparty will be required to take certain remedial measures which may include: (*i*) providing collateral for its obligations under the Hedging Contract, subject to any applicable Rating Agencies' criteria regarding Hedge Counterparty exposures; (*ii*) arranging for its obligations under the Hedging Contracts to be transferred to an entity with ratings given pursuant to the criteria of the relevant rating agency; (*iii*) procuring another entity with ratings given pursuant to the criteria of the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (*iv*) taking such other action as it may agree with the relevant rating agency. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

LOAN-TO-VALUE RESTRICTIONS

Pursuant to the Covered Bonds Law, the amount of any Mortgage Credit asset included in the Cover Pool may not exceed (*i*) the value of the corresponding Mortgage, nor(*ii*) 80 per cent. of the value of the Property, if it is residential property, or 60 per cent. of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

WEIGHTED AVERAGE TERM TO MATURITY

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which are required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

OVERCOLLATERALISATION

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding may not exceed 95 per cent. of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise the Cover Pool at all times at a minimum of 105.26 per cent. of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the Issuer pursuant to article 21(2) of the Covered Bonds Law and not cancelled or such other percentage under such other conditions as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the "**Overcollateralisation**"), provided that the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below the applicable legal percentage applicable from time to time pursuant to article 19 of the Covered Bonds Law (or other provision that amends or substitutes the same).

For the purposes of the calculation by the Issuer and the Cover Pool Monitor of the level of overcollateralisation referred to above:

a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;

b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, together with accrued but unpaid interest;

c) in relation to any Other Assets:

   i. deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

   ii. securities eligible for Eurosystem credit transactions shall be accounted for by the value resulting from the application of the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the ECB as a reference.

In addition, the net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis point parallel shifts in the yield curve.

COMPLIANCE WITH FINANCIAL REQUIREMENTS

The Cover Pool Monitor must monitor the Issuer's compliance with the financial requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations described in this section. The Issuer must, as soon as practicable after becoming aware that it has failed to comply with any provisions of the Covered Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

a) allocating new mortgage credit assets, with or without substitution of those already allocated to the Covered Bonds; and/or

b) allocating additional Other Assets; and/or

c) acquiring Covered Bonds in the secondary market.

VALUATION OF COVER POOL

The Covered Bonds Law sets out certain requirements and criteria which are required to be met by the Issuer in respect of the valuation of Mortgage Credits comprised in the Cover Pool.

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice ("*Aviso*"), requirements in relation to the valuation basis and methodology, time of valuation and any other matters that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Regulation 5/2006 and in Regulation 6/2006.

Valuation of Properties

General Overview

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool may not be higher than the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (*i*) the sustainable long term characteristics of such Property, (*ii*) the standard conditions of the local market, (*iii*) the current use of the relevant Property, and (*iv*) any alternative uses of the Property in question.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the market value of such Property. For these purposes, the "**market value**" of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (*i*) the Property is publicly put on sale, (*ii*) the market conditions allow for a regular transfer of such Property, and (*iii*) there is a normal period of time to, considering the nature of the Property in question, negotiate the purchase and sale of such Property.

Valuation by expert

Prior to the inclusion in the Cover Pool of the related Mortgage Credit, each Property must be valued by a real estate valuation expert. Such valuation shall be reviewed by a real estate valuation expert whenever (*i*) the information available to the Issuer indicates that there may have been a substantial decrease in the value of the Property or (*ii*) the value of the Property may have materially decreased in relation to general market prices.

A valuation made by a real estate valuation expert prior to the enactment of Regulation 5/2006 may, however, be used by the Issuer provided that:

a) the valuations were carried out by a valuation expert who is independent from the credit analysis and credit decision-making process within the Novo Banco Group;

b) the valuations were subject to a written report from the valuation expert that includes in a clear

and accurate way elements that allow the understanding of the analysis and conclusions of the valuation expert;

c) the Properties had been valued in light of the corresponding market value or the value of the mortgaged Property, as established by Regulation 5/2006; and

d) there has been no evidence that the relevant Property is over-valued at the time of allocation of the relevant Mortgage Credit to the issue of Covered Bonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (*i*) any specific interest of the real estate valuation expert in the Property subject to the valuation, (*ii*) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (*iii*) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

The Issuer may appoint a valuation expert within the Novo Banco Group, provided such valuation expert is independent from the credit analysis and decision-making process within the Novo Banco Group.

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January of each year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulation 5/2006, the Bank of Portugal may, in relation to a given Property, require the Issuer to appoint another valuation expert, in particular when the value resulting from the previous valuation raises doubts as to its correctness.

Methods of valuation

The Issuer must ensure that each real estate valuation expert it appoints uses one of the following methods of valuation, which shall be chosen in light of the specific characteristics of the Property subject to valuation, as well as of the specific conditions of the local market:

a) Cost method;

b) Income method; or

c) Comparison method.

Valuation report

Each real estate valuation expert appointed by the Issuer shall prepare a written report in relation to the valuation of each Property, setting out, in a clear and detailed manner, all the elements relevant for the full understanding of the analysis and conclusions of such valuation, in particular:

a) the identification of the relevant Property, with a detailed description of its characteristics;

b) a description and basis for the selection of the method(s) of valuation, any parameters used and/or assumptions adopted, identifying the manner in which the volatility effects of the short term market or the market temporary conditions were taken into account;

c) a description of possible qualifications to the analysis;

d) the valuation of the Property, in terms of both the value of the mortgaged Property and of the market value of the Property;

e) a statement of the valuation expert that he has carried out the valuation according to the applicable requirements set out in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular Regulation 5/2006;

f) the date of the valuation and the identification and the signature of the valuation expert.

Subsequent valuations of Properties and subsequent update of the value of Properties

In respect of Mortgage Credits that exceed (*i*) 5 per cent. of the own funds of the Issuer or (*ii*) €500,000, in the case of residential Properties, or €1,000,000, in the case of commercial Properties, the valuation of the relevant Property shall be reviewed by a real estate valuation expert at least every three years.

The Issuer shall also perform any internal check of the value of each of the Properties once every three years, for residential Properties, and at least once a year for commercial Properties.

The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a substantial decrease of the Property value has taken place or that the Property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indices or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indices and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indices and statistical methods produced by a reputable independent valuation expert.

All subsequent updates of the value of the Properties shall be documented by the Issuer, setting out the description of the relevant criteria and the frequency of the review.

The Issuer shall provide the Cover Pool Monitor with all information necessary for the Cover Pool Monitor to supervise compliance by the Issuer with the requirements set forth in the Covered Bonds Law and in Regulation 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

Valuation of Other Assets

Pursuant to Regulation 6/2006, the Other Assets shall be valued as follows:

a) the deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

b) the securities eligible for Eurosystem credit transactions shall be accounted for according to the value resulting from the application of the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

Insurance

Pursuant to the Covered Bonds Law, if any property mortgaged as security for payment of interest and principal in relation to a mortgage credit asset comprised in the Cover Pool does not have an adequate insurance policy contracted by the relevant owner, the Issuer must obtain such insurance coverage adequate to the risks inherent to the relevant property. The Issuer must bear the costs of such insurance. In any case, the insurance policy attached to any property included in the Cover Pool must provide for a full coverage, allowing, in case of total loss, for such property to be rebuilt. Any compensation due under any such insurance policies must be paid directly to the Issuer, up to the limit of the relevant Mortgage Credit.

COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE

Autonomous pool of assets and segregated register

Pursuant to the Covered Bonds Law, the Cover Pool constitutes an autonomous pool of assets ("*património autónomo*"), not liable for any general indebtedness incurred by the Issuer until all amounts due to the holders of Covered Bonds and the Other Preferred Creditors are fully paid and discharged.

The Covered Bonds Law provides that the appropriate particulars of each asset comprised in the Cover Pool (including Mortgage Credits, Other Assets and Hedging Contracts) must be recorded in a segregated register within, and maintained by, the Issuer. Such register must record the following:

a) the outstanding principal amount;

b) the applicable interest rate;

c) the applicable amortisation;

d) the notary's office where the relevant mortgage was entered into, when applicable; and

e) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

Pursuant to article 4, no. 3 of the Covered Bonds Law, the Cover Pool is identified in the transaction documents by a code. The key to such code is deposited with the Bank of Portugal which has promulgated, by regulatory notice ("*Aviso*"), the conditions under which the holders of Covered Bonds may have access to the segregated register of the Cover Pool.

Special creditor privilege

Under the Covered Bonds Law, the holders of Covered Bonds enjoy a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Covered Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The mortgages created as security for the mortgage credit assets comprised in the Cover Pool shall prevail over all other real estate preferential claims.

DOCUMENTS AVAILABLE REGARDING THE COVER POOL

On a quarterly basis, the Issuer produces an investor report (the "**Investor Report**") containing key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and Other Assets, as at the last business day of each calendar quarter. The Investor Report is produced by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. The Issuer makes the Investor Report available to investors by publishing it in on the Issuer's corporate website (www.novobanco.pt).

INSOLVENCY OF THE ISSUER

The Covered Bonds Law governs, to a certain extent, the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Covered Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Covered Bonds Law establishes that the Cover Pool shall be segregated from the insolvency estate of the Issuer and will not form part thereof until full payment of any amounts due to the holders of Covered Bonds. The amounts corresponding to payment of interest and repayment of principal of the Mortgage Credits and Other Assets will not form part of the insolvency estate of the Issuer.

The Cover Pool will, in such an event, be separated from the Issuer's insolvency estate so as to be autonomously managed until full payment of the amounts due to the holders of Covered Bonds and the Other Preferred Creditors. In this situation, pursuant to the Covered Bonds Law, the holders of Covered Bonds are entitled to adopt a resolution approving the immediate acceleration of the Covered Bonds by a majority of at least two thirds of the votes of the holders of Covered Bonds then outstanding, in which case the entity appointed to manage the Cover Pool shall provide for the liquidation thereof to the benefit of the holders of Covered Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the voluntary dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Covered Bonds and (ii) ensure that the payments of any amounts due to the holders of such Covered Bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

In addition, if the authorisation of the Issuer to act as a credit institution in Portugal is revoked, the Bank of Portugal is required, simultaneously with the decision to revoke such authorisation, to appoint a Substitute Credit Institution to manage the Cover Pool allocated to the Covered Bonds outstanding and to ensure that payments due to the holders of such Covered Bonds are made.

The fees to be paid to the appointed Substitute Credit Institution shall be determined by the Bank of Portugal at the time of such appointment and shall be paid out of the Cover Pool.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

(i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;

(ii) perform all acts and operations necessary or convenient for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds including, without limitation:

   a. selling the Mortgage Credits comprised in the Cover Pool;

   b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool;

   c. performing administrative services in connection with such Mortgage Credits and respective borrowers, as well as performing amending and extinguishing conservative acts relating to guarantees;

(iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and

(iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds. This report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with article 34 of the Covered Bonds Law.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under such Mortgage Credits.

REPURCHASE COMMITMENT

If the repurchase commitment is specified as applicable in the Final Terms relating to a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on its Repurchase Date at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms, if so requested by any holders of such Series which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to two Business Days after the Maturity Date (the "**Repurchase Commitment**").

This undertaking shall be provided at the Issue Date in a letter issued to the benefit of the holders of certain Series of Covered Bonds which will be acknowledged on behalf of all such holders by the Common Representative.

This undertaking does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-compliance by the Issuer with such undertaking will not constitute an event of default under such Terms and Conditions. This undertaking is a senior unsecured obligation and non-compliance by the Issuer with this undertaking will, nonetheless, constitute a default in respect of the Issuer's senior unsecured obligations vis-à-vis the holders of the relevant Series who have exercised their right to request the Issuer to buy the relevant Covered Bonds. Such holders will have recourse to the general legal remedies applicable to breach of obligations under Portuguese law. For the avoidance of doubt, a breach of the Repurchase Commitment will not in itself result in an acceleration of the Covered Bonds or a realisation of the Cover Pool assets.

The right of the holders of the relevant Series to request the Issuer to buy the Covered Bonds they hold pursuant to the Issuer's undertaking shall be exercised individually by each holder, by delivering to the Affiliate member of Interbolsa through which it holds the Covered Bonds a written notice, in the form available from any specified office of any Paying Agent or in another form accepted by such Affiliate Member of Interbolsa for such purpose (a Repurchase Notice), no less than 10 and no more than 60 days after the Maturity Date. Each such holder of the Covered Bonds shall so submit irrevocable sale instructions to the relevant Affiliate Member of Interbolsa for the transfer of its Covered Bonds to the Issuer against payment of the applicable Repurchase Price (in the form and according to the procedures of Interbolsa). Such holder of Covered Bond shall also represent and warrant (in the Repurchase Notice) that it is a Qualified Investor. If investors hold the Covered Bonds through Euroclear and Clearstream (or otherwise indirectly), they shall comply with the applicable Clearing System procedures.

For purposes of this commitment, "Qualified Investor" shall mean any qualified investor (*investidor qualificado*) in accordance with and for the purposes of the public offers regime of the Portuguese Securities Code (or under any legislation which may replace it or complement it in this respect from time to time, including Regulation (UE) 2017/1129 – the Prospectus Regulation) and/or in accordance with and for the purposes of other applicable laws, to whom an offer can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction. Following the implementation of MiFID II in Portugal, by Law 35/2018, of 20 July 2018, the term "qualified investors" for the foregoing purposes, in respect of the Portuguese Securities Code, corresponds to the term "professional investors" (*investidores profissionais*) as defined in article 30(1) of the Portuguese Securities Code, while in respect of the Prospectus Regulation it is as defined in article 2(e) thereof.

For purposes of this commitment, Repurchase Date will be the date which falls on the 90th day after the Maturity Date of the relevant Series of Covered Bonds.

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

The Issuer has appointed a common representative to represent the holders of Covered Bonds in accordance with Article 14 of the Covered Bonds Law. According to the Covered Bonds Law and to the relevant provisions of the Portuguese Commercial Companies Code, common representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Covered Bonds, notably: (a) to represent the holders of Covered Bonds in respect of all matters arising from the issuance of the Covered Bonds and to enforce on their behalf their legal or contractual rights; (b) to enforce any decision taken by the general meetings of the holders of Covered Bonds, in particular those where the acceleration of the Covered Bonds may be decided; (c) to represent the holders of Covered Bonds in any judicial proceedings, including judicial proceedings against the Issuer and, in particular, in the context of any winding-up, dissolution or insolvency commenced by or against the Issuer; (d) to collect and examine all the relevant documentation in respect of the Issuer which is provided to its shareholders; and (e) to provide the holders of Covered Bonds with all relevant information regarding the issuance of the Covered Bonds it may become aware of by virtue of its role as common representative under the relevant appointment agreement .

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions of the Covered Bonds and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative.

BNP Trust Corporation UK Limited, incorporated under the laws of the United Kingdom, is the current Common Representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions of the Covered Bonds and the terms of the Common Representative Appointment Agreement. As a result of the UK-EU Withdrawal Agreement, and with effect from 1 January 2021, BNP Trust Corporation UK Limited will no longer qualify under the Covered Bonds Law to act as common representative of the holders of the Covered Bonds. Therefore, it is expected that a new entity will be appointed in the near future as the Common Representative under the Programme. Furthermore, meeting(s) of holders of currently outstanding Covered Bonds issued in the past under the Programme are also expected to be convened in the near future to conduct the removal of BNP Trust Corporation UK Limited as Common Representative and to approve the appointment of the same new entity as Common Representative of such holders. When applicable, the convening notice(s) for the meeting(s) of holders of currently outstanding Covered Bonds issued in the past under the Programme will be made available in the relevant terms, notably at the Issuer's website.

COVER POOL MONITOR

APPOINTMENT OF A COVER POOL MONITOR

The Covered Bonds Law requires that the Board of Directors of the Issuer appoints a qualified person or entity to be the monitor of the Cover Pool (the "**Cover Pool Monitor**") who shall be responsible, for the benefit of the holders of Covered Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Covered Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of specific interests within the issuing entity and is not in a position that hinders its ability to make independent analysis and decisions. In particular, such independent auditor shall not (*i*) hold 2 per cent. or more of the share capital of the Issuer, either directly or on behalf of a third party; or (*ii*) have been re-elected for more than two terms either consecutive or not.

The Issuer is responsible for paying any remuneration or other monies payable to the Cover Pool Monitor in connection with the Cover Pool Monitor's responsibilities in respect of the Issuer and the holders of Covered Bonds.

ROLE OF THE COVER POOL MONITOR

Pursuant to the Cover Pool Monitor Agreement, dated 7 January 2019, the Issuer appointed Ernst & Young, Audit & Associados – SROC, S.A., as Cover Pool Monitor. Ernst & Young, Audit & Associados – SROC, S.A. is registered in the CMVM under number 20161480 and in the Portuguese Certified Auditors' Association (*Orderm dos Revisores Oficiais de Contas*) ("**OROC**") under number 178.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (notably, financial requirements and the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

DUTIES AND POWERS OF THE COVER POOL MONITOR

In accordance with the Covered Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Covered Bonds, compliance by the Issuer of the financial and prudential requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*), including in respect of the operation of the Reserve Account.

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Covered Bonds and the Cover Pool.

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the Cover Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor must notify the Issuer, as soon as reasonably practicable, after becoming aware that the Issuer has contravened any of the provisions of the Covered Bonds Law and/or that any of the Requirements of the Cover Pool are not being complied with. If the situation remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arrangers and the relevant Dealers of the contravention or non-compliance. For the purposes of this notification, the Cover Pool Monitor will develop quarterly procedures to be defined with the Issuer.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*Aviso*"), requirements applicable to the content and disclosure of any reports of the Cover Pool Monitor.

REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR

In accordance with the Cover Pool Monitor Agreement, the Cover Pool Monitor shall be remunerated by the Issuer for its services as Cover Pool Monitor at a rate as may from time to time be agreed between the Issuer and the Cover Pool Monitor.

The Issuer may at any time terminate the appointment of the Cover Pool Monitor and appoint a new entity to act in such capacity. Any such termination shall not become effective until a new cover pool monitor is appointed in accordance with the terms of the Cover Pool Monitor Agreement. Additionally, the Cover Pool Monitor may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer. Such retirement shall not become effective until the appointment of a new cover pool monitor.

DESCRIPTION OF THE ISSUER AND OF THE NOVO BANCO GROUP

A. LEGAL AND COMMERCIAL NAME OF THE ISSUER

The legal name of the Issuer is NOVO BANCO, S.A. and its most frequent commercial name is "NOVO BANCO".

B. INCORPORATION, REGISTRATION, LEGAL FORM, HEAD OFFICE AND CONTACTS OF THE ISSUER, LEGISLATION THAT GOVERNS THE ISSUER'S ACTIVITY AND WEBSITE OF THE ISSUER

Novo Banco, S.A. is a limited liability company (*sociedade anónima*) incorporated under the laws of Portugal with a registered and fully paid up share capital of 5,900,000,000.00 euro, represented by 9,799,999,997 dematerialized registered shares with no nominal value, and registered in the Commercial Registry Office of Lisbon under the sole registration and taxpayer number 513204016. NOVO BANCO's registered address is at Avenida da Liberdade, nº 195, 1250 - 142 Lisbon, Portugal, and the telephone number of its registered office is 213501000. NOVO BANCO is a credit institution whose activities are regulated by the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*, hereinafter "**RGICSF**") and is subject to the Portuguese Companies Code (*Código das Sociedades Comerciais*), approved by Decree-Law no. 262/86, of 2 September 1986, as amended.

The Legal Entity Identifier (LEI) code of the Issuer is 5493009W2E2YDCXY6S81.

The Issuer's website is www.novobanco.pt. The information on the website does not form part of this Base Prospectus unless that information is expressly incorporated by reference into this Base Prospectus.

C. ORIGIN AND OVERVIEW

NOVO BANCO, S.A. ("**NOVO BANCO**" or "**Bank**" or "**Issuer**") is the main entity of the NOVO BANCO financial group ("**NOVO BANCO Group**" or "**Group**"), which focus its activity on the banking business. NOVO BANCO was incorporated by deliberation of the Board of Directors of Bank of Portugal dated 3 August 2014 (8 p.m.) ("**Deliberation of 3 August 2014**") under no. 5 of article 145-G of the RGICSF), approved by Decree-Law no. 298/92, of 31 December (in the version in force at the time), 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 (in the version in force at the time) (together with the decisions adopted by the Bank of Portugal in connection with the Deliberation of 3 August 2014 the "**Resolution Measure**"). Pursuant to the Resolution Measure, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the Deliberation of 3 August 2014 (and clarified by the extraordinary meeting held by the Board of Directors of the Bank of Portugal on 11 August 2014 (5 p.m.)) were transferred to NOVO BANCO.

As a result of the Deliberation of 3 August 2014 applied, Fundo de Resolução ("**Resolution Fund**") became the sole owner of the share capital of NOVO BANCO, in the amount of € 4,900 million, which was incorporated as a bridge bank.

On 29 December 2015 the Board of Directors of Bank of Portugal approved a deliberation (hereafter "**Deliberation of 29 December 2015**"), which resulted in a revised and consolidated version of Annex 2 to the Deliberation of 3 August 2014, and consolidated the perimeter of assets, liabilities, off-balance sheet items and assets under management of NOVO BANCO.

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO.

On 18 October 2017 the sale process of NOVO BANCO to Nani Holdings, S.G.P.S., S.A., a company

indirectly held by investment funds managed by the Lone Star group, was concluded ("**Lone Star Sale**"). Once the sale was concluded and after carrying out two capital increases, the first in the amount of €750 million (on the date of the sale), and the second in the amount of 250 million euro (on 21 December 2017), the share capital of NOVO BANCO increased to €5,900,000,000.00, represented by 9,799,999,997 dematerialized registered shares with no nominal value, of which 75% were fully subscribed, paid up and held by Nani Holdings S.G.P.S., S.A. and 25% by the Resolution Fund.

With the conclusion of the Lone Star Sale, NOVO BANCO ceased to be considered a bridge bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority (Directorate-General for Competition) in the context of the state aid process.

NOVO BANCO develops its banking activity directly and through its branch in Spain and its subsidiaries Banco Eletrónico de Serviço Total S.A. ("**Banco Best**", fully owned) and NOVO BANCO dos Açores, S.A. ("**NBA**", where it holds a 57.53% stake). Additionally, it also operates in asset management, through its fully owned subsidiary GNB - Gestão de Ativos, S.G.P.S., S.A. ("**GNB GA**") that operates in mutual fund management, real estate fund management, pension fund management and wealth management. Finally, NOVO BANCO has equity holdings in companies operating in venture capital, real estate, insurance, renting and corporate services. Through its 387 branches and its digital platforms, NOVO BANCO serves around 1.3 million clients.

D. EUROPEAN COMMISSION COMMITMENTS

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

For further information see the decision of the EC State Aid no. SA.49275 (2017/N).

See also "*Risk Factors—Risks Related to the Issuer's Business— The NOVO BANCO Group is subject to the Commitments undertaken by Portugal to the EC, and a failure to achieve the Commitments may result in further corrective measures being implemented*".

Structural Commitments

NOVO BANCO segregated its existing activities into a core unit and a non-core unit. Those units are not separate legal entities therefore the funding, liquidity and solvency will be shared across both units.

Particularly with regard to the non-core unit, the Issuer is required, under the Commitments, during the Restructuring Period (with different deadlines depending on the assets), to divest or wind-down certain of its non-core assets in line with its strategy.

The Commitments impose certain targets for the deleveraging of the non-core assets throughout the Restructuring Period, which by the end of such period should not be greater than an established target. In addition, certain subsidiaries and business activities, including most international operations classified as non-core assets, must be divested, liquidated or wound-down before the end of the Restructuring Period, by specific pre-defined deadlines.

Behavioural Commitments

In addition to structural commitments, certain behavioural commitments have been established. These include remuneration limits put in place until 30 June 2020 (or until the end of the Restructuring Period if the viability targets are not achieved), such that no employee, director or

manager of the Issuer may be paid a total annual remuneration higher than ten times the average employee salary.

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

Viability Commitments

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

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

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

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

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

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

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

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

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 NOVO BANCO is patent in the results obtained. The targets set under all the commitments were met, with no exception, and some of them were even exceeded.

NOVO BANCO believes that 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 NOVO BANCO'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. NOVO BANCO believes that, in 2019, NOVO BANCO "Recurrent" began to show signs of normalization and the positive effects of the strategy designed to transform it into a bank of the future.

E. CONTINGENT CAPITALIZATION AGREEMENT

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

The "CCA Assets" comprise a predefined portfolio of assets which had an initial book value net of impairment, as of 30 June 2016, of approximately 7.9 billion euros, which included: 5.9 billion euros of loans to customers, 1.1 billion euros of restructuring funds, 0.1 billion euros of securities and 0.8 billion euros of other assets. As at 31 December 2019, the CCA Assets had a net book value of 3.2 billion euros (2018: 4.0 billion euros), which included: 1.4 billion euros of loans (2018: 2.1 billion euros), of which 58% were NPLs (2018: 90%), 0.8 billion euros of restructuring funds (2018: 1.0 billion euros) and 1.0 billion euros of other assets (2018: 0.9 billion euros) (the "**CCA Assets**"). In addition, CCA Assets also include undrawn exposures relating to guarantees, committed credit lines and other commitments, which amounted to 1.3 billion euros and 0.4 billion euros as at 30 June 2016 and 31 December 2019 (2018: 0.6 billion euros), respectively, and provisions recorded as liabilities which amounted to 0.1 billion euros as at 30 June 2016 and 31 December 2019 (2018: 0.1 billion euros), in relation to such exposures. As at 30 June 2016 and 31 December 2019, the impairment related to the CCA Assets amounted to 4.8 billion euros and 1.4 billion euros (2018: 3.5 billion euros), respectively.

The ability of the Issuer to claim payments under the CCA is subject to a capital ratio threshold (the "**Minimum Capital Condition**") and accumulated CCA Losses having been registered. The Minimum Capital Condition means that no payments shall be made unless (i) the Issuer's CET1 or

Tier 1 ratio have fallen below the minimum required regulatory (SREP) CET1 or Tier 1 ratio plus a buffer, during the first three calendar years, 2017-2019; or (ii) the Issuer's CET1 ratio has fallen below 12%. Such threshold was 13.5% on 31 December 2019. Payments pursuant to the CCA are limited to the amount needed to restore the CET1 and Tier 1 ratios back to the relevant trigger level, provided that there are accumulated CCA Losses.

As a result of the CCA Losses recorded by the Issuer as at 31 December 2019, 31 December 2018 and 31 December 2017, and the resulting decrease of the capital ratios below the Minimum Capital Condition, the contingent capital mechanism of the CCA was triggered in relation to the year ended 31 December 2017 and 31 December 2018 and payments by the Resolution Fund of 791.7 million euros and 1,149.3 million euros were made on 24 May 2018 and 6 May 2019, respectively. Referring to the year 2019, NOVO BANCO received in the beginning of May 2020 an amount of 1,035.0 million euros, from the Resolution Fund, related to the Contingent Capitalization Agreement.

The Articles of Association of the Issuer foresee a committee to function as a consulting body in the context of the CCA (the "**Monitoring Committee**"). The Monitoring Committee consists of three people, elected by the general meeting of shareholders of the Issuer, two of whom are appointed by the Resolution Fund, one of whom shall be a registered chartered accountant, and the third member shall be an independent member jointly appointed by the parties to the CCA. Either the Resolution Fund or the Issuer can request an opinion from the Monitoring Committee in respect of any relevant matter pertaining to the CCA Assets. The Resolution Fund has the right to take all decisions in respect of the CCA Assets, unless a pre-defined ratio of the then remaining aggregate net book value of the CCA Assets to the aggregate starting reference values is not verified (in which case the CCA Maturity Date may be extended to 31 December 2026), at which point the Issuer would need to inform the Resolution Fund in respect of most material management decisions with respect to these assets.

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

F. STRATEGY

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

The 2019-2021 strategic plan is based on four strategic pillars: adjusting risk processes, fostering talent and merit, optimizing IT, data and processes and redesigning its 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 NOVO BANCO 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 NOVO BANCO legacy resolution plan.

In 2020-2021, NOVO BANCO will continue to focus on strengthening its core competencies to compete at par with peers and to reach a sustainable position in the national banking sector.

NOVO BANCO's strategic plan relies on the following priorities 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, NOVO BANCO 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.

2. Optimization

NOVO BANCO is further optimizing its cost structure and efficiency models to increase resilience to the expected economic impacts of the pandemic and gain competitive advantage, refocusing 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 accelerating 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 NOVO BANCO "Legacy" resolution strategy to refocus on its core activity.

6. Risk Adjustment

The strategy outlined for NOVO BANCO 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 their 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, NOVO BANCO 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).

G. BUSINESS OVERVIEW

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. NOVO BANCO seeks to meet the expectations of its clients and to improve continuously, by being transparent and straightforward, securing banking services based on the highest standards of integrity and trust.

As of 31 December 2019, NOVO BANCO Group had 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.

BUSINESS SEGMENTS

Retail Banking

In 2019 the retail banking segment once again stressed its relevance in the daily life of hundreds of thousands of clients, individual customers and small businesses, 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 believes it 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 wage advance, credit cards and service accounts. The number of active clients using the digital channels grew by more than 10% year-on-year, while

the number of clients subscribing to the '*Solução NB Ordenado*' (NB Salary Solution) registered an increase of over 15% since 31 December 2018.

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 in 2019 by more than 20% year-on-year.

NOVO BANCO's saving and investment solutions were reinforced throughout the year of 2019 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. NOVO BANCO believes that the high level of customer recognition and satisfaction with NOVO BANCO'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 in 2019, 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[3] 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[4], 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 point of sale 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 allows it to put this knowledge into practice. The year of 2019 ended with a campaign that enhanced the concept of proximity, joining the voice of NOVO BANCO's clients to the voice of NOVO BANCO. This dynamic approach has yielded expressive growth rates, namely in client acquisition (+25% year-on-year) and in medium- and long-term credit production, construction loans and leasing (+10.7% year-on-year). 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.

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.

In 2019, 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

[3] Bank of Portugal Statistical Bulletin – Monetary and Financial Statistics.

[4] Bank of Portugal Statistical Bulletin – Monetary and Financial Statistics.

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 in 2019. Loans decreased by -3.7% since 31 December 2018, essentially through the reduction in overdue loans.

In 2019, the 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 of 2019 with net assets of €559 million (2018: €548 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 Novo Banco dos Açores 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, notably greater speed and efficiency in the treatment of processes and transactions and access to innovative services that facilitate and streamline the clients' relationship with Banco Best.

Banco Best is headquartered in Lisbon and has no branches, providing its banking and financial products and services through other channels: (i) the internet; (ii) investment centers located across the country; and (iii) a contact centre.

Banco Best posted a net profit of €2.7 million in 2019 (2018: €3.6 million), 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.

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 small and medium enterprises ("**SME**") and corporate segment totaled approximately €2 billion in 2019, the same as in 2018. NOVO BANCO thus maintained its reference role[6] 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.

[5] Non-Financial Companies based in the Economic and Monetary Union, with contracts in Euro - November 2019.

[6] Based on the Bank of Portugal Statistical Bulletin – Monetary and Financial Statistics – B.7.1.6

In trade finance, NOVO BANCO provides a wide range of products and specialized advice designed to support international trade. NOVO BANCO's know-how in trade finance is much valued by companies, which reward it with a market share of 20%[7]. 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 NOVO BANCO'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 of the digital solutions made available by NOVO BANCO 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 NOVO BANCO to its business clients - **NBnetwork** and **NB smart app**, which in 2019 grew by 4% and 12% year-on-year, 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.

The year of 2019 also saw the introduction of important novelties in NOVO BANCO'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.

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.

International Commercial Banking

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

2019 was a year of deep transformation for the Spanish 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

[7] December 2019, as measured by the number of Swift messages.

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. A staff downsizing program was also carried out, covering about 20% of the branch's workforce. This initiative was successfully completed in December 2019, in an environment of social stability.

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 real estate owned portfolio, also allowed the branch to lower its NPL ratio from 24% in 31 December 2018 to 6.5% in 31 December 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, notably: 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 NOVO BANCOS' 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.

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 (2018: €36 million). 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) in 2019.

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% year-to-date).

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 14.3%. To these results the domestic units contributed with €6.3 million (2018: €8.6 million) and the international units with €2.4 million (2018: €1.5 million), of which €2.8 million (2018: €1.8 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.

Markets

This segment includes the global financial management activity of the Group, notably 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.

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 organisational 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 the clients with solutions aligned with the best global standards of user experience, 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 of NOVO BANCO 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.

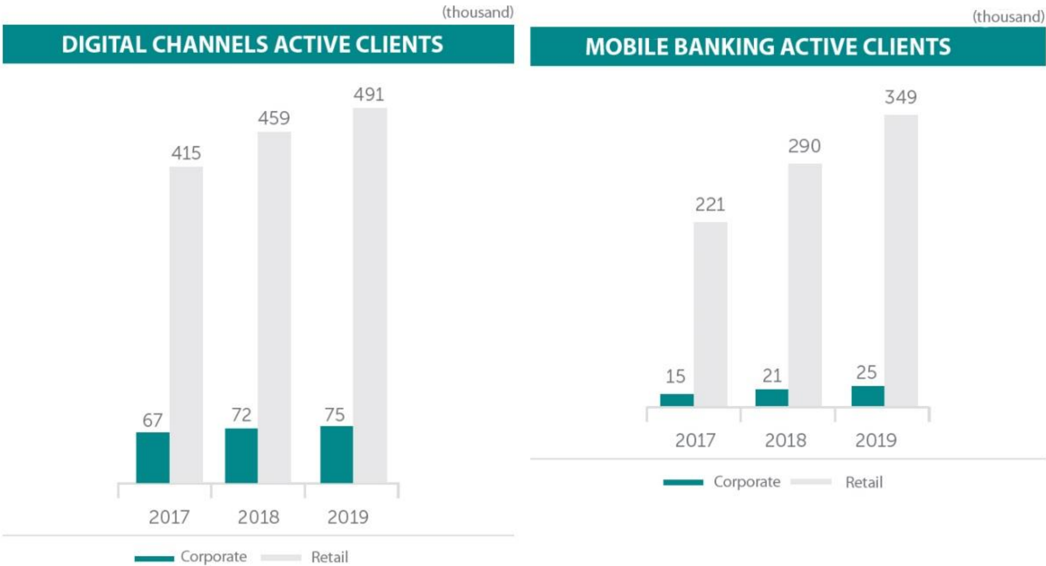
The clients fuel the digital transformation

Digital evolution in NOVO BANCO has been remarkable, especially in the development of the digital channels for individual customers. The mobile app "NBsmart" app is leader in the Portuguese banking market, both in Google Play and in Apple Store, and has scored average assessments of 4.5 out of 5[8]. In 2019, the "NBsmart" app and the website "NBnet" maintained

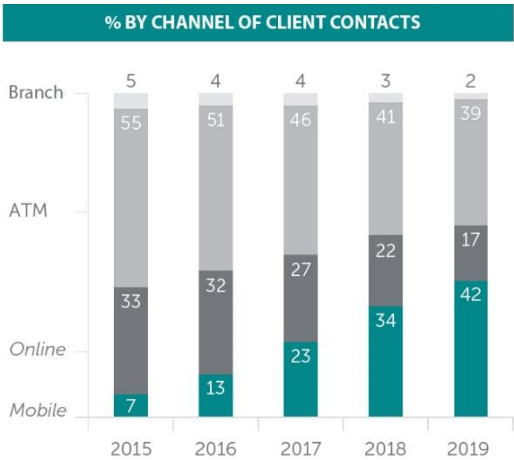
[8] NOVO BANCO's Digital channels team analysis based on App Store and Google Play user ratings, Satisfaction based on independent department monthly survey to end users digital penetration calculated based on internal data.

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**"). NOVO BANCO 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% year-on-year) and more than 374 thousand in mobile banking (+20.1% year-on-year). The clients' digital activity continued to grow at a strong pace, with the digital clients' penetration rate in December 2019 reaching 45.3% in individual clients (41.8% in 2018), 78.5% in corporate clients (76.2% in 2018), and 67.2% in small business clients (64.6% in 2018). 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.



H. 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 allows the Bank to track any signs of stress 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 signs pre-established for the purpose.

Structural liquidity

In terms of the structural liquidity, NOVO BANCO prepares a monthly liquidity report, taking into account not only the effective maturity but also behavioral maturity of the various products, which allows NOVO BANCO to estimate the structural mismatches for each time bucket. Based on this information, an annual funding plan is prepared taking into account the targets set in the annual budget. This plan, which is regularly revised, favors, to the possible extent, stable funding instruments.

The Capital, Assets and Liabilities 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 stress scenario.

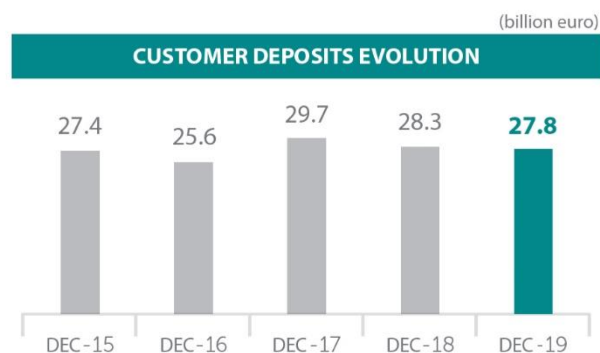
Funding

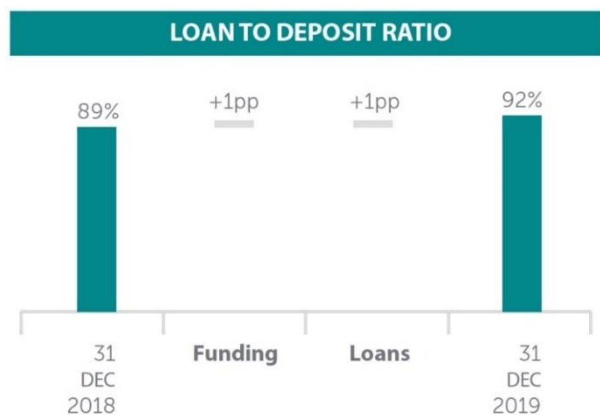
NOVO BANCO Group’s funding policy is one of the major components of its liquidity risk management, which stresses the diversification of funding sources. NOVO BANCO’s strategy has from its incorporation largely relied on boosting customer deposits as its major source of funding, in so far as since the 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 since 31 December 2018 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.

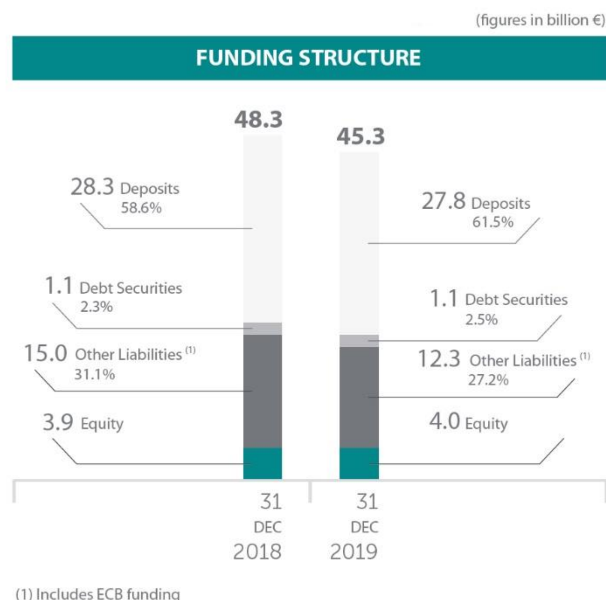
At the end of 2019 customer deposits with NOVO BANCO totaled €27.8 billion, a year-on-year

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 (total customer funds increased €262 million since 31 December 2018).

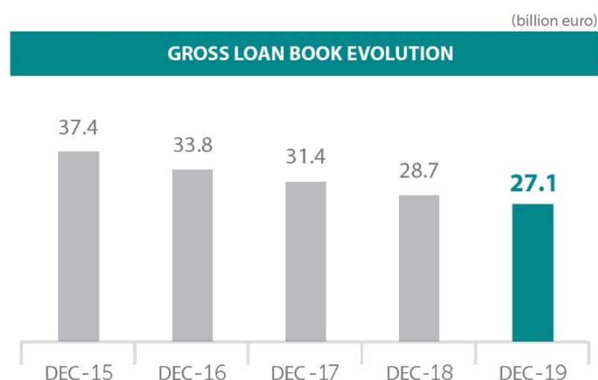




Despite the reduction in customer deposits, at the end of 2019 these remained the Bank's main funding source, accounting for roughly 61% of its funding structure (59% at the end of 2018), of which, 68% were deposits from the retail segment.



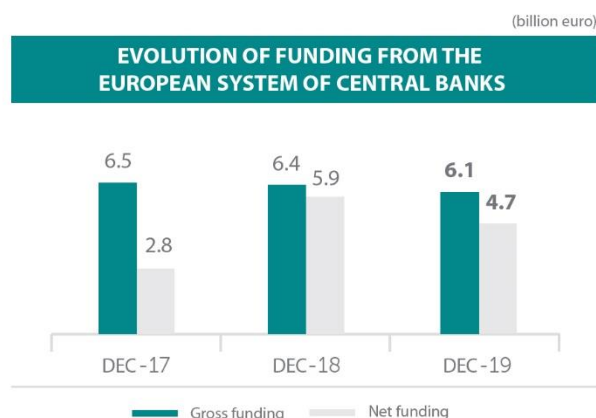
On the other hand, NOVO BANCO pursued its strategy of reducing non-strategic and non-productive assets, focusing in particular on the loan book, which in gross terms was reduced by €1.6 billion in 2019.



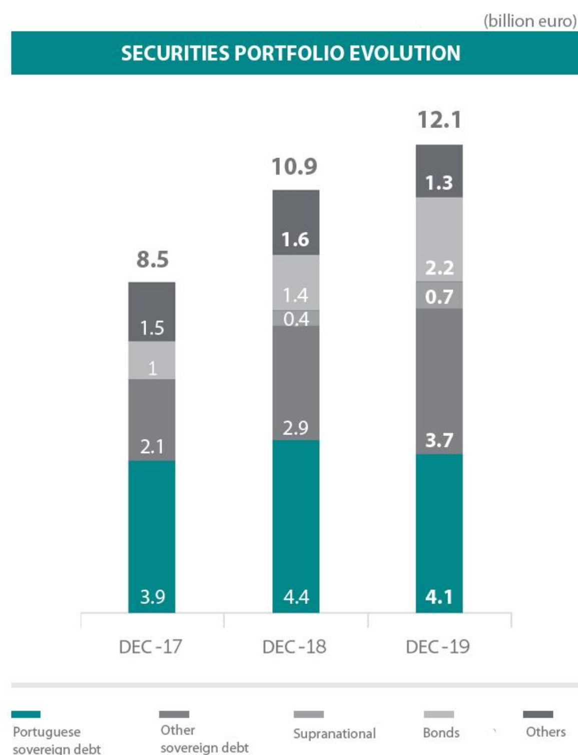
This reduction did not have a significant impact on liquidity as it essentially resulted from the write-off of loans and the sale of non-performing loan portfolios and related assets, whose financial settlement will only take place in 2020. Despite their low impact on liquidity, NOVO BANCO concluded 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 (2018: €5,9 billion). In addition, gross funding registered a small decrease, to €6.1 billion (2018: €6,4 billion).



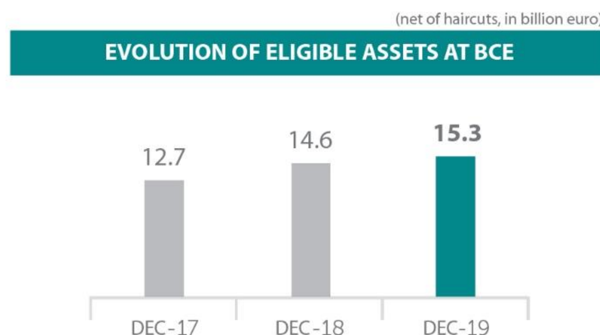
On the other hand, the securities portfolio increased by around €1.2 billion in 2019, largely due to the strategy of investing in high-quality liquid assets ("**HQLAs**"), which led to an increase of €1.3 billion in these assets , since 31 December 2018, which contributed to the diversification of the securities portfolio, with the Portuguese sovereign debt reducing by €0.3 billion in 2019, and increasing the sovereign debt of other countries, as well as debt from supranational and corporate issuers.



In relation to its eligible assets for rediscount with the ECB, NOVO BANCO extended the maturity of its PTNOBBOE0011 mortgage 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 mortgage 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 mortgage 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 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 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.

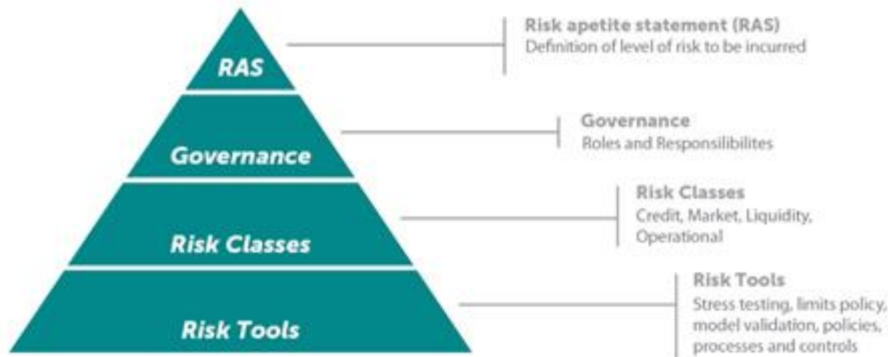
In terms of capital, and with a positive impact on the liquidity position, it should be noted that the Resolution Fund made a payment of €1,149 million to NOVO BANCO under the Contingent Capitalization Agreement in May 2019.

I. RISK MANAGEMENT

Risk management model framework

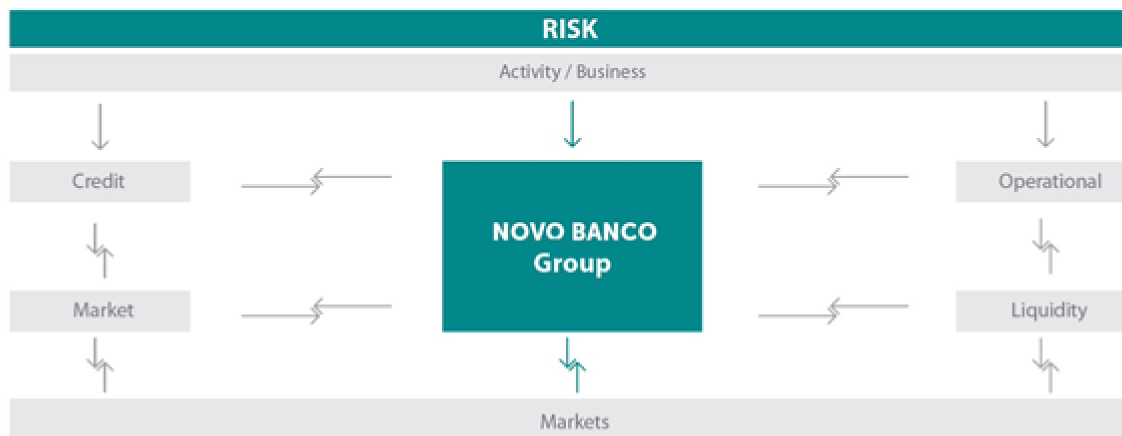
The definition of a risk management model allows the define of a strategic direction for risk management by defining standards, patterns, objectives and responsibilities for all areas of NOVO BANCO Group. This model supports top management in effective risk management and in the development of a strong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

This model defines: (i) the main risks faced by the NOVO BANCO Group; (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.



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.



NOVO BANCO considers that risk management is a key pillar of its action to create sustained value over time. NOVO BANCO Group'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.

1st LINE OF DEFENCE	2nd LINE OF DEFENCE	3rd LINE OF DEFENCE
BUSINESS AREAS	GLOBAL RISK DEPARTMENT	INTERNAL AUDIT DEPARTMENT
→ Risk taker → Profit maximization → Risk appetite compliance	→ Risk control → Cannot take Risk	→ Independent revision → Responsible for policies and processes adequation → Ensure correct policies and processes implementation
✓ Adequate risk identification ✓ Risk in-between limits ✓ Measure, monitor and report		

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 of defense 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 of defense 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.

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.

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.).

NOVO BANCO Group takes an integrated and holistic approach to Risk Management

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

The Head of the Group'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 the Group. 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.

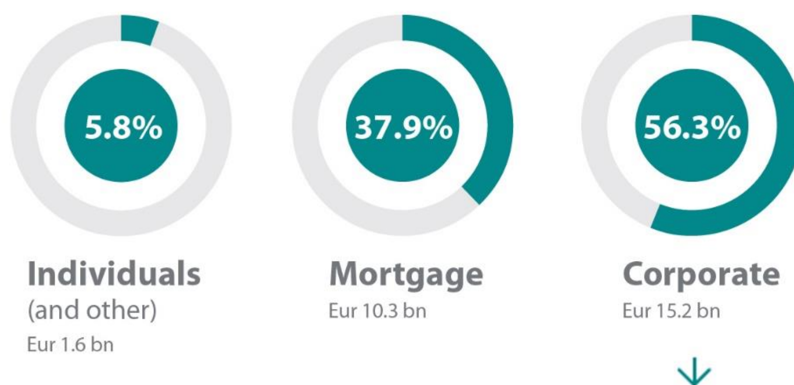
2019 main initiatives and highlights

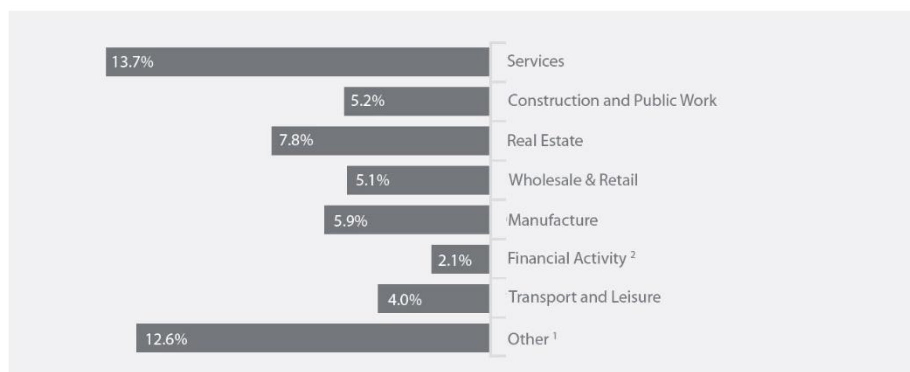
- Reduction of the non-performing loan ("**NPL**") portfolio, which contracted by more than €3.3 billion in 2019 at NOVO BANCO, causing the NPL ratio to decline from 22.4% (December 2018) to 11.8% (December 2019). It should be noted that in NOVO BANCO "Recurrent" the NPL ratio dropped from 5.4% (December 2018) to 3.6% (December 2019) 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 NOVO BANCO "Recurrent" 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, NOVO BANCO 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 Debt Service to Income ratios, regular repayment schedule and maximum loan-to-value 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% of the total exposure as at 31 December 2018 to 9% as at 31 December 2019), the largest 10 names (from 16% of the total exposure as at 31 December 2018 to 13% as at 31 December 2019), and the largest 100 names (from 52% of the total exposure as at 31 December 2018 to 48% as at 31 December 2019).

Credit Portfolio, December 2019

(Eur 27.1 bn gross) (excluding securitizations)





[1] Represents a composite of other sectors of the economy none representing more than 3.3% per se.
[2] Includes investment funds

- 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 NOVO BANCO'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 DGCOMP, when applicable.
- Evolution of the Group's VaR - 99% at 10 days (December 2018-December 2019): 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 NOVO BANCO, 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 ECB, 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 NOVO BANCO's remaining funding sources, alongside a responsible use of public funds, with ECB funding decreasing by around €300 million.

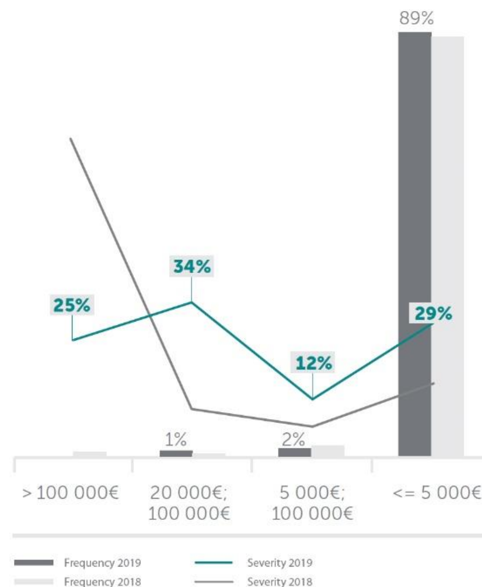
Operational Risk

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

Main indicators

The Group 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 NOVO BANCO Group and with Basel's Business Lines and Risk Types (as established in the CRR). 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 compares with

66% and 15% respectively, in 2018, 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 (which compares with 56% of severity and 22% of frequency in 2018).

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 received 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, was €1,035 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 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	Pillar 2	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%
Total ratio	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 fulfilled only at the consolidated level (LSF Nani Investments S.à.r.l.).

Main risks and uncertainties

The year 2020 is being marked by the pandemic COVID-19 due to the spread of the SARS-CoV-2 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 a preventive state of emergency was declared on 18 March 2020, and subsequently renovated, in an attempt to contain the pandemic.

The new coronavirus is a public health challenge of unprecedented dimensions, that has completely modified the outlook for the European and world economy. To contain the virus, EU Member States have had to take drastic measures that have put their economies into a state of hibernation. With the 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 macroeconomic context.

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

- The ECB launched a new EUR 750 billion Pandemic Emergency Purchase Programme; on April 30th, the ECB announced new expansionary monetary policy measures, including a further easing of TLTRO conditions and a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs). The size of the EUR 750 billion Pandemic Emergency Purchase Programme could be increased and its composition adjusted.
- The Federal Reserve launched a USD 300 billion (more than EUR 278 billion) aid program to support the flow of credit to employers, consumers and businesses, in addition to lowering the target for the fed funds interest rate to the range from 0% to 0.25% and announced buying a potentially uncapped amount of US Treasuries and Mortgage Backed Securities.
- The Bank of England announced interest rate decline from 0.25% to 0.1%, an historic low and an increase in the asset purchase program to GBP 645 billion (EUR 700 billion).
- The Bank of Japan reinforced its asset purchase policy, which was already EUR 13.4 billion to provide interest-free loans to small and medium-sized companies.

The EU and its Member States have also reacted quickly. Governments have put in place large programmes in order to keep the economic tissue intact during the lockdowns. They involve liquidity support for firms to avoid bankruptcies, and support for workers to dampen income losses and avoid a surge in unemployment, as well as measures to avoid a financial meltdown. The actions of Member States have been complemented by actions at the EU level. These actions include a full flexibilisation of the use of the remaining structural funds, and the political agreements on the creation of a EUR 100 billion support scheme to mitigate unemployment risks, a EUR 25 billion guarantee fund for SMEs and a pandemic credit line from the European Stability Mechanism. 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 Congress approved a stimulus package of around USD 3 trillion (about 15% 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 (e.g. aviation) and USD 350 billion in loans to SMEs.

The Portuguese Government announced a package that includes several lines of financing, totaling € 6.2 billion of State loan guarantees, particularly aimed at the sectors of tourism, restaurants, textiles, clothing, footwear and the wood sector, as well as the establishment of a 6 month 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. It also launched an EUR 400 million subsidised credit line to support firms, mainly SMEs, already fully

used; EUR 5.2 billion tax relief (e.g. possibility of tax payments in installments, firms and independent workers); EUR 1 billion social contribution relief (reduction and partial deferrals); acceleration of Government payments to firms; acceleration of "Portugal 2020" payments; and 12-month postponement of companies' reimbursements of "QREN" and "Portugal 2020" subsidies. Principal and interest payments due to banks and other financial institutions are suspended for those individuals and firms impacted by the Covid-19 crisis (e.g. firms closed as a result of lockdown measures, unemployed due to layoff measures, quarantines, family assistance). Firms can only apply if fully complying with debt obligations before the crisis. The Government estimates an impact of EUR 20 bn.

Regarding labour market support, a simplified lay-off scheme was implemented applied to firms severely impacted by the Covid-19 crisis. Workers will receive 2/3 of their wages (between 1 and 3 minimum wages – EUR 635), with 30% paid by the employer and 70% by the Social Security, under the condition that firms will not fire workers. Firms will have to advance the 70% paid by the Social Security. In the banking sector, the Bank of Portugal will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance, the combined buffer requirement, and with liquidity levels below the LRC.

Uncertainty, however, remains in conjunction with high risk perception because of a non-existing effective vaccine / treatment, making it very difficult to predict the final consequences of this public health crisis. The new coronavirus outbreak represents both a supply and demand shock to the global economy. Negative impacts on activity growth should be significant.

Although activity is expected to pick up again with a gradual easing of containment measures, the contraction in EU GDP this year is expected to be 7.5%, far deeper than during the financial crisis in 2009 (Source: European Commission). In the near-term, the lockdowns implemented in most EU countries and globally reduce supply as many non-essential activities are suspended, delivery of inputs is disrupted, and workers are unavailable due to sickness, quarantine or because they have to take care of relatives and children whose schools are closed. Provided that the policy measures taken to support incomes, jobs, liquidity and investment are effective, economic activity should rebound once the confinement is gradually relaxed. Even so, demand is set to remain subdued for longer as workers concerned about their employment prospects will tend to save a higher share of their income, and firms faced with uncertainty about future sales will delay or cancel investment. Even if most of the impact is expected to be temporary, the drop in employment will reduce the economy's production potential, preventing a return to the previous trajectory of output. The possibility of a second wave (without a vaccine) could extend the economic impacts into the second half 2020, particularly hurting sectors such as tourism, aviation, restaurants, etc.

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.

J. OWNERSHIP STRUCTURE (INCLUDING GOVERNMENT RELATIONSHIP)

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

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

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

Following the Lone Star Sale, with the execution of the corresponding Share Purchase and Subscription Agreement, the Resolution Fund and Nani Holdings SGPS, S.A. entered into, on 31 March 2017, a Shareholders Agreement, which was amended and restated on 24 July 2017, under which Lone Star has committed to inject EUR 750 million in capital at the moment of sale, and an additional EUR 250 million over a 3 year period. In the context of the Lone Star Sale and the execution of the mentioned Shareholders Agreement, the CCA was created, under 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 shall make 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. For further details on the CCA see *Description of the Issuer and the Novo Banco Group – Contingent Capitalization Agreement*.

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 European Union rules on state aid, the Resolution Fund, as shareholder of the Bank, should refrain from exercising its non-equity rights, namely its voting rights.

It should also be noted that NOVO BANCO adhered to the special regime applicable to Deferred Tax Assets ("**DTAs**") 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. The shareholders of NOVO BANCO have the unilateral right to acquire the conversion rights from the State. It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015 and 2019 will confer a shareholding of up to approximately 13.2% of the share capital of NOVO BANCO, which will only dilute, in accordance to the sale contract, the Resolution Fund stake.

K. GOVERNANCE MODEL

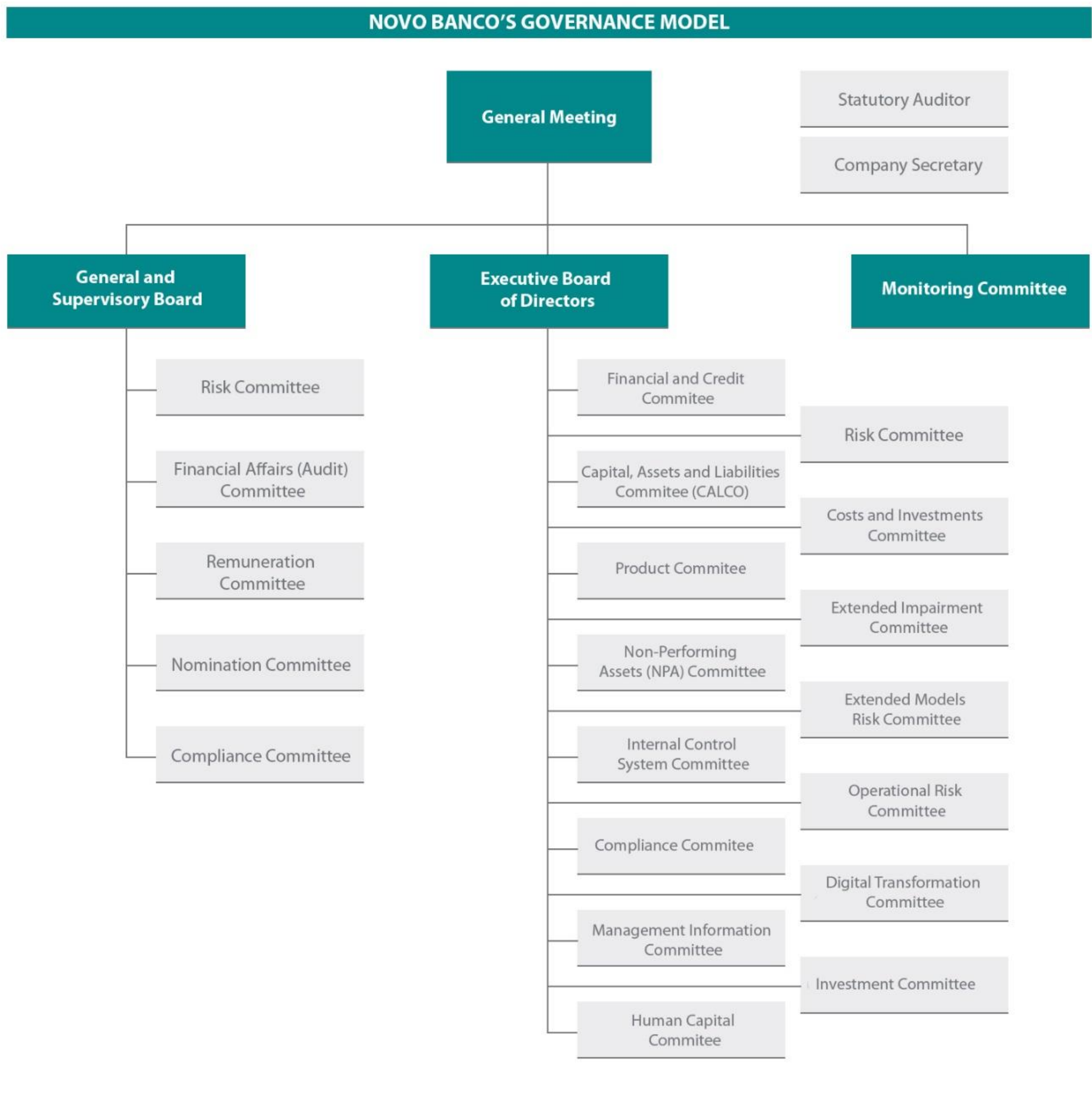
There are no specific mechanisms in place to ensure that control over the Issuer is not abusively exercised. Risk of abusive control is, in any case, mitigated by the existence of a governance model that is unique within the Portuguese financial sector. In line with international best practices in management, and under the new shareholder structure, since 18 October 2017 NOVO BANCO has a General and Supervisory Board ("**GSB**") and an Executive Board of Directors ("**EBD**")- each of its members being bound by duties of care and loyalty in order to optimise the interests of all relevant stakeholders (in accordance with Article 64 of the Portuguese Commercial Companies Code and, in what concerns directors, Article 75 of the RGICSF) - as well as a consultative Monitoring Committee and an Auditor, as described herein in the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2018 and 31 December 2019.

Furthermore, risk of abusive control is also mitigated by the legal and regulatory provisions and supervision of the Issuer by the Bank of Portugal, which, among other regulatory areas, supervises the acquisition and disposal of qualified holdings in the Issuer.

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 management of the business in accordance with the rules and good banking practices.



For further details see "*Management and Supervisory Corporate Bodies*" below.

L. 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 NOVO BANCO'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 accordance with NOVO BANCO's 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 NOVO BANCO'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.

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.

Board of the General Meeting

The composition of the Board of the General Meeting of NOVO BANCO for the 2017-2020 term of office, at the date of this Base Prospectus, is as follows:

Chairman: Rui Manuel Pinto Duarte
Vice-Chairman: Miguel João Valente da Costa Madeira
Secretary: Mário Nuno de Almeida Martins Adegas.[9]

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.

As at the date of this Base Prospectus, 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

[9] Pedro Queiroz de Barros held office during the financial year of 2019. The position was held on an interim basis by the Company Secretary since the resignation of Pedro Queiroz de Barros on 31 December 2019. Mário Nuno de Almeida Martins Adega took office on the General Meeting of 3 April 2020.

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.

The following table sets out the members of the General and Supervisory Board for the 2017-2020 term of office, as at the date of this Base Prospectus, with an indication of name, position and principal activities of the Directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
Byron James Macbean Haynes	Chairman	- Chairman of the Board of Directors at Saffron Brand Consultants, SA
Karl-Gerhard Eick	Vice-Chairman	- Chairman of the Board of Directors at IKB Deutsche Industriebank AG
Donald John Quintin	Member	- Non-Executive Director at following entities: - Lone Star Europe Acquisitions Limited; - MRH (GB) Limited; - LS9 Robin Topco Limited; - LS9 Robin Newco 1 Limited; - LS9 Robin Newco 2 Limited; - LS9 Robin Midco Limited; - LS9 Robin Investments Limited;
Kambiz Nourbakhsh	Member	- Board of Directors at LSF10 Wolverine Bidco Aps
Mark Andrew Coker	Member	- Member of the Supervisory Board of IKB Deutsche Industriebank AG; - European General Counsel for Hudson Advisers UK Limited;
Benjamin Friedrich Dickgiesser	Member	- Member of the Supervisory Board of IKB Deutsche Industriebank AG - Managing Director for Hudson Advisors Portugal, Lda
John Ryan Herbert	Member	- Director at Caliber Home Lones, Inc, - Director of DFC Corp; - Director of Quintain Limited
Robert Alan Sherman	Member	- Non-Executive Director at Opportunity Network;

		- Senior Counsel of Greenberg Traurig; - Member of the Advisory Board of Rasky Partners
Carla Antunes da Silva	Member	- Director at Lloyds Banking Group; - Non-Executive Director at Lloyds Bank Corporate Markets; - Non-Executive Member of the Board of Directors at Maze Impact SA - Chairman of the General Meeting of Associação Laboratório de Investimento Social.

To the best of NOVO BANCO's knowledge, none of the abovementioned members of the GSB of NOVO BANCO has any external activity relevant for the Bank other than the ones listed above.

For all the purposes resulting from the functions of the members of the GSB, their professional domicile is at Avenida da Liberdade, nº 195, 1250 - 142 Lisbon, Portugal.

Committees of the General and Supervisory Board

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.

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.

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).

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).

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.

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: https://www.novobanco.pt/site/cms.aspx?labelid=COMPANY_DOC

Executive Board of Directors

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 issues, the GSB issues a previous opinion.

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

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.

The following table sets out the members of the Executive Board of Directors for the 2017-2020 term of office, as at the date of this Base Prospectus, with an indication of name, position and principal activities of the Directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
António Manuel Palma Ramalho	Chief Executive Officer (CEO)	- Member of the Board of APB - Associação Portuguesa de Bancos; - Director at BCSD – Conselho Empresarial para o Desenvolvimento Sustentável; - OBIN – Observatório Imobiliário
Vítor Manuel Lopes Fernandes	Chief Commercial Officer (CCO - Corporate)	- Member of the Board of APB - Associação Portuguesa de Bancos; - Member of the Board of SIBS Forward Payment Solutions, SA; - Member of the Board of SIBS SGPS, SA; - Member of the Executive Committee of CCILE – Câmara do Comércio Luso Espanhola; - CISP – Comissão Interbancária de Sistemas de

		Pagamentos;
Mark Bourke	Chief Financial Officer (CFO)	-
Jorge Telmo Maria Freire Cardoso	Chief Recovery and Investment Officer (CRIO)	- Member of the Board of Pharol, SGPS, SA; - Member of the Board of Enternext, SA
Luís Miguel Alves Ribeiro	Chief Commercial Officer (CCO - Retail)	-
Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal and Compliance Officer (CLCO)	-
José Eduardo Fragoso Tavares de Bettencourt	Chief Operating Officer (COO)	-
Rui Miguel Dias Ribeiro Fontes	Chief Risk Officer (CRO)	-

To the best of NOVO BANCO's knowledge, none of the abovementioned members of the EBD of NOVO BANCO has any external activity relevant for the Bank other than the ones listed above.

For all the purposes resulting from the functions of the members of the EBD, their professional domicile is at Avenida da Liberdade, nº 195, 1250 - 142 Lisbon, Portugal.

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 NOVO BANCO's activity in areas that are considered relevant. As at the date of this Base Prospectus, the following committees exist:

- **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. NOVO BANCO has set up a structure to deal with, and procedures to govern the origination, development, approval, distribution and monitoring of the products and services offered by the Bank. These procedures provide for the scrutiny and monitoring of new and existing product offers. It is therefore ensured that any innovation on its own, or third-party products and services' offer, on distribution channels or on target markets, including any significant change thereof, is subject to the approval of Product Committee of the Bank's Executive Board of Directors. The Executive Board supports its decision on the technical advise of the services, including from the Compliance Department, and considers, among other issues, legal, operational, IT, information security, financial, accounting, and tax aspects, as well as an assessment of the Risk and Compliance function.

  Luísa Soares da Silva (Chairwoman)

- **Non-Performing Assets ("NPA") Committee.** Responsible for ensuring the monitoring of the Strategic Plan, the development and enhancement of the Operational Plan, and for defining and monitoring the Group'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.

The following table sets out the members of the Monitoring Committee for the 2017-2020 term of office, as at the date of this Base Prospectus, with an indication of name, position and principal activities of its members outside of the Group: [10]

Name	**Position**	**Principal activities outside of the Group**
José Rodrigues de Jesus	Chairman	President of the Portuguese Institute of Statutory Auditors; President of the Supervisory Board: • GERMEN Moagem de cereais SA Statutory Auditor: • Arlindo Soares de Pinho, Lda. • ARSOPI - HOLDING SGPS SA • ARSOPI - Indústrias Metalúrgicas Arlindo S Pinho SA • ARSOPI - Thermal Equipamentos Técnicos SA • CALIFOR - Indústrias Metálicas SA • CAMILO dos SANTOS MOTA SA • EDEMI GARDENS - Promoção Imobiliária SA • TECNOCON - Tecnologia e Sistemas de Controlo SA • IMOÁGUEDA SGPS SA • LABESFAL – Laboratórios Almiro SA • Oliveira Dias SA
José Bracinha Vieira	Member	President of the Liquidation Committee of Banif – Banco Internacional do Funchal, S.A.

[10] 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.

Company Secretary

NOVO BANCO's Secretary for the 2017-2020 term of office, as at the date of this Base Prospectus are as follows:

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

Conflicts of Interest

To the best of the Issuer's knowledge and in its understanding, based on legal requirements and internal governance for such cases, there are no potential conflicts of interests between the duties of any member of the management and supervision bodies identified above towards NOVO BANCO or towards any other Group company and his/her personal interests and duties, that have not been identified and adequately disclosed and settled.

Statutory Auditor

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

The current Statutory Auditor of NOVO BANCO is Ernst & Young, Audit & Associados – SROC, S.A., registered in the CMVM[11] under number 20161480 and in the OROC[12] 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.

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.

There are no potential conflicts of interest between the duties to NOVO BANCO of the persons listed above and their private interest or duties.

M. LEGAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

Save as disclosed below, neither the Issuer nor any other member of the NOVO BANCO Group, is, or during the 12 months preceding the date of this Base Prospectus has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have significant effects on the NOVO BANCO Group's financial position or profitability.

As a large financial institution, the NOVO BANCO Group is the subject of actual and threatened litigation and other proceedings in the ordinary course of its banking and financial intermediary business.

Furthermore, the NOVO BANCO Group is the subject of actual and threatened litigation and other proceedings related to its incorporation.

A significant decision was ruled by the Lisbon Administrative Court (*Tribunal Administrativo de Círculo (TAC) de Lisboa*) among the legal proceedings in the Portuguese courts relating to the Resolution Measure. There are two legal proceedings, one initiated by a shareholder of BES and

[11] CMVM: Portuguese Securities Market Commission.
[12] OROC: Portuguese Institute of Statutory Auditors.

another by several holders of subordinated bonds issued by BES, before the Lisbon Administrative Court, which where aggregated and designated as pilot-proceedings (*processos-piloto*). In both legal proceedings the plaintiffs challenged the validity of the Resolution Measure applied to BES on the basis of alleged illegalities and unconstitutionalities. Novo Banco is counter-interested party in both proceedings. On 12 March 2019, the Lisbon Administrative Court fully dismissed the claims of the plaintiffs. This court decision is without prejudice to the plaintiffs' right of appeal.

Where the NOVO BANCO Group is subject to threatened or ongoing proceedings, management determines on the basis of applicable accounting principles and in accordance with the perimeter of assets and liabilities arising from the Resolution Measure and subsequent decisions of the Bank of Portugal the level of provisions to be recorded in its accounts regarding such proceedings. As at 31 December 2019, no provisions have been made at the level of the Issuer with respect to proceedings related to the Resolution Measure.

In addition, as regulated entities, the Issuer and the NOVO BANCO Group are, from time to time, the subject of supervisory and administrative inquiries, inspections and investigations by regulators in the jurisdictions in which they operate. So far as the Issuer is aware, and except as disclosed below, none of the Issuer or other Group entities is, as at the date of this Base Prospectus, subject to any such inquiries, inspections or investigations that may have a significant effect on the NOVO BANCO Group's financial position or profitability. See also "*Risk Factors—Regulatory Risks—Risks relating to regulatory requirements*"

Proceedings Relating to the Resolution Measure

- NOVO BANCO was incorporated by deliberation of the Board of Directors of Bank of Portugal dated 3 August 2014 (8 p.m.) ("**Deliberation of 3 August 2014**") under no. 5 of article 145-G of the RGICSF (the version in force at the time), 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.

  Pursuant to the Deliberation of 3 August 2014, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the Deliberation of 3 August 2014 (and clarified by the extraordinary meeting held by the Board of Directors of the Bank of Portugal on 11 August 2014 (5 p.m.)) were transferred to NOVO BANCO. NOVO BANCO has its registered office in Lisbon, at Avenida da Liberdade, no. 195.

  The Deliberation of 3 August 2014 and the decisions of the Bank of Portugal related or in connection with the Deliberation of 3 August 2014 defined above as the Resolution Measure, including the application and impacts of the Resolution Measure and the incorporation of NOVO BANCO are being and may continue to be publicly and judicially challenged by several parties and creditors. These proceedings include also the challenges to the transfer of certain assets and liabilities to NOVO BANCO as a result of the Resolution Measure and the decisions of the Bank of Portugal, as well as proceedings requesting the set-off of liabilities that were not transferred to NOVO BANCO against credits transferred and held by NOVO BANCO. Several judicial proceedings have been initiated against the Bank of Portugal, the Resolution Fund and/or NOVO BANCO and it is likely that other similar proceedings will be submitted within the applicable legal time limits.

  Despite the fact that the Resolution Measure expressly determines that "*Any liabilities or contingencies related to the trading, financial intermediation and distribution of debt instruments issued by entities integrating Grupo Espírito Santo*" have not been transferred to NOVO BANCO and determines as well that a number of other liabilities and contingencies have not been transferred to it, there are several legal proceedings related with the placing, by BES, of debt instruments of Espírito Santo group entities (including, commercial paper) and preference shares issued by special purpose vehicles, which have been submitted by clients who are arguing that any such liability has been transferred to NOVO BANCO.

- There are also cases outside of Portugal that are somehow connected with the non-recognition of the Resolution Measure and its effects and/or related decisions of the Bank of Portugal, such

as legal proceedings brought against NOVO BANCO related with the placement of debt instruments of Espírito Santo Group in Venezuela (where, notably, two proceedings with the nominal amount of US$37 million and US$335 million have been filed) and an arbitration in the International Chamber of Commerce which is being challenged in the French Civil Courts.

Two proceedings were filled in the Superior Court of Venezuela in early 2016, by Banco de Desarrollo Económico y Social ("**BANDES**") and by Fondo de Desarrollo Nacional ("**FONDEN**"), against the Issuer and BES regarding the subscription in 2014 by BANDES and FONDEN of debt instruments issued by Espírito Santo International ("**ESI**") in the nominal amount of US$37 million and US$335 million, and total amounts claimed in March 2016 of US$871 million and US$96 million, respectively. These entities are claiming: (i) the nullity of the sale of the debt instruments and the payment by BES and the Issuer (jointly) of the amount of principal, together with costs, interests and inflation rate; or (ii) the payment by BES and the Issuer (on a joint basis) of such amounts as a result of the obligations assumed in the comfort letters allegedly issued by BES for the benefit of FONDEN and BANDES in June 2014. In both proceedings, and despite the opposition of the Issuer, the Superior Court of Venezuela has considered that the Venezuelan courts have jurisdiction to decide on these proceedings. In addition, the claimants have requested the Superior Court of Venezuela to apply a preliminary injunction over certain assets of BES and the Issuer. The Issuer has submitted its opposition in both proceedings on the basis that any liability that could have existed regarding the sale of debt instruments issued by GES entities was not transferred to the Issuer in accordance with the Resolution Measure and the separation of assets and liabilities contained in such decision.

- There are still relevant litigation risks, albeit mitigated, notably regarding the various disputes relating to the US$835 million loan made by Oak Finance to BES, the placement of BES and GES debt instruments directly and indirectly in BES retail clients 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 where there are several unfavourable decisions) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO.

  Similar proceedings relating to the retransfer of senior bonds have also been filed against the Bank of Portugal. All of these proceedings are still pending or awaiting final decision (*caso julgado*).

Indemnification Mechanism Relating to the Resolution Measure

Pursuant to the indemnification mechanism established in connection with the Lone Star Sale (the "**Indemnification Mechanism**"), which was preceded by a similar mechanism established by decision of the national resolution authority in the Decisions of 29 December 2015, in accordance with the resolution framework, the Resolution Fund is responsible, upon the fulfilment of certain conditions (including, defending the legal proceedings with the diligence of a prudent defendant), for compensating the Issuer, at any time and with no limitation of amount, for losses arising from non-appealable judicial decisions in the Portuguese courts or any other courts on the validity, implementation, effectiveness or enforcement of the Resolution Measure in any jurisdiction, including, but not limited to, the perimeter of the assets, liabilities, off-balance-sheet items, and assets under management of the Issuer or holding the Issuer responsible for any liability of BES, thereby not respecting the Resolution Measure. While the Indemnification Mechanism may help mitigate economic risks arising from certain litigation relating to the Resolution Measure, there can be no assurance that it will be applied or, if applied, upheld. In addition, even if the Indemnification Mechanism is successfully applied, this may result in an adverse reputational impact on the Issuer and/or the NOVO BANCO Group or be highly disruptive to the Issuer and a significant distraction for management.

Proceedings related with the sale of NOVO BANCO

Following the conclusion of the Lone Star Sale, certain legal suits have been lodged, related to the

conditions of the sale, notably the administrative action brought by Banco Comercial Português, S.A. ("**BCP**") against the Resolution Fund, of which NOVO BANCO is not a party, and according to the public disclosure 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. In addition, 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 EC 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. NOVO BANCO submitted a request to intervene in the proceeding, which was admitted by the General Court in December 2018. On 9 September 2020, BCP informed that it had decided not to continue the legal proceeding before the General Court of the European Union with a view to partially annul the European Commission's decision regarding its approval of the CCA of NOVO BANCO. Other participants in the proceedings were invited to state their opinion on BCP's withdrawal until 24 September 2020, pending a decision by the Court.

Other Proceedings

There are two pending proceedings regarding the sale of the shares of Tranquilidade by the Issuer in enforcement of a pledge agreement:

1. 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. is declared invalid and, secondarily, that said pledge is annulled or declared ineffective;
2. Lawsuit brought by NOVO BANCO challenging the cancelation decided in favour of the insolvent estate in respect of the creation and subsequent enforcement 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.. NOVO BANCO considers that there are no grounds for the cancelation of these acts and demands the reimbursement of the amount received by way of price (Euro 25 000 000.00, subject to possible positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially the cancelation, with this process running its course attached to the insolvency proceedings of Partran, SGPS, S.A.. The Bank recorded a provision of Euro 4.0 million related to this lawsuit.

- NOVO BANCO was notified of an order by the Central Court of Criminal Investigation that determines the provision of a guarantee by the Bank in the approximate amount of EUR 51 million due to an alleged failure to comply with a bank accounts seizure order, having used the respective means of reaction to oppose the application of the aforementioned asset guarantee measure due to the absence of a legal basis.

N. MATERIAL CONTRACTS

As part of the conditions of the Lone Star Sale, the Resolution Fund and NOVO BANCO have entered into the Contingent Capitalization Agreement on 18 October 2017. In light of the circumstances in which the CCA was concluded, it may be considered that the CCA has not been entered into in the ordinary course of NOVO BANCO's business. For further details on the CCA see *Description of the Issuer and the Novo Banco Group – Contingent Capitalization Agreement*.

O. SUPERVISION AND REGULATION

The Issuer is subject to EU regulation, to the Portuguese Companies Code which comprises commercial laws applicable to joint-stock companies (*sociedades anónimas*) and, in particular, to the RGICSF, to the Portuguese Securities Code ("**CVM**") and to other related legislation. Such regulations relate to, amongst others, liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

Membership in the EU subjects Portugal to compliance with European legislation which may either be in the form of regulations, which are directly enforceable in any member state, or directives addressed to the member states, which may require the enactment of implementing legislation or which, as established by the European Court of Justice in several decisions, may be deemed to be directly enforceable in a member state in the event that they are clear, precise and unconditional. In addition, the EC and the Council of Ministers issue non-binding recommendations to member states. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

Generally, NOVO BANCO's activity is under the supervision of the ECB and of the Bank of Portugal, as a credit institution, of the CMVM, as an issuer and as a financial intermediary, and the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)*), as an insurance agent.

European Central Bank

In order to ensure financial stability and lay foundations for sustained economic growth, the EU Member States have created a banking union. This union provides that, from November 2014 onwards, the ECB becomes responsible for the prudential supervision of the credit institutions considered significant which operate in the European Union (the "**Single Supervisory Mechanism**," or "**SSM**"). Behavioural supervision of these credit institutions shall remain with their respective national regulators. Credit institutions from European Union countries outside of the Eurozone may elect to be supervised by the ECB, under the banking union, having to ensure that their national regulator cooperates closely with the ECB.

Single Supervisory Mechanism

Council Regulation (EU) No 1024/2013 of 15 October 2013 established the SSM for Eurozone banks and other credit institutions. The SSM maintains an important distinction between significant and non- significant entities, which are subject to different supervisory regimes. The ECB carries out the prudential supervision of significant entities and NOVO BANCO has been included in the list of significant supervised entities published by the ECB on 4 September 2014 and as last updated on 6 April 2020 (as of 1 March 2020). As a result, the ECB has been granted certain supervisory powers as from 4 November 2014, which include:

- the authority to grant and revoke authorisations regarding credit institutions;
- with respect to credit institutions incorporated in a participating Member State establishing a branch or providing cross border services in Member States that are not part of the Eurozone, to carry out the tasks of the competent authority of the home Member State;
- the power to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- the power to ensure compliance with requirements relating to own funds, securitisation, large exposure limits, liquidity, leverage, as well as reporting and public disclosure of information on those matters;
- the power to ensure compliance with respect to corporate governance, including fit and

proper requirements for the persons responsible for the management of credit institutions, risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings-based models);

- the power to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests, which may lead to the imposition of specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- the power to supervise credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the Member States; and
- the power to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The SSM framework Regulation (EU) No 468/2014 of the ECB of 16 April 2014 sets out the framework for cooperation within the SSM between the ECB and the relevant national authorities, while Regulation (EU) No 1163/2014 of the ECB of 22 October 2014, as amended, lays down the calculation methodology and the collection procedure regarding the annual supervisory fees which are born by the supervised credit institutions.

The ECB directly supervises significant banks, including the Issuer, whereas each national competent authority ("**NCA**", as is the case of the Bank of Portugal in Portugal) is in charge of supervising other banks within its jurisdiction. The ECB has the right to impose pecuniary sanctions and set binding regulatory standards. Notably, the relevant entities are subject to continuous evaluation of their capital adequacy by the SSM and can be requested to operate with higher than minimum regulatory capital and/or liquidity ratios.

As regards the monitoring of financial institutions, the NCAs, in addition to supporting the ECB in day-to-day supervision of significant banks and supervising directly other banks, is responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision of credit institutions with the abovementioned supervisory powers.

In order to foster consistency and efficiency of supervisory practices across the Eurozone, the EBA is continuing to develop the EBA rulebook, a single supervisory set of rules applicable to the Eurozone Member States (the "**EBA Rulebook**").

CRD IV (as defined below) contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports, in order to enhance regulatory harmonisation in Europe through the EBA Rulebook. A series of regulations concerning regulatory or implementing technical standards have been published.

Single Resolution Mechanism

The EC established the Single Resolution Mechanism through Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014, which came into effect on 1 January 2016 and establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund. Amendments to the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 entered into force in the course of June following the adoption on 14 May 2019 of a comprehensive legislative package to reduce risks in the banking sector and further reinforce banks' ability to withstand potential shocks, by the European Council (although most of the new rules will start applying in mid-2021). The Single Resolution Mechanism is

responsible for coordinating the application of resolution tools within the Eurozone and, from 1 January 2016, is responsible for the resolution of credit institutions, which shall be funded through the Single Resolution Fund and not by any national resolution fund, such as the Resolution Fund. However, in Portugal the Resolution Fund will remain responsible for funding decisions, taken by the Bank of Portugal as the national resolution authority, that occurred until 31 December 2015, including those relating to the Resolution Measure applied to BES and the resolutions regarding Banif – Banco Internacional do Funchal, S.A., as well as for funding resolution decisions of certain financial institutions that fall outside the scope of the Single Resolution Fund.

The Commission Delegated Regulation (EU) 2017/2361 of 14 September 2017 further establishes the final system of contributions to the administrative expenditures of the Single Resolution and the Commission Delegated Regulation (EU) 2017/747 of 17 December 2015 establishes the criteria relating to the calculation of contributions (*ex ante* and *ex post* contributions).

Bank Recovery and Resolution Directive

The Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, as amended, establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") was transposed into Portuguese law by Law no. 23-A/2015, of 26 March 2015, as amended, and Law no. 66/2015, of 6 July 2015. BRDD was amended by Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017, as amended, and by Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017, which was transposed into Portuguese law by Law no. 23/2019, of 13 March 2019. Amendments to the BRRD entered into force in the course of June following the adoption on 14 May 2019 of a comprehensive legislative package to reduce risks in the banking sector and further reinforce banks' ability to withstand potential shocks, by the European Council (although most of the new rules will start applying in mid-2021).

The provisions of the BRRD aim to harmonise the resolution procedures of, among other things, credit institutions of European Union Member States and provide the authorities of such Member States with tools that aim to prevent insolvency or, when insolvency occurs, to mitigate its adverse effects, by maintaining the systemically key functions of said institutions.

The BRRD implemented into Portuguese law through Law no. 23-A/2015, of 26 March 2015, as amended, and Law no. 66/2015, of 6 July 2015 provides among others for the following:

(i) **Preparation and planning stage**: Preparation for adopting measures of recovery and resolution, including (a) drawing up and submitting recovery plans by credit institutions to the Competent Authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (b) drawing up of a resolution plan for each credit institution or group;

(ii) **Early intervention stage**: If an institution breaches the applicable legal requirements governing its activity or is likely to breach them in the near future, the competent authority is conferred with the power to:

a) require that the board of directors of the credit institution draws up an action plan, with a specific timeline,

b) require that the chair of the general meeting of the credit institution convenes a general meeting of its shareholders or, in case the chair of the general meeting does not comply, promptly convene itself a general meeting of the shareholders of the credit institution,

c) require that one or more members of the board of directors or the supervisory board be removed or replaced if they are considered unsuitable in light of the applicable provisions to perform their duties,

d) require that the credit institution draws up and submits for consultation a plan for debt restructuring with its creditors according to the recovery plan,

e) require changes in the legal or business structures of the credit institutions,

and

f) collect (including through on-site inspections) all necessary information for the update of the resolution plan and the preparation of the potential resolution of the credit institution and the valuation of its assets and liabilities for the resolution purposes.

In case of significant deterioration of the financial condition of an institution due to significant infringements of the law, regulatory acts or the constitutional documents of the institution or in case the competent authority believes that significant administrative irregularities have taken place, that the current shareholders and board of directors of the institution are unable to ensure its prudent management or its financial recovery or that there are other reasons to suspect of irregularities that put into serious risk the interests of depositors and creditors, and provided that the above early intervention measures listed above in subparagraph (ii) are not sufficient to reverse the deterioration of the institution, the competent authority may require the removal of the board of directors of the institution. When the competent authority considers the removal of the management body as insufficient for addressing any of the above-mentioned situations, one or more temporary directors may be appointed to the institution.

(iii) **Resolution measures:** The resolution authority shall take action only if it considers that all of the following conditions are met:

a) The competent authority or the resolution authority considers that the institution is failing or is likely to fail;

b) having regard to timing and other relevant circumstances, no alternative private sector measures or supervisory action, including early intervention measures or the exercise of the powers to write-down or convert own funds instruments, would prevent the failure of the institution within a reasonable timeframe;

c) a resolution action is necessary for public interest reasons, as it is required for the achievement of and is proportionate to one or more of the resolution objectives established by law; and

d) winding up the institution under normal insolvency proceedings would not meet those resolution objectives more effectively.

The resolution measures that may be implemented by the resolution authority, either individually or in conjunction, are the following:

(i) **Sale of business tool**: transfer to a purchaser, by virtue of a decision of the resolution authority, of shares or other instruments of ownership or of some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution, without the consent of the shareholders of the institution under resolution or of any third party other than the acquirer.

(ii) **Bridge institution tool**: establishment of a bridge institution by the resolution authority, to which shares or other instruments of ownership or some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution are transferred without the consent of the shareholders of the institution under resolution or of any third party.

(iii) **Asset separation tool (to be used only in conjunction with another resolution measure)**: transfer, by virtue of a decision of the resolution authority, of rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of an institution under resolution or of a bridge institution to one or more asset management vehicles, without the consent of the shareholders of the institutions under resolution or of any third party other than the bridge institution. The asset management vehicles are legal persons wholly or partially owned by the relevant resolution fund.

(iv) **Bail-in tool**: write-down or conversion by the resolution authority of any obligations of an institution under resolution, except for the following obligations, as defined under the applicable law:

a) covered deposits;

b) secured obligations;

c) obligations arising from holding of clients' assets or money;

d) obligations to credit institutions and investment firms, excluding the members of the group, with an original maturity of less than seven days;

e) obligations with a remaining maturity of less than seven days towards payment and securities settlement systems, to its administrators or to its participants, arising from the participation in said systems;

f) obligations towards (i) employees, except for the variable component of their remuneration which is not regulated by a collective agreement, (ii) commercial or trade creditors, connected to the provision of goods and services to the institution which are critical for its daily operation, (iii) tax authorities and social security authorities, provided that these obligations are privileged according to the applicable law, and (iv) deposit guarantee schemes arising from contributions due to those schemes; and

g) obligations towards a beneficiary in the context of a fiduciary relationship, provided that such beneficiary is protected under the application insolvency or civil law.

In exceptional circumstances, when the bail-in tool is implemented, the resolution authority may exclude or partially exclude certain liabilities from the application of the write-down or conversion powers. This exception shall apply in case it is strictly necessary and proportionate and shall fall under the specific requirements provided by law.

Further to the above resolution measures, the resolution authority shall exercise the write-down or conversion powers in respect of own funds instruments of the institution, either independently from the resolution measures implemented by the resolution authority or in combination with those resolution measures, under the circumstances provided under the applicable law, when for example it is established that the conditions for resolution are met or when the resolution authority establishes that if said power is not exercised, the institution will cease to be viable.

The application of the resolution measures shall ensure that the shareholders of the institution bear losses first, followed by creditors of the institution in accordance with the order of priority of their claims under normal insolvency proceedings. Additionally, creditors of the same class should be treated in an equitable manner and covered deposits should be fully protected. In any case, no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings in accordance with the "no creditor worse off" principle.

To ensure the effective application of the resolution tools, the resolution authority may use financing arrangements, notably for the following purposes:

(i) to guarantee the assets or the liabilities of the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(ii) to grant loans to the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(iii) to purchase assets of the institution under resolution;

(iv) to make contributions to a bridge institution and an asset management vehicle;

(v) to pay compensation to shareholders, creditors of the institution under resolution or the Deposit Guarantee Fund;

(vi) to contribute to the institution under resolution in lieu of the write down or conversion

of liabilities of certain creditors, when the bail-in tool is applied and the resolution authority decides to exclude certain creditors from the scope of bail-in.

In addition to the resolution tools (such as the general bail-in tool), the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**").

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

On 3 September 2016, the EC adopted Delegated Regulation (EU) 2016/1450, of 23 March 2016, supplementing the BRRD regulatory technical standards, which entered into force on 23 September 2016, specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities. This required that institutions meet the MREL to avoid excessive reliance of forms of funding that are excluded from bail-in or other resolution measures and prevent the risk of contagion to other institutions and "bank run" situations, since failure to meet the MREL would negatively impact the institutions' loss absorption and recapitalization capacity and the overall effectiveness of the resolution.

Non-exhaustive summary of recent regulatory developments following the Covid-19 pandemic

Following the Covid-19 outbreak, the ECB announced, on 12 March 2020, a first set of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy as the economic effects of Covid-19 become apparent.

The ECB will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance, the capital conservation buffer and the LCR. The ECB also clarified that capital buffers may be used in full and that no negative judgment will be attached to those making use of these relief measures. Once this period of financial distress is over banks will be granted sufficient time to build up the buffers again.

Banks will also be allowed to partially use capital instruments that do not qualify as CET1 capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R. This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the CRD V.

In addition, the ECB has taken individual measures, such as adjusting timetables, processes and deadlines (e.g. rescheduling on-site inspections and extending deadlines for the implementation of remediation actions stemming from recent on-site inspections and internal model investigations; extending deadlines for certain non-critical supervisory measures and data requests). Banco de Portugal clarified some of these measures through Carta Circular 2020/00000017 and 2020/00000021.

The ECB has supported the decision by the EBA to postpone the 2020 EBA EU-wide stress test.

Banks are expected not to increase dividend distributions or variable remuneration.

On 16 April 2020, the ECB Banking Supervision provided temporary relief for capital requirements for market risk by allowing banks to adjust the supervisory component of these requirements.

On 20 March 2020, the ECB announced a new statement, providing additional flexibility to banks. This statement was also accompanied by a more comprehensive FAQ page.

The measures announced on 20 March 2020 include:

- Introduction of supervisory flexibility regarding the treatment of non-performing loans, in particular to allow banks to fully benefit from guarantees and moratoria put in place by public authorities to tackle the current distress.
- ECB recommends that all banks avoid procyclical assumptions in their models to determine credit impairments; and
- For the banks, that have not done this so far, opt for the IFRS 9 transitional rules.

On 28 April 2020, the EC adopted a banking package to help mitigate the economic impact of the Covid-19 pandemic. The banking package includes several measures, summarized below:

- CRR:

In this regard, the following set of amendments to the CRR have been proposed:

i) transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital, namely the extension of the current transitional arrangements in the CRR by two years, in line with the international agreement of the Basel Committee. Only provisions incurred as of 1 January 2020 would be eligible;

ii) date of application of the leverage ratio buffer for G-SIIs is proposed to be deferred by one year to 1 January 2023; and

iii) more favourable treatment of publicly guaranteed loans under the NPL prudential backstop, notably by temporarily extending preferential treatment to NPLs guaranteed by the public sector in the context of measures aimed at mitigating the economic impact of the Covid-19 pandemic in accordance with EU State aid rules.

- IFRS 9:

The banking package also includes an Interpretative Communication on the EU's accounting and prudential frameworks which has clarified:

i) the flexibility available in IFRS 9 as regards (i) the Expected Credit Loss ("**ECL**") approach under IFRS 9; (ii) the assessment of a "Significant Increase in Credit Risk" ("**SICR**") and (iii) the use of moratoria and SICR;

ii) that individual or corporate loans that benefit from moratoria should not automatically be considered to have suffered a SICR if they have become subject to private or public moratoria. As such, if they fulfil a number of conditions (as specified in the EBA guidelines of 2 April 2020 on payment moratoria, EBA/GL/2020/02) they are not considered as forbearance measures and therefore do not affect the classification of the loans concerned; and

iii) how the prudential rules on the classification of NPLs (definition of default and loan forbearance under the CRR) can accommodate government guarantees and payment moratoria in line with the statements and guidance by the EBA and the ECB.

- Other measures:

The banking package also envisages the following measures:

i) advancing the date of application of the revised supporting factor for SME and the new supporting factor for infrastructure finance, the preferential treatment of certain software assets, and the preferential treatment of certain loans backed by pensions or salaries; and

ii) a proposal for the modification of the offsetting mechanism associated with competent authorities' discretion to allow credit institutions to temporarily exclude exposures in the form of central bank reserves from the calculation of the leverage ratio.

Bank of Portugal

The Bank of Portugal is part of the European system of Central Banks ("**ESCB**"), which was created in connection with the European Monetary Union ("**EMU**"). The EMU implements a single

monetary policy, the main features of which are a single currency – the euro – and the creation of the ECB and the ESCB. According to the EU Treaty, the primary objective of the ESCB is to maintain price stability through monetary policy.

The Bank of Portugal is committed to providing for the stability of the domestic financial system and performs for this purpose the function of lender of last resort (as set forth in Law 5/98, 31 January 1998, as amended). This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal, as mentioned below.

According to the RGICSF, and subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, the Bank of Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur and possesses the ability to take extraordinary measures of reorganisation.

The Bank of Portugal has established and/or is responsible for supervising and monitoring, subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. Subject to the same terms, it monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems within the scope of its participation in the ESCB.

Capital and capital ratios

In the wake of the financial crisis and due to insufficiencies in existing regulatory capital structures, as well as the lack of adequate capital reserves in systemically important financial institutions, the issue of capital requirements has been subject to numerous national and international initiatives. In December 2010, the Basel Committee published two recommendations to reform the global regulatory framework applicable to credit institutions ("**Basel III**: A global regulatory framework for more resilient credit institutions and banking systems", and "Basel III: International framework for liquidity risk measurement, standards and monitoring", both of which have been subsequently updated). These recommendations, known as "Basel III", revised certain aspects of the recommendations contained in Basel II which introduced new rules on capital and liquidity. In the EU, these recommendations were implemented through new banking regulations adopted on 26 June 2013:

a) Directive 2013/36/EU of the European Parliament and of the European Council, as amended,on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**"), which has been transposed into Portuguese law by Decree-Law No 157/2014 of 24 October 2014, and

b) Regulation (EU) no 575/2013 of the European Parliament and of the Council, as amended, on prudential requirements for credit institutions and investment firms (the "**CRD IV Regulation**" or "**CRR**" and, together with the CRD IV Directive, "**CRD IV**"), which is legally binding and directly applicable in all EU Member States. Implementation began on 1 January 2014, while particular elements being phased in over a period of time, to be fully effective by 2024.

On 23 November 2016, the EC presented legislative proposals for amendments to the CRR, the CRD IV Directive, the BRRD and the Single Resolution Mechanism (collectively, the "**Reforms**"). After the European Parliament confirmed its position on the Reforms, the European Parliament and Council of the EU reached agreement on the main elements of the Reforms. The agreed text was endorsed on 16 April 2019 by the European Parliament and sets out a comprehensive set of reforms

to strengthen further resilience and resolvability of EU banks.

On 14 May 2019, the European Council announced that it had adopted the Reforms. The Reforms were published in the Official Journal in the course of June and entered into force, although most of the new rules will start applying in mid-2021. As per the European Council's press release, the Reforms include the following key measures:

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new market risk framework for reporting purposes, including measures reducing reporting and disclosure requirements and simplifying market risk and liquidity rules for small non-complex banks in order to ensure a proportionate framework for all banks within the EU;
- a requirement for third-country institutions with significant activities in the EU to have an EU intermediate parent undertaking;
- a new total loss absorbing capacity ("**TLAC**") requirement for global systemically important institutions;
- enhanced Minimum Requirement for own funds and Eligible Liabilities (MREL) subordination rules for global systemically important institutions (G-SIIs) and other large banks;
- a new moratorium power for the resolution authority.

In addition, on 7 December 2017, the Basel Committee and the Group of Central Bank Governors and Heads of Supervision presented reforms to the Basel III regulatory framework also known as "Basel IV". The final Basel III reforms include several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for undue variation in capital requirements for banks across the globe. The measures comprise revisions to the standardised approach for credit risk, internal ratings-based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework and a revised output floor. The proposals contained in the Basel III reforms are intended to be applied from 2022 with a transitional period for the output floor until 2027, although these timelines remain unclear until such rules are implemented into draft European and Portuguese legislation.

The Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 (regarding the ranking of unsecured debt instruments in insolvency hierarchy), which amended BRDD, was implemented in Portugal through Law no. 23/2019, of 13 March 2019 creating a new asset class of "non-preferred" senior debt that ranks in insolvency above own-funds instruments and subordinated liabilities that do not qualify as own funds, but below other senior liabilities. Further, it confers a preferential claim to generally all deposit *vis-à-vis* senior debt.

Capital Requirements

CRD IV amended existing regulatory capital items which are divided as described below, subject to certain further deductions as described in CRD IV:

- Common Equity Tier 1 ("**CET1**"): This category includes share capital, share premiums, eligible reserves and the net profit for the year retained when certified and non-controlling interests adjusted in proportion to the risk of entities that give rise to them; goodwill, intangible assets, negative actuarial deviations arising from liabilities related to post-employment benefits to employees and, when applicable, the negative results for the year are also deductible;
- Additional Tier 1 ("**AT1**", together with CET1 items, "**Tier 1**"): This category includes

certain preferred shares and hybrid capital instruments; and

- Tier 2 ("**Tier 2**"): essentially incorporates subordinated eligible debt.
- Total Own Funds is Tier 1 and Tier 2 ("**Total Own Funds**").

Subject to any applicable transitional periods, the CRD IV general Total Own Funds requirement is 8% of the total risk-weighted assets, while at least 6% and 4.5% of the minimum Total Own Funds shall be composed by Tier 1 and CET1, respectively. Accordingly, the maximum eligible capital that can be covered through Tier 2 instruments is 2%. The above may be subject to additional capital requirements as a result of the SREP and is subject to capital conservation and other buffers, as indicated below and which, where applicable, need to be covered by CET1 amounts.

Regulatory Notice ("*Aviso*") 6/2013 issued by the Bank of Portugal regulates the transition provided in CRD IV and has determined a minimum CET1 ratio of 7.0%, calculated under the transitional periods requirements, to be complied with from 1 January 2014 onwards. Regulatory Notice ("*Aviso*") 6/2013 has been revoked and replaced by the Regulatory Notice ("*Aviso*") 10/2017 issued by the Bank of Portugal that entered into force in 1 January 2018 and regulates the exercise of a range of options available within the prudential framework established by the CRD IV Regulation and Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 following the publication of Guideline (EU) 2017/697 (ECB / 2017/9) of 4 April 2017 and Recommendation ECB / 2017/10 of 4 April 2017, both of the ECB.

CRD IV required credit institutions to hold additional CET1 capital buffers as fixed by the relevant supervisory authorities:

- A "conservation buffer" of 2.5% that is being phased in until 2019. As of January 2017, the buffer was set at 1.25%, as of 1 January 2018 it was set at 1.875%, and as of 1 January 2019 at 2.5%. In case of non-compliance, the regulator will impose the constraints on dividends distribution and executive bonuses inversely proportional to the level of the actual CET1 ratio;
- A "countercyclical capital buffer" which varies by jurisdiction. The buffer is being phased in and, when fully phased-in, is expected to range between 0% and 2.5% depending on macroeconomic factors. In Portugal, at its most recent revision, pursuant to the decision of the Bank of Portugal of 26 March 2019, the countercyclical buffer rate remains at 0,01% of the total risk exposure amount, with effect from 1 April 2019;
- A "systemic risk buffer" of at least 1% set at the discretion of national authorities of EU Member States to be applied to institutions at consolidated or individual level, or even at the level of exposures in certain countries at which a banking group operates. Currently no systemic risk buffer has been set by the Bank of Portugal;
- Additional buffers are applied to O-SIIs. For global systemically important institutions, the additional buffer ranges between 1% and 3.5%, whereas for O-SIIs it could reach 2%. The Bank of Portugal, through Regulatory Notice 4/2015 on 29 December 2015, imposed O-SII capital buffers which, in the case of NOVO BANCO, will be 0.75%. On 29 July 2016, the Bank of Portugal specified that a two-year phase-in regime would apply for this buffer. In case of the Company, the applicable buffer for O-SIIs shall be 0.25% from 1 January 2019 until 31 December 2019, 0.375% from 1 January 2020 until 31 December 2020 and 0.5% from 1 January 2021 onwards;
- According to Council Regulation (EU) no. 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to NOVO BANCO in 27 March 2017 that the NOVO BANCO Group should comply with an own funds requirement of 3% to be held in excess of the minimum own funds requirement, to be made up entirely of CET 1 capital.

As at 31 December 2019, NOVO BANCO's CET1 ratio was 13.5% (phased in) and 12.8% (fully

phased in) (12.8% (phased in) and 11.9% (fully implemented) as at 31 December 2018).

Local capital requirements

In addition, members of the NOVO BANCO Group, which are subject to local supervision in their respective countries of incorporation may, on an individual and on a consolidated basis, be required to comply with applicable local Regulatory Capital Requirements. It is therefore possible that individual entities within the NOVO BANCO Group or sub-groups require additional own funds, even though the own funds of the NOVO BANCO Group on a consolidated basis are sufficient.

Leverage ratios

With respect to leverage requirements, CRD IV also introduced a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoiding excess leverage through a simple calculation. This ratio is calculated by dividing the total Tier 1 capital by the total exposure measure of all assets and off-balance sheet items not deducted when determining the Tier 1 capital, and shall be expressed as a percentage, as defined in CRD IV. Stricter requirements may be demanded only from G-SIIs.

Following the adoption of the Reforms on 14 May 2019 by the European Council, a minimum of 3% Tier 1 leverage ratio for all CRR firms in the EU should be endorsed. The Reforms have entered into force in the course of June 2019, although most of the new rules will start applying in mid-2021.

Risk weighted assets

Risk-weighted assets ("**RWAs**") is a metric used to reflect components of risk in an asset, including credit, market and operational risk. RWAs are used to calculate key capital adequacy ratios, including CET1 ratio and Tier 1 Ratio. Under CRD IV, credit institutions in Portugal may calculate the risk weighting of their assets, insofar as credit risk is concerned, according to a standard-based approach or based on their own internal risk-management models, in the latter case subject to authorisation by the banking supervisor. However, in March 2016, the Basel Committee proposed standards to prohibit credit institutions from using internal risk management models to calculate credit risk with respect to, amongst others, large corporations; requiring, instead, the use of the standard-based approach.

Supervisory Review and Evaluation Process

In December 2014, the EBA published its final guidelines on the procedures and methodologies that will form its SREP assessments. The Issuer is subject to an annual SREP assessment by the SSM to determine the adequacy of its capital, to identify risks that are not covered by its own funds requirements and to identify the need for Pillar 2 capital requirements. The SREP assessments include capital assessment, business model analysis, assessment of internal governance and control, liquidity assessment and broader stress testing. The purpose of these SREP assessments is to evaluate whether institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of risks, to which they are or might be exposed, including those revealed by stress testing. Where the results of a SREP assessment identify areas of risks which are not adequately covered by the Pillar 1 capital requirements or the combined buffer requirement, competent authorities can determine the appropriate level of the institution's own funds requirement under CRD IV and assess whether additional own funds shall be required.

Liquidity Requirements

With respect to liquidity requirements, there is in place a provision for near term liquidity and from June 2021 there will be in place a medium/long term financing requirements referred to as the liquidity coverage requirement (the "**LCR**") and net stable funding ratio ("**NSFR**") respectively.

The LCR seeks to ensure that institutions maintain levels of liquidity buffers which are adequate to face possible imbalances between liquidity inflows and outflows under gravely stressed conditions, and does so by defining an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30 day stress scenario. The liquidity coverage requirement is 100%. In relation to the liquidity coverage requirement, the EU regulation:

- Defined assets as "extremely high" and of "high" quality;
- Put in place operational requirements for the holdings of liquid assets;
- Defined that all types of bonds issued or guaranteed by Member States' central governments and central banks in local currency as well as those issued or guaranteed by supranational institutions should be considered transferrable extremely high quality assets;
- Stated that the credit quality standards and eligibility of covered bonds, bonds, RMBS and bonds issued by local government entities should be considered highly liquid and credit quality assets; and
- Defined that common equity shares that form part of a major stock index should be considered high quality liquid assets.

As at 31 December 2019, the NOVO BANCO Group had a Liquidity Coverage Ratio ("**LCR**") of 143% (125% as at 31 December 2018).

As for the NSFR, the implementation of which is expected for June 2021, also with a requirement of 100%, aiming that institutions maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities over a one-year period. Moreover, the regulator establishes minimum provisioning requirements regarding loans, non- performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies.

Own Funds and Large Exposures

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds are determined by the Bank of Portugal.

As per the CRD IV Regulation and the Bank of Portugal Notice ("*Aviso*") no. 10/2017, a credit institution shall not have exposure to a customer or group of connected customers exceeding 25% of its own funds. In terms of the exposure to the economic group on which a credit institution is incorporated, this limit is not applicable to the exposure assumed by an institution to entities included within the scope of the supervision of the Bank of Portugal on a consolidated basis and which all have their head offices located in Portugal. Under prior authorisation of the Bank of Portugal, this exemption may be extended to other entities that have the same characteristics as those described above but whose head office is located in a third country.

Similarly, the Bank of Portugal Notice ("*Aviso*") no. 10/2017, as amended, permits the exemption limit of 25% of a credit institution's own funds for exposures to certain assets, including assets constituting credits and other risks on central governments, central banks (as minimum reserve requirements expressed in the relevant central bank's currency) or the risks over well-established stock exchanges (whenever the risks in question have a duration which is no longer than the following business day), among other exemptions.

Minimum Reserve Requirements

Credit institutions are required to maintain mandatory deposits with national central banks in order

to comply with minimum reserve requirements. According to the ECB Regulation (EC) no. 1358/2011, of 14 December 2011 (ECB/2003/9) that changes the ECB Regulation (EC) no. 1745/2003, of 12 September 2003 (ECB/2003/9), minimum cash requirements kept as deposits with the Bank of Portugal earn interest and correspond to 1% of deposits and issued debt certificates with a maturity of less than two years, excluding responsibilities towards the ECB, national central banks and other institutions subject to minimum cash reserves requirements as further set out in Regulation (EU) 2016/1705 of the ECB of 9 September 2016.

The failure of a bank to maintain adequate liquidity may result in (i) an increase in the cash amount required (of up to three times the original amount) or (ii) payment of interest over the amount of deposits not made up to double the rediscount rate or up to five percentage points over the market rate.

Deposit Guarantee Fund

The Deposit Guarantee Fund was established in 1992 and started operating in December 1994 and has administrative and financial autonomy. Credit institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU, as amended from time to time providing for the establishment of deposit guarantee schemes and the harmonisation of such deposit guarantee systems throughout the EU (the "**recast DGSD**"), which was implemented into Portugal through Law no. 23-A/2015, of 26 March, as amended, that amended the RGICSF.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to €100,000 per depositor, subject to certain statutory exceptions, as mentioned below. The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the deposit guarantee scheme, such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds, pension fund management companies, and central or local administration bodies, among others, in their own name and for their own account, with exception of those made by (i) pension funds whose associates are small and medium enterprises and (ii) local authorities with an annual budget equal to or less than €500,000.

Also excluded from the guarantee scheme are certain deposits relating to anti-money laundering criminal convictions or where its holder has not been properly identified in accordance with the anti-money laundering and prevention of terrorism law. Finally, deposits of persons and entities that, in the two years before the date on which deposits become unavailable, or a resolution has been adopted, held, directly or indirectly, 2% or more of the share capital of the credit institution or have been members of its corporate bodies are also excluded, unless it is clearly established that they did not cause the financial difficulties of the credit institution, through act or omission, and did not contribute through act or omission to the worsening of the situation.

The annual contributions to the Deposit Guarantee Fund are calculated according to the monthly average of the deposits balance accepted in the previous year. An annual contributions rate is determined annually by the Bank of Portugal. The rate plus a multiplicative factor is determined in accordance with the solvency situation of each institution (the higher an institution's average solvency ratio, the lower its contribution). The factor is defined in Notice 11/94 of the Bank of Portugal, as amended. The basic contribution rateset for 2019 is 0.0003%.

The Bank of Portugal may determine that the payment of up to 75% of the annual contributions may be partly replaced by an irrevocable undertaking to make full or partial payment upon request from the fund at any moment, guaranteed where necessary by securities having a low credit risk and high liquidity. The Bank of Portugal issued Instruction no. 21/2017 which established the annual contribution rate (0.0003% for all territory) and the minimum contribution (€235.00) for

2018, and it also established that in 2018 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings. On 19 December 2018, the Bank of Portugal issued Instruction no. 30/2018 which established the annual contribution rate (0.0003%) and the minimum contribution (€235.00) for 2019, and it also established that in 2019 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings.

Without prejudice to the foregoing, account may in the future need to be taken of EBA's guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10), dated 22 September 2015 and last amended on 13 June 2016.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending used takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now set by the ECB.

Investment in Non-Financial Companies

The RGICSF (article 101) also provides that no credit institution may directly or indirectly own more than 25% of voting rights in any single non-financial company for a continuous or non-continuous period of more than three years (five years for shareholdings held through venture capital companies and holding companies). These limitations are not applicable to holdings in other credit institutions, financial companies and ancillary services companies.

Conduct Supervision

The Bank of Portugal has supervisory powers relating to the conduct of credit institutions. These powers are supported by supervision, decision-making and sanction powers relating to the rules on the conduct of business, customer relationships, professional secrecy, conflicts of interest and competition, to which credit institutions are subject. The conduct supervision rules on customer relationships consist of information obligations, rules relating to the management of customer complaints, a requirement to adopt a code of conduct and rules relating to the publicity of credit institutions.

Granting Credit to Members of the Corporate Bodies

In general, credit institutions are not authorised to grant credit in any way, including the granting of guarantees, to members of their board of directors or board of auditors or people and entities related to them, or to companies or other legal entities directly or indirectly controlled by them.

This limitation does not apply to (i) operations with a social nature or purpose or those deriving from personnel policy; (ii) credit granted as a result of the use of credit cards associated with deposit accounts, in conditions similar to the ones applicable to other customers with a similar profile and risk; (iii) the credit granting operations of certain entities within the supervisory ambit of the relevant credit institution.

The members of the board of directors or supervisory body of a credit institution cannot participate in the analysis and decision-making process relating to operations where they may have a conflict of interest.

Breach of Rules under the Bank of Portugal's Supervision

Breaches of rules under the Bank of Portugal's supervision constitute misdemeanours and may result in the Bank of Portugal imposing fines of up to approximately €5 million. In certain cases,

the maximum amount of the fine applicable is increased to 10% of the total net annual turnover for the financial year preceding the date of the decision, including gross income consisting of interest and similar income, income from shares and other variable or fixed income securities and commissions. If the double of the economic benefit obtained by the offender is determinable and exceeds the maximum limit of the applicable fine, such fine is raised to that value. Ancillary sanctions may also be imposed, such as, among others, disgorgement of the proceeds obtained through the offence, public censure, prohibition against exercising management functions in credit institutions and the suspension of voting rights of the shareholders of credit institutions.

Other Controls

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

CMVM Supervision

The regulation and supervision of the securities markets and financial intermediation activities in Portugal are carried out by the central government, acting through the Ministry of Finance and the CMVM.

The CMVM is the regulatory entity in charge of the supervision and regulation of the securities markets and financial intermediation services. This includes the supervision of a wide range of activities and entities that fall under the scope of a number of EU Directives and Regulations, including Directive 2014/65/EU of 15 May 2014 (MiFID II), as amended, and Regulation (EU) No. 600/2014 of 15 May 2014 ("**MiFIR**"), as amended, and supplementary acts.

The CMVM is an autonomous administrative entity overseen by the Ministry of Finance, and by law and regulations not subject to direct intervention by the Ministry of Finance. Its Directors are appointed by the Minister of Finance for a 6-year, non-renewable term. In particular, the responsibilities of the CMVM include the supervision of certain conduct of business rules relating to financial intermediation activities and markets in financial instruments and the prudential supervision of certain entities.

For this purpose, the CMVM may issue regulations on matters within the scope of its powers of supervision, including the conduct of business rules for providers of investment services, the recognition of markets for financial instruments and the establishment of rules for the operation of such markets as well as rules on public offers and prospectus requirements. The CMVM has also the responsibility to evaluate claims presented by investors, regarding the misconduct of financial intermediaries, and may determine compensations to an investor or group of investors.

The CMVM may, within the course of its supervision activities, carry out inspections, issue information requests, conduct hearings, require the collaboration of other persons or entities, including police authorities, disclose information, including in substitution of supervised entities, conduct investigations and organise a registration system, carry out enforcement actions and impose administrative sanctions.

The Bank is subject to the CMVM's supervision both as a financial intermediary and an issuer of securities admitted to trading on a regulated market.

The Ministry of Finance may establish policies relating to markets in financial instruments, investor protection, financial intermediation activities and generally any matters regulated by the Portuguese Securities Code. The Ministry of Finance also oversees the CMVM and coordinates the supervision and regulation relating to financial instruments when powers have been delegated to more than one public entity. When a disturbance in the markets in financial instruments puts the national economy at serious risk, the Ministry of Finance may, by means of a joint Ministerial Order by the Prime Minister and the Minister of Finance, impose necessary measures. These may include

the temporary suspension of: (i) the regulated markets and certain categories of transactions or activities of their management entities; (ii) multilateral trading facilities; (iii) settlement systems; (iv) clearing houses or central counterparties; and (v) central securities depositaries.

Supervisory Rules Applicable to the Issuer as a Financial Intermediary

The Issuer and some of its Portuguese subsidiaries are authorised as financial intermediaries. They are subject to the supervision by the CMVM in relation to their performance of financial intermediation and asset management activities.

The conduct of business rules applicable to financial intermediaries are laid out in the Portuguese Securities Code, CMVM regulations and legislation applicable to specific financial intermediation activities.

Conduct of Business Rules

For the provision of regulated activities, financial intermediaries such as the Issuer must comply with conduct of business rules set out in the Legal Framework of Credit Institutions and Financial Companies and the Portuguese Securities Code, as well as those which may be established by CMVM regulation or special legislation.

As a general principle, financial intermediaries must conduct their activity in a manner which protects the legal interests of their customers and the efficiency of the market. In their dealings with other market parties, financial intermediaries must observe the dictates of good faith, in accordance with high standards of diligence, loyalty and transparency.

The main conduct of business rules applicable to financial intermediaries carrying out financial intermediation activities relate to: (i) "know your customer" obligations and suitability requirements; (ii) the financial intermediaries' human, material and technical resources; (iii) complaint procedures; (iv) segregation of customers' assets; (v) recordkeeping and reporting; (vi) conflicts of interest policy; (vii) information duties and (viii) product governance.

CMVM's Powers

As stated above, the CMVM supervises the activities and participants in the financial markets in Portugal. The CMVM has the power to issue binding regulations, take appropriate enforcement measures in respect of these regulations and the Portuguese Securities Code, and to sanction such breaches.

In the exercise of its powers, the CMVM has the right, without limitation, to request non-public information, including information otherwise subject to professional confidentiality obligations, hold hearings, undertake investigations and summon people to cooperate with such investigations, and to provide information to the market on behalf of the supervised entities.

The CMVM also operates an information disclosure system which can be used by parties subject to disclosure rules as a cheap and efficient means of complying with information rules.

Breach of Rules under the CMVM's Supervision

A breach of the rules laid out in the Portuguese Securities Code may constitute a crime or misdemeanour.

Portuguese Insurance and Pension Funds Supervisory Authority

NOVO BANCO is also subject to the supervision of the ASF insofar as it is registered as an

insurance agent, for both Life and Non-Life segments. NOVO BANCO dos Açores, S.A. and Banco Best are also subject to ASF's supervision as they are registered as an insurance agent, for both Life and Non-Life segments. ASF is also the supervisory authority of GNB Seguros, a non-life insurance company held in 25% by NOVO BANCO, and of Gama Life (formerly GNB Vida), a life insurance company, which was a subsidiary of NOVO BANCO until its sale in September 2019.

ASF is the national authority responsible for the regulation and supervision of insurance, reinsurance, pension funds and their management companies and also insurance mediation activity, both from a prudential and a market conduct perspective.

Insurance Distribution

The Directive on Insurance Distribution (Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, as amended) (commonly known as the Insurance Distribution Directive or IDD), which revokes and replace the Directive 2002/92/EC, was designed to improve EU regulation in the insurance market. The IDD came into force on 22 February 2016 and was transposed into the Portuguese jurisdiction by Law no. 7/2019, of 16 January ("**Insurance Distribution Law**").

The objective of the IDD and of its implantation legislation is to ensure a level playing field among all participants involved in the sale of insurance products, to make it easier for firms to trade cross-border, and to strengthen policyholder protection. The Insurance Distribution Law, as the IDD itself, is based on the principle that the consumers should benefit from the same level of protection regardless of the differences between distribution channels. To guarantee that the same level of protection applies, and that the consumer can benefit from comparable standards, in particular in the area of disclosure of information, a level playing field between distributors is deemed to be essential.

The Insurance Distribution Law, among other modifications, revokes and replaces the legal regime set out in Decree-Law no. 144/2006, of 31 July, establishing a new insurance and reinsurance distribution legal regime.

Anti-money laundering

The NOVO BANCO Group is subject to extensive regulation on anti-money laundering and terrorism financing due to NOVO BANCO Group entities' activities as credit institutions, financial intermediaries and insurance companies and insurance intermediaries brokers and relating to asset management. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences.

Under Law 83/2017, of 18 August 2017, as amended, which implemented Directives 2015/849/EC of 20 May 2015, as amended, and 2016/2258/EC of 6 December 2016 in Portugal ("**Law 83/2017**"), focus has been placed on the prevention of the use of the financial system and specially designated activities and professions for the purposes of money laundering and terrorist financing. Law 83/2017 comprises the following compliance duties: (i) duty of identification of the customer and of its representative; (ii) a general obligation of due diligence, according to which entities subject to it are required to take adequate measures to understand the ownership and control structure of the client ("know your customer"), obtain information about the purpose and nature of its business, as well as the source and destination of funds moved in the context of that business; (iii) duty to refuse to execute any operation, or begin any business relation or any specific transaction whenever the client information duty has not been fully complied with; (iv) duty to keep records of the documentation and information provided; (v) duty to examine with special caution and care any conduct, activity or operation which, according to the professional experience of the financial institution, bear elements that are liable to raise suspicion on its relation with a money-laundering operation; (vi) entities subject to Law 83/2017 shall refrain from executing any

operation whenever they are aware or suspect it is related with money-laundering; (vii) cooperation duty, under which entities subject to Law 83/2017 are required to cooperate with the General Attorney of the Portuguese State (*Procurador Geral da República*) and the Financial Information Unit (*Unidade de Informação Financeira*), as so requested; (viii) duty of professional secrecy, which determines that the fact that information requested by the competent authorities has been so given is not disclosed to the client; (ix) control duty, which requires that such entities shall implement adequate internal procedures so as to ensure compliance with anti-money duties; and (x) duty to provide adequate anti-money laundering training to its employees and managers.

In addition to the aforementioned duties, according to the applicable reporting obligations, entities subject to Law 83/2017 have a reporting duty, under which the General Attorney of the Portuguese State and the Financial Information Unit shall be promptly informed, on their own initiative, when an operation likely to constitute a money laundering or terrorism financing offense that is being or has been committed or attempted comes to its knowledge or raises a suspicion. Moreover, a special reporting duty is applicable to transactions which present a special risk of money laundering or terrorist financing when they are related to a specific country or jurisdiction subject to additional counter measures decided by the Council of the European Union. In such cases, the competent supervisory authorities may determine the obligation of immediately reporting those transactions to the General Attorney of the Portuguese State and the Financial Information Unit, when they amount to €5,000 or more.

Applicable measures and sanctions for breach of rules on anti-money laundering prevention include the application of fines ranging between €50,000 and €5,000,000 and, in the case of credit institutions, of up to 10% of the total annual turnover (according to the latest accounts approved by the management body) if such amount is higher than €5.0 million and, always depending on the seriousness of the infraction and the degree of fault involved, ancillary penalties, including the interdiction from exercising the activity in question for a period of up to three years, prohibition from holding management, direction, leadership or supervisory roles in the entities subject to Law 83/2017, and the publication of the penalty.

Notice 2/2018 of the Bank of Portugal establishes the conditions of exercise, procedures, instruments, mechanisms, enforcement formalities, reporting obligations and other aspects necessary to ensure compliance with the anti-money laundering and terrorist financing.

Regulation 10/2005-R ("**Regulation 10/2005-R**") of ASF lays down anti-money laundering rules applicable to insurance intermediaries carrying out activity in the life insurance segment. Consequently, companies within group´s providing services within the life insurance branch shall comply with the comprehensive set of compliance requirements established by Regulation 10/2005-R.

The CMVM is currently preparing a specific regulation on anti-money laundering and terrorist financing with specific rules applicable to entities subject to its supervision. On 1 February 2019, the draft regulation was published for the purposes of receiving input from the public.

Overall, the fact that a very significant portion of the Portuguese legal framework on anti-money laundering is a result of the implementation of EU legal frameworks, mitigates regulatory differences across various EU Member States where Group operates or may operate in the future. However, more significant differences may apply in respect of non-EU jurisdictions, entailing the applicable regulatory and co-related compliance costs.

Additionally, Law no. 89/2017 approved in Portugal the legal framework of the Central Register of Beneficial Ownership, implementing the Chapter III of EU Directive 2015/849, as amended, which consists of a database managed by the Institute for Registrations and Notaries with updated information on the natural person(s) who, directly or indirectly, own or control entities subject to registration.

Evolution of the Regulatory Environment

As part of the EU's internal market programme, the EC and the European Council have proposed

and adopted a number of regulations, directives and recommendations relating to the provision of banking and financial services. These include existing and proposed legislation concerning capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, shareholders' rights, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. Such legislation promotes greater competition in the provision of financial services, including areas in which the Issuer operates, such as securities brokerage, dealing and underwriting, and the provision of investment advice.

MiFID II

Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"), which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation (Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014, as amended); and (iii) secondary legislation in the form of Delegated Acts made thereunder. The implementation of MiFID II in Portugal was concluded with the enactment of Law no. 35/2018 of 20 July, amending the rules on the marketing of financial products and on the organization of financial intermediaries.

MiFID II sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use 'passports' to conduct MiFID investment services in other EU Member States.

MiFID II is more wide ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

PRIIPs Regulation

Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 (as amended, the "**PRIIPs Regulation**") relates to consumer protection and aims to establish a common standard for key information documents for packaged retail and insurance-based investment products (PRIIPs) and became applicable in EU member states on 1 January 2018. The EU Commission adopted amended regulatory technical standards (RTS) on key information documents (KIDs) during the first half of 2017 and like the regulation itself, the delegated regulation has applied since 1 January 2018.

Payment Services

On 12 November 2018, Portugal implemented Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015, as amended, (the Directive on Payment Services ("**PSD**")) through Decree-Law no. 91/2018. PSD creates new types of payment services and enhances customer protection and security. Banks are required to provide free access to customer data and account information to be licensed third-party businesses, in cases where the customer has given explicit consent. Decree-Law no. 91/2018 further details the access to the activity of payment institution and the provision of payment services, as well as access to the activity of digital currency institutions and the provision of digital currency-issuing services.

STS regulation

Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017, which establishes a general securitization framework entered into force on 17 January 2018 and is applicable to securitization products from 1 January 2019 onwards. In Portugal, the draft law amending the current Portuguese securitization law is currently under discussion, having been subject to a public consultation which ended on 14 December 2018.

Benchmarks Regulation

Regulation (EU) no. 2016/1011 of the European Parliament and of the Council of 8 June 2016, as amended, ("**Benchmarks Regulation**") was published in the Official Journal of the European Union on 29 June 2016 and has applies, subject to certain transitional provisions, since 1 January 2018. The Benchmarks Regulation applies to the provision of "benchmarks", the contribution of input data to a "benchmark" and the use of a "benchmark" within the European Union. It, among other things, (i) requires "benchmark" administrators to be authorised or registered (or, if non-European based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by European Union supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed).

Interest rates and indices which are deemed to be "benchmarks" (such as LIBOR or EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, to disappear entirely or to have other consequences which cannot be predicted.

Data protection and privacy

The processing of personal data by NOVO BANCO and the NOVO BANCO Group is subject to: (i) the General Data Protection Regulation ("**GDPR**"), approved by Regulation (EU) 2016/679 of 27 April 2016, as amended; (ii) Law no. 58/2019, of 8 August 2019;; (iii) any law approved for the adaptation of specific rules of the GDPR to the Portuguese jurisdiction; (iv) Directive 2002/58/EC, of 12 July 2002, as amended, on privacy and electronic communications; and (v) Law no. 41/2004, of 18 August 2004, as amended.

Failure to comply or inadequate compliance with data protection and privacy obligations may result in several types of liabilities, ranging from tort liability in relation to the data subject, to significant administrative fines.

P. RATINGS

The ratings assigned to the Issuer from time to time are available for consultation at https://www.novobanco.pt/site/cms.aspx?labelid=NB_RATING_UK. The Issuer's current long term senior ratings are caa2 with stable outlook by Moody's and B (high) with Trend Negative by DBRS.

Q. ORGANISATIONAL STRUCTURE

Group Structure

NOVO BANCO develops its banking activity directly and through its branch in Spain and its subsidiaries Banco Best and NBA. Additionally, it also operates in asset management, through its fully owned subsidiary GNB GA that operates in mutual fund management, real estate fund management, pension fund management and wealth management. NOVO BANCO has equity holdings in companies operating in venture capital, real estate, insurance, renting and corporate services. As the main entity and parent company of the NOVO BANCO Group, NOVO BANCO's activity and financial results are affected by the performance of its subsidiaries.

Group companies in which NOVO BANCO has a direct or indirect holding higher or equal to 20%, over which NOVO BANCO exercises control or significant influence, and that were included in the consolidation perimeter, are presented below.

Companies directly consolidated into NOVO BANCO, as at 31 December 2019:

	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:[13]

	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.

The NOVO BANCO 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)

[13] Since 31 December 2019, GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA has changed its corporate denomination to "GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA" and GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA has changed its corporate denomination to "GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA".

R. FINANCIAL STATEMENTS OF NOVO BANCO, S.A.

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**

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)**

S. RECENT DEVELOPMENTS

On 14 May 2020, in accordance and for the purposes of CMVM Regulation 5/2008, NOVO BANCO informed on a change in the Board of the General Meeting following the resignation of Pedro Moreira de Almeida Queiroz de Barros, as Secretary of the Board of the General Meeting, and the decision, on the General Meeting, to appoint Mário Nuno de Almeida Martins Adegas as the General Meeting's Secretary for the current mandate ending on 31 December 2020 (in addition to the function as Company Secretary).

On 5 June 2020, NOVO BANCO informed about its consolidated results for the first quarter of 2020, which include the following highlights:

- NOVO BANCO increased its core banking income by 20.1%, in line with the continued achievement of DGComp's objectives, as a result of the increase in core income and the reduction in operating costs;
- NOVO BANCO is well capitalized with strong liquidity and is well positioned to support its retail and business customers;
- Growth of recurrent loan volumes (+5.1%; +€1,192 million), with an increase of +0.2% in the quarter (+€57 million), building on the positive trend achieved during year 2019 (+5.6%; +€1,303 million);
- Increase in balance sheet customer funds (+1.5%; €434 million), with deposits growing by 2.4% in the first three months of 2020 (+€659 million) – NOVO BANCO continues to maintain a strong liquidity position through the growth of funds in recurrent activity;
- Progress to sustainable profitability, with Recurrent commercial banking income increasing to +€196.7 million (+4.8%), and the net interest margin increasing +8.8% compared with 31 March 2019. Fees and commissions are in line year-on-year totalling €70.1 million (March 2019: €71.4 million), already impacted by the effects of the crisis;
- Continued focus on cost structure optimization, while investing in the core business and in Digital transformation. Recurrent operating costs decreasing -2.3% to €113.5 million (March 2019: €116.2 million);
- Executing the strategy to reduce non-performing loans -€162 million in the quarter to €3 268 million (-€3 189 million comparing to March 2019), reflecting a non-performing loans ratio decrease from 11.8% in Dec.19 to 11.1% in March 2020. The non-performing loans ratio of the recurrent activity is 3.5% (December 2019: 3.6%). Reduction of legacy assets by -4.1% (-€184 million), across all asset categories;
- Covid-19 impact

  NOVO BANCO Group's results and activity, in the 1st quarter of 2020, were impacted by the effects of the Covid-19 pandemic. The resulting slowdown and market volatility led to:

  (i) an increase in the cost of risk, with impairments for credit risks being elevated by €69.7 million as a result. This elevated level of impairment is expected to continue in the coming quarters;

  (ii) losses in public debt securities hedging in the amount of -€58.6 million, in line with the strategy to generate significant net interest income;

  (iii) devaluation of bonds portfolio marked to market, with a reduction of -€61 million in unrealized profits. Excluding these impacts, the recurrent bank was profitable in the first quarter of 2020.

On 9 July 2020, NOVO BANCO announced that, in accordance with article 3 c) of CMVM Regulation 5/2008, the Board of Directors appointed Mrs. Maria Fontes as the Head of Investor Relations and the Representative for Relationship with the Market and the CMVM.

On 31 July 2020, NOVO BANCO informed about its consolidated results for the first half of 2020, which include the following highlights:

- NOVO BANCO's recurrent net income of +€34.0 million (March 2020: -€75.1 million), demonstrating the Group's underlying profitability and future sustainability, representing an inversion of the last quarter's negative results;

- Reduction of non-performing loans ratio to 10.2%, close to a single digit ratio for the first time in the lifetime of NOVO BANCO, an important mark given that in 2016 had an unsustainable non-performing loans ratio of 33.4%;
- Devaluation of the restructuring funds (€260.6 million) in response to the SREP Bank's decision letter from the ECB.
- NOVO BANCO Group's results and activity, in the 1st half of 2020, were impacted by the effects of Covid-19. The resulting banking activity slowdown and market volatility led to an increase in the cost of risk, with impairments for credit risks being elevated by €138.3 million as a result. This elevated level of impairment is expected to continue in the coming quarters.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

THE PORTUGUESE MORTGAGE MARKET

According to data from April 2020, the Portuguese residential mortgage market is valued at around EUR 92.9 billion, or around 43.8% of GDP (sources: Bank of Portugal and INE). This compares with EUR 93.0 billion in December 2018 (45.5% of GDP) and with a historical high of EUR 114.5 billion (63.8% of GDP) in March 2011. On a year-on-year basis, the stock of mortgage loans has been declining since November 2011, reflecting the contraction in economic activity observed between 2011 and 2013 and the deleveraging of households that started in 2012 and that is still proceeding.

The behaviour of Portugal's housing market over the last two decades followed closely the economic cycle. House prices have therefore been supported by fundamentals. In the 2nd half of the 1990s, Portugal benefited from very favourable macroeconomic conditions. As part of the process of convergence towards the European and Monetary Union, interest rates declined very rapidly, from slightly above 20% to around 5%. This led to a strong increase in housing demand – and in demand for mortgage loans – as part of an effort, on the part of households, to improve the respective standards of living. Relatively low unemployment, strong confidence levels and high GDP growth rates (around 3.5%) were also supportive of housing demand in that period. Finally, the lack of a well-functioning rental market and a high propensity to home ownership (for cultural reasons, including low geographic mobility) has also contributed to a relatively high demand of mortgage loans. According to Eurostat, the home ownership ratio in Portugal is estimated at around 74.5% (data for 2018), above the EU and euro area averages of 70% and 66%, respectively.

The increase in demand for housing led to a rise in house price growth. However, annual average real house price growth in Portugal was moderate, particularly compared with other European economies. Between 1998 and 2011 (the year when the mortgage market peaked), the accumulated real house price growth in Portugal was only 3%, which compares with 96% in Spain, 53% in Ireland and 41% in the Euro area. The moderate real house price growth in Portugal in this period can be explained, in part, by the fact that the strong increase in housing demand was accompanied by a strong increase in supply. Also, the increase in demand was mainly explained by the abovementioned goal of improving households' standards of living, and not so much to speculative investments. In this sense, house price growth in the boom years of the Portuguese housing market was relatively moderate and well supported by fundamentals.

The Portuguese housing market therefore faced the global financial crisis in a very different cyclical position from those in economies such as Ireland or Spain. In 2011, in the context of the global financial crisis, with a rise in risk aversion and a contraction in global liquidity, Portugal was forced to request external financial assistance from the IMF, the EU and the ECB. Economic policy focused on fiscal consolidation, deleveraging and structural transformation, with the aim of regaining market confidence and market access. This effort coincided with a period of lower growth in the Euro area, where some economies (e.g. Spain) pursued similar goals. As a result, the Portuguese economy went through a period of recession, with GDP declining from 2011 to 2013, before returning to growth (0.8%) in 2014. The Portuguese GDP has then gradually accelerated from 2015 to 2017 (to 1.8% in 2015, 2.0% in 2016 and 3.5% in 2017), having recorded a slight deceleration in 2018 and 2019 (with GDP expanding by 2.6% and 2.2%, respectively; Source: INE).

In this context, a combination of lower demand and restrictive lending criteria resulted in a significant contraction in the stock of mortgage loans since March 2011, even if at a gradually lower pace of decline (-0.5% in 2011, -3.0% in 2012, -3.6% in 2013, -3.9% in 2014, -3.9% in 2015, -3.2% in 2016, -1.4% in 2017 and -0.2% in 2018 and 2019; Source: Bank of Portugal). This process has been proceeding over the last quarters, and the stock of mortgage loans is now stabilising, at around EUR 92.9 billion (source: Bank of Portugal, data from April 2020). House prices reflected that period of recession in the economy. According to the House Price Index from INE, house prices declined 16.7% from peak to trough, i.e. between mid-2010 and mid-2013. Since then, however, prices have shown a recovery trend, more than recovering the previous losses, supported by the upturn in economic activity,

by favourable financing conditions, by strong growth in tourism (including a very dynamic local accommodation sector) and, also, by a surge in external demand for housing. The latter was initially associated, in part, with the golden visa programme, which attracted significant investments in real estate from outside the EU, but mostly it has reflected an increase in demand from EU nationals (e.g. French, British), in some cases associated with a more favourable tax regime.

The Portuguese real estate market remained very dynamic in 2019, still benefiting from the same factors mentioned above, notably economic growth, favourable monetary and financial conditions, strong tourism activity and the expansion of external demand. In the year of 2019 as a whole, the INE housing price index increased 9.6% compared to 2018, continuing the acceleration recorded in the previous three years (7.1% in 2016 and 9.2% in 2017 and 10.3% in 2018). The year-on-year change showed an upward trend until the third quarter, reaching a high of 10.3%, decelerating slightly to 8.9% in the last quarter. By segment, the average annual increase in prices of existing homes (10.1%) continued in 2019 to exceed that of new homes (7.6%). Since the lowest level, in March 2013, prices have increased 56.2% until December 2019. Throughout the year of 2019, the quarterly rate of change of house prices decreased, from 3.6% in the first quarter to 0.7% in the last (Source: INE).

The number of transactions in 2019 reached an annual historical high of 181,478, but slowed down considerably over the year, from 16.6% growth in 2018 to 1.6% in 2019. Existing homes transactions accounted for 85.3% of the total. The value of housing transactions totalled EUR 25.6 billion in 2019, 6.3% more than in 2018 (Source: INE). In 2019, there were 23.7 thousand building permits and 16.0 thousand completed buildings, corresponding to increases of 6.7% and 19.0%, respectively, after +17.6% and +19.0%, respectively, in 2018 (Source: INE).

Although house prices exceed the long-term average, risks may be considered contained. Firstly, risks stem from housing affordability problems in some regions though they are partly mitigated by the country's large share of property ownership. The risks from overvaluation are also offset by the non-debt nature of financing, as the stock of mortgage loans relative to GDP is still on a downward trend, though the flow of new loans has been increasing since 2013. In addition, authorities have introduced borrower-based macroprudential measures aimed at improving credit standards. Overall, the increase in house prices is seen as a correction from previously low levels of valuation and currently not considered an imbalance.

The abovementioned macroprudential measures implemented by the Bank of Portugal include new caps on the loan-to-value ratio for property loans, the debt service-to-income ratio and loan maturity. These measures, which aim at protecting borrowers' solvency and the resilience of the financial sector, were communicated and implemented across all the sector.

The strong growth rates in loans to the private sector observed since the 2nd half of the 1990s gave way to an increase in aggregate household indebtedness, which reached a high of 116% of disposable income in 2009. The increase in household indebtedness has mainly reflected an increase in the number of households with access to mortgage loans, and not a significant increase in individual situations of heavy debt burdens. On average, mortgage debt service ratios remain contained across all income quartiles. Vulnerability to interest changes is higher among lower income households. After a period of relative stability, household indebtedness as a percentage of disposable income started to decline more visibly in 2013, following a more intense effort of deleveraging on the part of households, reaching 97,2% of disposable income in June 2019 (Source: Bank of Portugal).

The ratio of non-performing loans in housing credit has been decreasing since 2016, from a peak of 2.7% of total mortgage loans at that time to levels below 1.5% since December 2018, reaching 0.7% in February 2020 (Source: Bank of Portugal). This decrease has been accompanying the gradual reduction of the unemployment rate, from 16.2% in 2013 to 6.5% of the labour force in 2019. Even at the peak, the ratio of non-performing loans in housing credit has remained at very contained levels.

Going forward, the outbreak and spread of the Covid-19 virus will have an impact on the economic developments in Portugal as in the other EU Member States. Portugal's economy had been performing strongly up until the end of February 2020, but the economic situation changed in March when the Covid-19 pandemic hit. The Portuguese government reacted to Covid-19 with a comprehensive package of measures, addressing the immediate health policy challenges and implementing

confinement and social distancing measures, as further described below. The package also included measures to counter the negative economic impact of Covid-19, including credit lines with guarantees, tax and social contribution relief, loan moratoria and labour income support through a simplified layoff regime. The economic and fiscal impact of the Covid-19 outbreak will depend on the duration and the magnitude of disruption at global and regional levels and the related policy response. In this context of high uncertainty, after growing 2.2% in 2019, the Portuguese economy might contract by 6.8% in 2020 and rebound by 5.8% in 2021 (Source: European Commission, May 2020). As a result, GDP is projected to remain below its 2019 levels well into 2021. Risks are tilted to the downside, given Portugal's reliance on foreign tourism. For further details on the impacts of the Covid-19 pandemic, see the risk factor entitled "*The NOVO BANCO Group is exposed to the adverse consequences of the Covid-19 pandemic*".

Among the measures adopted by the Portuguese government, the establishement of a loan moratoria is of particular relevance in this regard. Decree-law no. 1-J/2020 of 26 March, as amended, establishes a temporary legal moratorium on certain financing agreements with a view to protecting the liquidity of companies and families (the "**Temporary Legal Moratorium**"). This regime entered into force on 27 March 2020 and, following the approval of Decree-Law 26/2020 and Law 27-A/2020 of 27 July, of 16 June will remain in force until 31 March 2021, with interested entities being able to request access to the moratorium until 30 September 2020. On 24 September 2020, the Portuguese Government announced it would extend the moratoria until 30 September 2021, in certain cases. It includes, in relation to certain credit operations granted by financial institutions (excluding, among others, credit or financing for the purchase of securities or the acquisition of positions in other financial instruments), (i) a prohibition of revocation, in whole or in part, of credit lines and loans, in the amounts contracted, from 27 March 2020 until 31 March 2021, (ii) an extension, for a period equal to the term of the measure, of all credits with payment of principal at the end of the contract in force as at 27 March 2020, together with all its associated elements, including interest, guarantees, notably those provided by the way of insurance or securities; and (iii) suspension, in relation to credits with partial instalments or other cash amounts payable, of payments of principal, rents and interest due until 31 March 2021, with the respective contractual payment plan being automatically extended, for a period equal to that of the suspension, in order to ensure that there are no charges other than those which may derive from the variability of the benchmark interest rate underlying the respective contract, and with all the elements associated with the respective contracts, including guarantees, also being extended.

The Temporary Legal Moratorium is aimed at a wide scope of beneficiaries, including companies, natural persons and other legal persons, subject to certain requirements. In this context, companies may benefit from this regime if, cumulatively: a) are headquartered and carry their economic activity in Portugal; b) are classified as micro-enterprises or small and medium-sized enterprises; c) are not, on 18 March 2020, in default or in failure to pay amounts due to the relevant financial institutions for more than 90 days, or, if they are, they are not meeting the materiality criteria laid down in Bank of Portugal Notice 2/2019 of the Bank of Portugal and in Regulation (EU) 2018/1845, of 21 November, and are not in a situation of insolvency or suspension or cessation of payments, or are already under enforcement by any of the financial institutions covered; and d) have their situation regularised with the Tax and Customs Authority and Social Security Services (debts constituted in March of this year are not relevant until 30 April 2020), have an irregular situation in an amount inferior to 5,000.00 euros, are in the process of negotiating the regularisation of their situation or request its regularisation until 30 September 2020. Individuals who as at 26 March 2020 fulfil the conditions referred to in subparagraphs c) and d) above, and, following the approval of Decree-Law 26/2020 and Law 27-A/2020 of 27 July, whether or not resident in Portugal, and which are (or are part of a household in which at least one of is members is) in one of the following situations in accordance with the applicable legal requirements may also benefit from this regime: (i) a situation of prophylactic isolation or illness, (ii) are caring for children or grandchildren, (iii) have been placed in a reduction of the normal working period or in suspension of the employment contract, due to a business crisis (iv) are in a situation of unemployment, registered with the Institute for Employment and Professional Training (Instituto do Emprego e Formação Profissional, I. P.), (v) are workers eligible for extraordinary support to reduce the economic activity of self-employed workers, (vi) are workers from entities whose establishment or activity has been determined to close during the period of the state of emergency or (vii) are subject to a decrease of 20% or more in the global income of the respective household due to the Covid-19

pandemic. Finally, individual entrepeneurs and social solidarity institutions may also benefit from this regime if, as at as at 26 March 2020 fulfil the conditions referred to in subparagraphs c) and d) above and are domiciled or have their registered offfice in Portugal.

The Temporary Legal Moratorium is aimed at protecting borrowers from the negative effects that might otherwise occur as the temporary measures thereunder do not give rise to: a) breach of contract; b) triggering of early repayment clauses; c) suspension of interest due during the extension period, which will be capitalised on the value of the loan by reference to the time at which they are due at the rate in force; and d) ineffectiveness or termination of guarantees granted in connection with the credit, including insurance, sureties and guarantees.

Without prejudice to the foregoing, cases covered by the moratorium shall be reported to the Central Credit Register (*Central de Responsabilidades de Crédito*) and in the event of a declaration of insolvency or submission to Special Revitalisation Proceedings or Extrajudicial Company Recovery Scheme of the beneficiary, the institutions may exercise all their rights, in accordance with the applicable legislation.

ISSUER'S STANDARD BUSINESS PRACTICES, SERVICING AND CREDIT ASSESSMENT

Underwriting Process

The residential mortgages are originated by Novo Banco at the branch level as a result of direct contact with borrowers, and from proposals submitted by credit intermediaries, framed in the legislation in force since 2018, which usually work with real estate brokers, and from the "*Assurfinance*" channel (which refers to mortgages sold through Companhia Seguradoras Unidas, S.A.). The mortgages are serviced by Novo Banco Mortgage Division.

The mortgage proposal is prepared at branch level by commercial analysts. The relevant mortgage data including loan characteristics, property description and borrower details are inserted in the workflow application that supports the loan approval process, namely:

a) Novo Banco's in-house assessment of risk factors in relation to borrowers such as delinquencies on mortgage, consumer and other loans, bounced cheques, etc.;

b) Credit reference agency data (Bank of Portugal), other sources (Financial Institutions);

c) Employment status;

d) Certified tax income;

e) Global and partial debt-to-income; and

f) Expected loan to value.

Specialised credit analysts assess each proposal based on an established credit power matrix and a well-established underwriting expertise. The main variables of the credit power matrix are credit scoring, loan to value, debt-to-income, loan amount and risk factors.

After a favourable decision, a valuation request is sent to the Real Estate Department within Novo Banco which is responsible for property valuation, who selects an independent certified appraiser from a pre-approved list. Valuations are undertaken based upon conservative open market value and an assessment of the property characteristics.

Life and property insurance is required at origination. Property insurance is mandatory for every mortgage loan, while the Executive Board of Directors, under certain circumstances, can waive life insurance. In addition, life insurance is not mandatory for foreigners. For this specific offer there are the following additional requirements: (*i*) maximum loan to value of 75 per cent., (*ii*) maximum term of the loan is 30 years, and (*iii*) at maturity the borrower must not be over 75 years old. Life insurance covers the amount of the mortgage loan and the property insurance covers the replacement cost of the property.

Once all the above elements are collected, DMO – Departamento de Meios Operacionais – Crédito a Particulares and/or Pedro Queirós, Nuno Mota Campos; Miguel Almeida Fernandes & Associados Sociedade de Advogados RL, SP ACE (Outsourcer) reconfirms the commercial/financial decision in light of its internal approval rules and evaluates all legal procedures (housing permit, pre-registration of house acquisition, etc) and prepares the mortgage deed through external solicitors.

Collections

Almost all payments on the Mortgage Loans are made on a monthly basis. Instalments comprising interest and principal components are paid through direct debit on the obligor's current account held with NOVO BANCO, and are spread throughout the month.

Valuation

Valuations of mortgaged houses are distributed to and carried out by valuation companies that work with the Issuer under an outsourcing contract which includes only national valuation companies certified by the CMVM. The assessors of the valuation companies visit the houses in question and make the relevant assessment and valuations according to applicable prospect values. There is an IT platform that supports this activity between the valuation companies and the Issuer's internal experts. This team also monitors the quality of such valuations using appropriate valuation samples.

Monitoring & Delinquency and Default Recovery Procedures

Responsibility for control over instalments is shared between the relevant Novo Banco branches and the Recovery Department.

A delinquency is recorded if and when the instalment remains unpaid on the second day subsequent to the direct debit on the obligor's current account. Detection of payment failures results directly from the collection process, with collection and recovery being fully automatic during the first 30 days in arrears. For the initial 35 days the recovery of payment failures is managed at the branch level.

Once payment is 35 days in arrears, collection procedures formally move to the Recovery Department, which attempts to reach an agreement with the client or restructure the loan (in order to recover the instalments in arrears). All delinquent obligors, including guarantors, are notified by letter and contacted by an outsourcing recovery unit.

After 156 days in arrears, the process enters the litigation phase. The recovery effort is assisted by outsourcing companies, led and constantly monitored by a dedicated internal team. Letters are sent, notifying that the file will be transferred to the judicial recovery phase. An additional settlement attempt is made and if an out of court settlement cannot be reached, all legal proceedings are initiated with the assistance of external law firms.

Typically, enforcement proceedings take an additional two to three years to complete.

USE OF PROCEEDS

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

THE COVERED BONDS LAW

FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the "**Bank of Portugal Regulations**"), which comprises both regulatory notices ("*Avisos*") and instructions ("*Instruções*"). The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may only be issued by credit institutions (the "**Institutions**") legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than €7,500,000. Institutions can either be universal credit institutions ("**Credit Institutions**") or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the "**Mortgage Credit Institutions**").

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly, maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting, acquiring and selling (*i*) credits guaranteed by mortgages in order to issue covered bonds and (*ii*) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State in order to issue public sector bonds. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

Mortgage Credit Institutions may also, on an ancillary basis, manage the assets that may have been delivered to them as payment for credits and carry out other activities that may be necessary for the pursuit of their corporate purpose. Mortgage Credit Institutions may also obtain additional liquidity.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

COVER ASSETS

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

a) Pecuniary credit receivables secured by a Mortgage and/or any Additional Security which are not yet matured, and which are neither subject to conditions nor encumbered, judicially seized or apprehended and

   i. which are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or

ii. are secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

iii. are secured by (A) a personal guarantee granted by a credit institution, or (B) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (i) or (ii) above.

b) Other assets (up to 20 per cent. of the aggregate cover pool), such as:

i. deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

ii. current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Covered Bonds Law; and

iii. other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

For the sake of clarity, on the date hereof the legal minimum rating requirement in respect of b) ii. above is "A-" or equivalent.

Hedging contracts may also be included in the cover pool for hedging purposes, notably to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulations contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide, to include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

VALUATION AND LTV CRITERIA

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulation 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value for residential mortgages is 80 per cent. and 60 per cent. for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool may not be higher than the commercial value of such property, determined in accordance with criteria of prudence and taking into consideration (*i*) the sustainable long term characteristics of such property, (*ii*) the standard conditions of the local market, (*iii*) the current use of the relevant property, and (*iv*) any alternative uses of such property.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price for which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (*i*) the property is publicly put on sale, (*ii*) the market conditions allow for a regular transfer of the property and (*iii*) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulation 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulations.

ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulations establish the following asset and liabilities matching requirements:

a) The global nominal value of the outstanding mortgage covered bonds cannot exceed 95 per cent. of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool.

b) The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and other assets allocated to the relevant issue of covered bonds.

c) The aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds.

d) According to the Notice 6/2006, the net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool allocated to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

a) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;

b) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and

c) in relation to any other assets:

    i. deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

    ii. securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The liquidity facility counterparty must have a minimum credit rating of "A-" or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated "A-" or above. If a particular issue of covered bonds is denominated in a currency other than the currency of the cover pool, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (*i*) allocating new mortgage credits, with or without substitution of those already allocated to the covered bonds, (*ii*) purchasing outstanding covered bonds in the secondary market and/or (*iii*) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law and the Bank of Portugal Regulations, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or encumbered if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

For these purposes, an independent auditor must be an auditor which is not related or associated to any group of specific interests within the issuing entity and is not in a position that hinders its independent analysis and decision-making process notably by (*i*) holding 2 per cent or more of the share capital of the Issuer, either directly or on behalf of a third party; or (*ii*) having been re-elected for more than two terms (either consecutive or not).

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues – must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS

Asset segregation

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide to accelerate the relevant covered bonds, the common representative of such holders shall request the Bank of Portugal to disclose the information associated to such code key, in accordance with Article 4(5) of the Covered Bonds Law.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege ("*privilégio creditório*"), in particular in case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of covered bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of covered bonds. In any case, and even if the Institution is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the covered bonds shall continue to be carried out.

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Credit Institutions General Regime, shall identify a Substitute Credit Institution appointed to (*i*) manage the relevant cover pool allocated to the covered bonds outstanding, and (*ii*) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (*i*) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (*ii*) perform all acts and operations necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (*iii*) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (*iv*) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds. This report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and operations necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

Preferential status for covered bonds holders

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all series of covered bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant issue in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such issue.

TAXATION

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect on the date of this Base Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Covered Bonds and is subject to changes in such laws, including changes that could have a retroactive effect. Potentially applicable transitional rules have not been considered. The tax laws of an investor's Member State and of the Issuer's Member State of incorporation might have an impact on the income received from the securities. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of Covered Bonds. It does not take into account nor discusses investors' individual circumstances or the tax laws of any country other than Portugal, and relates only to the position of persons who are absolute beneficial owners of Covered Bonds. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences resulting from the purchase, ownership and disposal of Covered Bonds and receiving payments of interest, principal and/or other amounts under the Covered Bonds. Tax consequences may differ according to the provisions of different double taxation treaties, as well as according to a prospective investor's particular circumstances.

The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take any account of different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law or which may be created by the Terms and Conditions of the Covered Bonds or any related documentation.

Economic benefits derived from interest, accrued interest, amortisation or reimbursement premiums and other instances of remuneration arising from the Covered Bonds are designated as investment income for Portuguese tax purposes.

In the case of Zero Coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

Gains obtained with the repayment of Covered Bonds or of any other debt securities are qualified as capital gains for Portuguese tax purposes.

1. COVERED BONDS NOT HELD THROUGH A CENTRALISED CONTROL SYSTEM

Portuguese resident holders and non-resident holders with a Portuguese permanent establishment

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to withholding tax at a rate of 28 per cent., which, if such income is not imputable to an entrepreneurial or professional activity, is the final tax on that income unless the individual elects to include it in his/her taxable income together with the remaining items of income derived, subject to tax at progressive rates of up to 48 per cent.. In this circumstance, an additional income tax rate will be due on the part of taxable income exceeding € 80,000 as follows: (*i*) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (*ii*) 5 per cent. on the remaining part (if any) of the taxable income exceeding € 250,000. In this case, the tax withheld is deemed a payment on account of the final tax due.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Capital gains obtained on the disposal of the Covered Bonds by an individual resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the annual positive balance between (*i*) capital gains and (*ii*) capital losses.

Tax applies at a special 28 per cent. rate, which is the final tax on that annual positive capital gain income balance, unless the individual elects to include it in his/her taxable income together with the remaining items of income derived, subject to tax at progressive rates of up to 48 per cent.. Also in this circumstance, an additional income tax rate will be due on the part of taxable income exceeding € 80,000 as follows: (*i*) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (*ii*) 5 per cent. on the remaining part (if any) of the taxable income exceeding € 250,000. In this

case, the tax withheld is deemed a payment on account of the final tax due.

Stamp tax at a rate of 10 per cent. applies to the gratuitous acquisition (per death or in life) of Covered Bonds by an individual who is resident in Portugal. An exemption applies to transfers in favour of the spouse (or person living together as spouse under the civil partnership regime), ancestors and descendants.

Interest or other investment income derived from the Covered Bonds and capital gains obtained with the transfer of the Covered Bonds by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable to are included in their taxable profits and are subject to a Corporate Income Tax at a rate of 21 per cent. or 17 per cent. on the first € 25,000 in the case of small or small and medium-sized enterprises as defined by law and subject to the EU de *minimis rule*. A municipal surcharge ("*derrama municipal*"), at variable rates according to an annual decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. A state surcharge ("*derrama estadual*") also applies at a rate of 3 per cent. on taxable profits in excess of € 1,500,000 to € 7,500,000, at 5 per cent. on taxable profits in excess of € 7,500,000 up to € 35,000,000 and at 9 per cent. on taxable profits in excess of € 35,000,000. Withholding tax at 25 per cent. applies to interest and other investment income, which is deemed a payment on account of the final tax due, except where the bondholder is either a Portuguese resident financial institution (or a non-resident financial institution having a permanent establishment in the Portuguese territory to which income is imputable) or benefits from a reduction or a withholding tax exemption as specified by current Portuguese tax law.

Investment income paid or made available *(colocado à disposição)* to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed.

There is no obligation to withhold tax, partially or entirely, on investment income of the issuer made available to taxpayers globally exempt from IRC (for instance: the State and other corporate entities subject to administrative law, corporate entities recognised as having public interest and charities, pension funds, venture capital funds and some other exempt entities provided that, with respect to all the above funds, they are organised and operate in accordance with Portuguese law) or which benefit from a total or partial exemption on the investment income made available by the Issuer, assuming that proof of such exemption is presented to the entity responsible for the payment.

The acquisition of Covered Bonds through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to corporate tax at 21 per cent. or 17 per cent. on the first € 25,000 in the case of small and small and medium-sized enterprises as defined by law and subject to the EU de minimis rule. A municipal surcharge ("*derrama municipal*") at variable rates according to an annual decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. A state surcharge ("*derrama estadual*") also applies at 3 per cent. on taxable profits in excess of € 1,500,000 up to € 7,500,000, at 5 per cent. on taxable profits in excess of € 7,500,000 up to 35,000,000 and at 9 per cent. on taxable profits in excess of € 35,000,000.

There is neither wealth nor estate tax in Portugal.

Non-resident holders without a Portuguese permanent establishment

Interest and other types of investment income obtained by non-resident legal persons without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent. (legal persons) or 28 per cent. (individuals), which is the final tax on that income. The applicable rate is 35 per cent. in the case of individuals or legal persons domiciled in a country, territory or region included in the list of countries, territories and regions that provide a more favourable tax regime approved by Ministerial Order 150/2004, of 13 February 2004, as amended from time to time ("**Ministerial Order 150/2004**").

Interest and other types of investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Under the tax treaties entered into by Portugal, the withholding tax rate may be reduced, e.g. to 15, 12,

10 or 5 per cent., depending on the applicable treaty and provided that both substantial and formal conditions on which the application of such benefit depends are met (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income). The reduction may apply at source or through the refund of the excess tax. The forms currently available for these purposes were approved by Order ("*Despacho*") 8363/2020,, published in the Portuguese official gazette, 2nd series, 169, of 31 August 2020, from the Portuguese Secretary of State for tax affairs ,and may be available for viewing at www.portaldasfinancas.gov.pt.

The withholding of taxes arising from interest payments of the Covered Bonds issued by resident entities for tax purposes (as is the case of the Issuer) is the responsibility of the relevant custodians (i.e. the entities with whom registration of title over the Covered Bonds is held).

Interest paid to an associated company of the Bank which is resident in the European Union is exempt from withholding tax.

For these purposes, an "associated company of the Bank" is:

i. A company which is subject to one of the taxes on profits listed in article 3 (a) (iii) of Council Directive 2003/49/EC without being exempt, which takes one of the forms listed in the Annex to that Directive, which is considered to be resident in an European Union Member State and is not, within the meaning of a double taxation convention on income concluded with a third State, considered to be resident for tax purposes outside the Community; and

ii. Which holds a minimum direct holding of 25 per cent. in capital of the Bank, or is directly held by the Bank in at least 25 per cent. or which is directly held in at least 25 per cent. by a company which holds at least 25 per cent. of the capital of the Bank; and

iii. Provided that the holding has been maintained for an uninterrupted period of at least two years. If the minimum holding period is met after the date the withholding tax becomes due, a refund may be obtained.

The associated company of the Bank to which payments are made must be the beneficial owner of the interest, which will be the case if it receives the interest for its own account and not as an intermediary, either as a representative, a trustee or authorised signatory, for some other person.

Capital gains obtained on the disposal of the Covered Bonds by non-resident individuals are subject to Portuguese capital gains taxation on the annual positive balance between (i) capital gains and (ii) capital losses. Tax applies at a 28 per cent. rate. An exemption applies to non-resident individuals, unless they are resident in a country, territory or region included in the list of countries, territories and regions that provide a more favourable tax regime approved by Ministerial order 105/2004, of 13 February 2004, as amended from time to time.

Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese personal income tax, but the applicable rules should be confirmed on a case by case basis.

Capital gains obtained on the disposal of Covered Bonds by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless (a) the share capital of the holder is more than 25 per cent., directly or indirectly, held by Portuguese resident entities or if (b) the holder is resident in a country, territory or region subject to a clearly more favourable tax regime included in the "low tax jurisdictions" list approved by Ministerial Order 150/2004, as amended from time to time.

Regarding item (a) above the capital gains are still exempt if the following requirements are cumulatively met: (i) the beneficial owner is a resident in an EU Member State, in an European Economic Area Member State which is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the European Union, or in a country with which Portugal has a double tax treaty in force which foresees the exchange of information; (ii) the beneficial owner is subject and not exempt from a tax referred to in article 2 of Council Directive 2011/96/UE, of 30 November 2011, or from a tax of similar nature with a rate not lower than 60 per cent of the Portuguese Corporate Income Tax rate (currently 12,6 per cent.); (iii) the beneficial owner holds, directly or indirectly, at least 10 per cent. of the share capital or voting rights for at least 1 year uninterruptedly of the entity disposed; (iv)

the beneficial owner is not part of an arrangement or series of arrangements which have been put into place for the main purpose or one of the main purposes of obtaining a tax advantage. Although the abovementioned cumulative requirements have been in full force since 31 March 2016 and apply to securities in general, the law is not clear on its application for the holder of debt securities to benefit from the relevant capital gain tax exemption, seeing as some of the alluded requirements appear not to apply to debt securities.

If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

No stamp tax applies to the acquisition through gift and inheritance of Covered Bonds by an individual who is not domiciled in Portugal.

The gratuitous acquisition of Covered Bonds by a non-resident legal person is subject to corporate income tax at a rate of 25 per cent.. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

There is no wealth tax in Portugal.

2. COVERED BONDS HELD THROUGH A CENTRALISED CONTROL SYSTEM

The regime described in 1. above corresponds to the general tax treatment of investment income and capital gains on Covered Bonds and to the acquisition through gift or inheritance of such Covered Bonds.

Nevertheless, pursuant to the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7 November 2005, as amended from time to time (hereafter "**the special regime approved by Decree-law 193/2005**") investment income from and capital gains obtained on the disposal of debt securities issued by Portuguese resident entities, such as the Covered Bonds, may be exempt from Portuguese income tax provided that the debt securities are integrated in a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative cooperation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorized by the member of the government in charge of finance (currently the Finance Minister), by other centralized systems, and:

i. the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and

ii. the beneficial owners are central banks and government agencies, international organizations recognized by the Portuguese State, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force or other non-resident entities which are not domiciled in a country, territory or region subject to a clearly more favourable tax regime included in the list approved by the Ministerial Order 150/2004, as amended from time to time.

The special regime approved by Decree-law 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residency by the holders of Covered Bonds to which it applies.

Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the proof of non-residency by the holders of Covered Bonds should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Covered Bonds), and in the case of domestically cleared Covered Bonds, prior to the transfer of Covered Bonds date, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

(a) Domestically Cleared Covered Bonds

The beneficial owner of Covered Bonds must provide proof of non-residency in Portuguese territory substantially in the terms set forth below.

i. If a holder of Covered Bonds is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese State, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to (iv) below;

ii. If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the holder of Covered Bonds and its domicile; or (C) proof of non-residence pursuant to the terms of paragraph (iv) below.

iii. If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of incorporation; or (B) proof of non-residency pursuant to the terms of paragraph (iv) below.

iv. In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules regarding the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the holder of Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3-year period starting on the date such document is issued. The holder of Covered Bonds must inform the register entity immediately of any change that may preclude the tax exemption from applying. In the other cases, proof of non-residency is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

(b) Internationally Cleared Covered Bonds

If the Covered Bonds are registered in an account with an international clearing system, prior to the relevant date for payment of any interest of the redemption date (for Zero Coupon Covered Bonds), the entity managing such system is to provide to the direct register entity or its representative the identification and number of securities, as well as the income and, when applicable, the tax withheld, itemized by type of beneficial owner, as follows: (*i*) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are not exempt from tax and are subject to withholding tax; (*ii*) Entities domiciled in a country, territory, or region subject to a clearly more favourable tax regime included in the list approved by Ministerial Order 150/2004 (as amended from time to time) which are not exempt from tax and are subject to withholding tax; (*iii*) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are exempt from tax and are not subject to withholding tax; (*iv*) other non-Portuguese resident entities.

In addition, the international clearing system managing entity is to provide to the direct register entity, in relation to each income payment, at least the following information concerning each of the beneficiaries mentioned in (i), (ii) and (iii) above: name and address, tax identification number, if

applicable, identification of the securities held and amount thereof and amount of income.

No Portuguese exemption shall apply at source under the special regime approved by Decree-law 193/2005 if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the special regime approved by Decree-law 193/2005.

The refund claim is to be submitted to the direct register entity of the Covered Bonds within 6 months from the date the withholding took place.

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese tax authorities within 2 years from the end of the year in which tax was withheld. The refund is to be made within 3 months after which interest is due.

The forms currently applicable for the above purposes were approved by Order ("*Despacho*") 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, 2nd series, no. 37, of 21 February 2014 and are available for viewing and downloading at www.portaldasfinancas.gov.pt.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and, potentially, a 30% withholding tax with respect to: (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It may also affect payment to any ultimate investor that fails to provide its broker (or other custodian or intermediary form which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding.

Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax advisor to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged once it has made payment via the Interbolsa system and the Issuer therefore has no responsibility for any amount thereafter transmitted through the ICSDs or Interbolsa and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "IGA") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) form payments they make.

The United States has reached a Model 1 Intergovernmental Agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016.

Portugal has implemented, through Law 82-B/2014, of 31 December, and Decree-law 64/2016, of 11 of October, both as amended from time to time, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "**Financial Reporting Regime**") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America. The exchange of information shall be made by 31 July of each year comprising the information gathered respecting the previous year.

There can be no assurance, however, that the Issuer will be treated as a deemed-compliant FFI, or that it will in the future not be required to deduct FATCA withholding tax from payments it makes.

Accordingly, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold under FATCA if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

FATCA is particularly complex and Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Covered Bonds.

ADMINISTRATIVE COOPERATION IN THE FIELD OF TAXATION

Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depository and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, income paid or credited in the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Portugal has implemented Directive 2011/16/EU through Decree-law 61/2013, of 10 May, as amended by Decree-Law No. 64/2016, of 11 October 2016, Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February 2019. Also, Council Directive 2014/107/EU was implemented through Decree-law 64/2016, of 11 October, as amended by Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February 2019.

Law no. 17/2019, of 14 February, introduced the regime for the automatic exchange of financial information to be carried out by financial institutions to the Portuguese Tax Authority (until July 31, with reference to the previous year) with respect to accounts held by holders or beneficiaries' resident in the Portuguese territory with a balance or value that exceeds € 50,000 (assessed at the end of each civil year). This regime covers information related to years 2018 and following years.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 28 September 2020, as amended from time to time, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or "blue sky laws" of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S.

Terms used in this paragraph have the meanings given to them by Regulation S. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (*i*) as part of their distribution at any time or (*ii*) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, as determined and certified to the Agent by such Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act, and it will have sent to each dealer to which it sells Covered Bonds during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have meanings given to them by Regulation S.

In addition, until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, an offer or sale of the Covered Bonds within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, ministerial guidelines and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Prohibition of sales to EEA and UK Retail Investors

Unless the Final Terms in respect of any Covered Bonds specifies the "**Prohibition of Sales to EEA and UK**

Retail Investors" or "**Prohibition of Sales to EEA Retail Investors**" (as the case may be) as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA or in the UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Dealer has represented and agreed that:

(i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**") received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer;

(ii) in relation to any Covered Bonds having a maturity of less than one year: (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (b) it has not offered or sold, and will not offer or sell, any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal and agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of section 19 of the FSMA by the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving the United Kingdom.

Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of Regulation (EU) No. 1129 of 14 June 2017 (the "**Prospectus Regulation**") and any applicable provision of Legislative Decree 58, of 24 February 1998, as amended (the "**Italian Financial Services Act**") and Italian CONSOB Regulations; or

a) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11973, of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time), and Legislative Decree 385, of 1 September 1993, as amended (the "**Italian Banking Act**"); and

a) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.]

Portugal

In relation to the Covered Bonds each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Covered Bonds may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer ("*oferta pública*") under the Portuguese Securities Code ("*Código dos Valores Mobiliários*") enacted by Decree-Law no. 486/99, of 13 November 1999 (as amended and restated from time to time) (or under any legislation which may replace it or complement it in this respect from time to time) unless the requirements and provisions applicable to the public offerings in Portugal are met and the registration or approval by the Portuguese Securities Market Commission ("*Comissão do Mercado de Valores Mobiliários*" ("**CMVM**")) is obtained or a recognition procedure is made with the CMVM. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that (*i*) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re- sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer ("*oferta pública*") of securities pursuant to the Portuguese Securities Code (or under any legislation which may replace or complement it in this respect from time to time), notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; or (*ii*) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Covered Bonds to the public in Portugal other than in compliance with all applicable provisions of the Portuguese Securities Code (or under any legislation which may replace or complement it in this respect from time to time), the Prospectus Regulation, the Prospectus Delegated Regulations and any regulations implementing the Prospectus Regulation, and any applicable CMVM regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Covered Bonds by it in Portugal or to individuals or entities resident in Portugal or having a permanent establishment located in Portuguese territory, as the case may be, including the publication of a base prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

General

No action has been taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Covered Bonds or have in their possession or distribute such offering material, in all cases at their own expense.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge, comply with all relevant securities laws, regulations and directives in each jurisdiction, in particular **Australia**, **South Africa** and **Canada**, in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

Secondary Market Arrangements

The Issuer may enter into agreements with Dealers or other persons in relation to a Series or Tranche of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds

through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 3 September 2015, in accordance with the provisions of the Covered Bonds Law. The first update of the Programme was duly authorised by resolution of the Board of Directors of the Issuer dated 20 December 2016, the second update of the Programme was duly authorised by resolution of the Executive Board of Directors of the Issuer dated 17 July 2019 and the third update of the Programme was duly authorised by resolution of the Executive Board of Directors of the Issuer dated 16 September 2020 in accordance with the provisions of the Covered Bonds Law.

Listing

Application has been made to list the Covered Bonds on Euronext Dublin's Official List and to admit the Covered Bonds to trading on the Euronext Dublin Regulated Market.

Clearing systems

The Covered Bonds have been accepted for clearance through Interbolsa, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Interbolsa will be specified in the relevant Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

Yield

The yield is calculated at the Issue Date on the basis of the Issue Price as specified in the applicable Final Terms. It is not an indication of future yield.

Significant or material change

Save as disclosed elsewhere in this Base Prospectus, including but not limited to the Covid-19 related disclosures contained herein and in the condensed consolidated financial statements of the Issuer for the six months ended 30 June 2020 (i) there has been no significant change in the financial performance or financial position of the NOVO BANCO Group since 30 June 2020 and (ii) there has been no material adverse change in the prospects of the Issuer since 31 December 2019.

Litigation

Except as described on the section *Description of the Issuer and of the NOVO BANCO Group - Legal, Administrative and Arbitration Proceedings*, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) within 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the Issuer's or the NOVO BANCO Group's financial position or profitability.

Accounts

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

its registered office at Av. da República 90, 1700-157 Lisbon, Portugal.

The consolidated financial statements of the Novo Banco Group for the financial periods ended 31 December 2018 and 31 December 2019 were prepared in accordance with International Financial Reporting Standards. The financial statements of the Novo Banco Group were audited in accordance with International Standards on Auditing for the financial periods ended 31 December 2018 and 31 December 2019 by Ernst & Young, Audit & Associados – SROC, S.A.

With respect to the unaudited condensed consolidated financial statements of the NOVO BANCO Group for the six-month period ended 30 June 2020 incorporated by reference in this Base Prospectus, Ernst & Young, Audit & Associados – SROC, S.A. have reported that they have performed a limited review of such information in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes. Their report incorporated by reference in this Base Prospectus states that a limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA) and that, accordingly, they do not express an audit opinion. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The auditor's report in respect of the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2019 includes the following emphasis:

> "***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 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.*"

The auditor's report in respect of the unaudited condensed consolidated financial statements of the NOVO BANCO Group for the six-month period ended 30 June 2020 includes the following emphasis:

> "***Emphasis of matter relating to Covid-19***
>
> *Notes 10, 22, 26, 29 and 44 to the interim condensed consolidated financial statements disclose the impacts resulting from the Covid-19 pandemic on the results and financial position of the Group, estimated by the Executive Board of Directors based in best available information. This estimation includes assumptions, which if result differently, may have a material impact on the amount of the presented impacts. Our opinion has not been modified in relation to this matter.*"

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection at https://www.novobanco.pt/site/cms.aspx?labelid=INSTITUTIONAL:

a) the constitutional documents (including the Articles of Association in English) of the Issuer;

b) the audited consolidated financial statements of the Issuer and the auditor's reports in respect of the financial period ended 31 December 2018 in English;

c) the audited consolidated financial statements of the Issuer and the auditor's reports in respect of the financial period ended 31 December 2019 in English;

d) the press release and presentation regarding NOVO BANCO Group's unaudited results for the first quarter of 2020 in English;

e) the press release and presentation regarding NOVO BANCO Group's unaudited results for the first half of 2020 in English;

f) the interim report and accounts of the Issuer in respect of the six-month period ended 30 June 2020 in English;

g) the Common Representative Appointment Agreement dated 5 October 2015;

h) this Base Prospectus;

i) any future prospectuses, offering circulars, information memoranda and supplements, including Final Terms (except for Final Terms relating to Covered Bonds which are not listed on any stock exchange), to this Base Prospectus and any other documents incorporated herein or therein by reference; and

The documents listed under (a) to (f) above are a direct and accurate translation from the original Portuguese versions. In the event of a discrepancy, the Portuguese version will prevail.

Electronic copy of this Base Prospectus

Electronic copies of this Base Prospectus (and any supplements thereto) are or will be available from the official website of Euronext Dublin (www.ise.ie).

Language of the Base Prospectus

The language of the Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.

Validity of prospectus and prospectus supplements

For the avoidance of doubt, the Issuer does not have any obligation to supplement this Base Prospectus after the end of its 12-month validity period.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds, except if required by law, in which case such information will be disclosed at the Issuer's website.

Third Party Information

Information sourced from the Bank of Portugal, the Portuguese Ministry of Finance, the Portuguese National Statistical Institute and the Portuguese Treasury and Government Debt Agency, and from comparisons based on the accounts reports of other Portuguese banks operating in Portugal has been accurately reproduced and, so for as the Issuer is aware and is able to ascertain from information published by such entities, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer calculates its market share data using official sources of information, governmental or otherwise (as applicable). Where no official sources exist, the Issuer relies on its own estimates.

Where information from third parties is referenced in this Base Prospectus, the source of the information is identified alongside each statement.

Dealers transacting with the Issuer

Certain of the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their respective affiliates may make or hold a broad array of

investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of the Covered Bonds issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph, the term "**affiliates**" includes parent companies.

DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Insolvency Event and Enforcement*).

"**Account Bank**" means Société Générale London Branch, in its capacity as Account Bank, with its head office at SG House, 41 Tower Hill, London, EC3N 4SG, or any successor account bank, appointed from time to time by the Issuer in connection with the Reserve Account and under the Reserve Account Agreement, when applicable.

"**Accrual Period**" means relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date

"**Additional Securit**y" means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer, in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

i. in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

ii. the Independent Adviser, failing which, the Issuer determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser, failing which, the Issuer determines that no such spread is customarily applied);

iii. the Independent Adviser, failing which, the Issuer, determines is recognised or acknowledged as being the industry standard for over-the-counter in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Affiliate Member of Interbolsa**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear S.A./N.V ("**Euroclear Bank**") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") for the purpose of holding such accounts with Interbolsa on behalf of Euroclear Bank and Clearstream, Luxembourg.

"**Agent**" means Novo Banco, S.A., in its capacity as Agent with head office at Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

"**Agents**" means the Paying Agents.

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, failing which, the Issuer determines has replaced the Original Reference Rate in accordance with Condition 4.2(E) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Covered Bonds and with an interest period of a comparable duration to the relevant Interest Period.

"**APP**" means asset purchase programme.

"**APMs**" means alternative performance measures.

"**Arranger**" means J.P. Morgan Securities plc, and any other entity appointed as an arranger for the Programme and references in this Base Prospectus to the Arranger shall be references to the relevant Arranger.

"**ASF**" means *Autoridade de Supervisão de Seguros e Fundos de Pensões*, the Portuguese Insurance

and Pension Funds Supervisory Authority.

"**AT1**" Additional Tier 1, together with CET1 items, "**Tier 1**".

"**Auditor**" means Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("**CMVM**") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("**OROC**") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896. The head office of the Auditor is at Av. da República, no. 91, 1700-157 Lisbon.

"**Available Principal Distribution Amount**" means, in respect of such Interest Payment Date ("the relevant Interest Payment Date"), the result of (i) the principal component of the assets comprised within the Cover Pool, plus (ii) the interest component of the assets comprised within the Cover Pool (in both cases, (a) which are received by the Issuer between, and including, the sixth Business Day prior to the Interest Payment Date immediately preceding the relevant Interest Payment Date up to, but excluding, the sixth Business Day prior to the relevant Interest Payment Date and (b) including, for the avoidance of doubt, the proceeds arising from any disposal thereof) (iii) less the Interest Distribution Amount payable on such Interest Payment Date.

"**BANDES**" means Banco de Desarrollo Económico y Social.

"**Bank**" means Novo Banco, S.A..

"**Banco Best**" means Banco Eletrónico de Serviço Total S.A..

"**Bank Levy**" means the bank levy, due by credit institutions established in Portugal, pursuant to Law No 55-A/2010, of 31 December 2010, as amended (*contribuição sobre o sector bancário*).

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006 and Regulation 8/2006 and any relevant regulations or instructions that may be issued by the Bank of Portugal in the future.

"**Base Prospectus**" means this base prospectus dated 28 September 2020 prepared in connection with the Programme, as amended from time to time.

"**BCP**" means by Banco Comercial Português, S.A..

"**Benchmark Amendments**" has the meaning given to it in Condition 4.2 (E) (i).

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist or be administered; or

(b) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will on or prior to a specified date cease to publish the Original Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(c) the making of a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, on or before a specified date, be permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate will be prohibited from being used either generally, or in respect of the Covered Bonds, or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date ; or

(e) it has, or will on or prior to a specified date, become unlawful for the Agent, the Calculation Agent, the Issuer or other party, as the case may be, to calculate any payments due to be made to the holders of the Covered Bonds using the Original Reference Rate; or

(f) the making of a public statement by the supervisor of the administrator of such Original

Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used,

provided that in the case of sub-paragraphs (b), (c) and (d), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

"**Benchmarks Regulation**" means Regulation (EU) No. 2016/1011 (as amended from time to time).

"**BES**" means Banco Espírito Santo, S.A..

"**Brexit**" means the EU withdrawal process initiated by the United Kingdom by means of a referendum on the country's membership of the EU, according to which the United Kingdom voters elected to leave the EU.

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, as amended.

"**BRRD II**" means the amendments to the BRRD which entered into force in 27 June 2019.

"**Book Entry Covered Bonds**" means any Covered Bonds issued in book entry form.

"**Business Day**" means a day which is both: (*i*) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and (*ii*) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

"**Calculation Agent**" means the party responsible (the "**Calculation Agent**") for calculating the Rate of Interest and Interest Amount (if not the Agent).

"**CALCO**" means the Capital, Asset and Liabilities Committee.

"**Capital Backstop**" means the agreement of the Portuguese Government in the context of the Lone Star Sale and the related state aid measures to provide additional capital to NOVO BANCO if, following any SREP exercise carried out by the SSM, the SREP total capital ratio of the Issuer falls below the SREP total capital requirement, and NOVO BANCO is not able to address such shortfall through payments to be made under the CCA.

"**CBD**" means the new covered bond directive, Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019.

"**CCA**" means the Contingent Capitalization Agreement entered into the Resolution Fund and the Issuer as part of the conditions of the Lone Star Sale.

"**CCA Assets**" means a predefined portfolio of assets which had an initial book value net of impairment, as of 30 June 2016, of approximately 7.9 billion euros, which included: 5.9 billion euros of loans to customers, 1.1 billion euros of restructuring funds, 0.1 billion euros of securities and 0.8 billion euros of other assets. As at 31 December 2019, the CCA Assets had a net book value of 3.2 billion euros (2018: 4.0 billion euros), which included: 1.4 billion euros of loans (2018: 2.1 billion euros), of which 58% were NPLs (2018: 90%), 0.8 billion euros of restructuring funds (2018: 1.0 billion euros) and 1.0 billion euros of other assets (2018: 0.9 billion euros).

"**CCA Losses**" means the cases where (i) the NOVO BANCO Group's capital ratios decrease below the Minimum Capital Condition (as defined below) and (ii) losses are recorded in relation to the CCA Assets (as defined below) or other CCA covered losses.

"**CCA Maturity Date**" means 31 December 2025, which date can be extended until 31 December 2026 under certain conditions

“**CEO**” means Chief Executive Officer.

“**Central de Valores Mobiliários**” means the Portuguese Centralised System of Registration of Securities.

“**CET1**” Common Equity Tier 1 capital.

“**Clearing System**” means Interbolsa and/or, in relation to any Series of Covered Bonds, any other clearing system depositary as specified in the relevant Final Terms, and each a “**Clearing System**”.

“**Clearstream, Luxembourg**” means Clearstream Banking société anonyme, Luxembourg.

“**CMVM**” means the Comissão do Mercado de Valores Mobiliários, the *Portuguese Securities Market Commission*.

“**Commission Proposal**” or “**FTT Proposal**” means the EC proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.

“**Commitments**” means the additional adopted commitments by the Portuguese authorities (following the commitments initially undertaken in 2014 in the context of the application of the Resolution Measure by the Bank of Portugal to BES and subsequently revised in December 2015) which were approved by the EC on 11 October 2017 and will remain in place until 31 December 2021 (the “**Restructuring Period**”).

“**Common Representative**” means BNP Trust Corporation UK Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions of the Covered Bonds and the terms of the Common Representative Appointment Agreement, having its registered office at 10 Harewood Avenue, London NW1 6AA, United Kingdom.

“**Common Representative Appointment Agreement**” means the agreement dated 5 October 2015 entered into between the Issuer and the Common Representative, as amended, supplemented and/or restated from time to time, and which sets out the terms and conditions upon and subject to which the Common Representative has agreed to act as Common Representative.

“**Cover Pool**” means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register. The Cover Pool is autonomous from any other cover pool maintained by the Issuer in relation to any other programmes that it has or may establish in the future.

“**Cover Pool Monitor**” means Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission (“**CMVM**”) under number 20161480 and in the Portuguese Institute of Statutory Auditors (“**OROC**”) under number 178 and with registered office at Av. da República, no. 90, 1700-157 Lisbon.

“**Cover Pool Monitor Agreement**” means the agreement, dated 7 January 2019, entered into between the Issuer and the Cover Pool Monitor, as amended, supplemented and/or restated from time to time.

“**Covered Bond**” means any conditional pass-through mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and “**Covered Bonds**” shall be construed accordingly.

“**Covered Bonds Law**” means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-law 59/2006, of 20 March 2006, as amended from time to time.

“**CRA Regulation**” means Regulation (EU) no. 1060/2009, of the European Parliament and of the Council, of 16 September 2009, as amended from time to time.

“**CRD IV Directive**” means Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013, as amended from time to time.

“**CRD IV**” means the CRR and the CRD IV Directive.

“**Credit Institutions General Regime**” or “**RGICSF**” means Decree-law 298/92, of 31 December

1992, as amended from time to time.

"**CRR**" or "**CRD IV Regulation**" means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, as amended from time to time.

"**CSD**" means a central securities depositary.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "**Actual/365**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

"**DBRS**" means any entity that is part of DBRS Group and any successor to the relevant rating agency..

"**Dealers**" means J.P.Morgan Securities plc, Novo Banco, S.A. and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement (each a "**Dealer**").

"**Decision of 29 December 2015 on Retransfer**" means the Bank of Portugal's decision of 29 December 2015 on the retransfer of senior bonds back to BES.

"**Decisions of 29 December 2015**" means the Bank of Portugal's decisions of 29 December 2015.

"**Decree-law 193/2005**" means Decree-law 193/2005, of 7 November 2005, as amended.

"**Deliberation of 3 August 2014**" means the deliberation of the Board of Directors of Bank of Portugal dated 3 August 2014 (8 p.m.) under no. 5 of article 145-G of the RGICSF), approved by Decree-Law no. 298/92, of 31 December (in the version in force at the time), following the Resolution Measure.

"**Deliberation of 29 December 2015**" means the deliberation approved by the Board of Directors of Bank of Portugal on 29 December 2015 which resulted in a revised and consolidated version of Annex 2 to the Deliberation of 3 August 2014, and consolidated the perimeter of assets, liabilities, off-balance sheet items and assets under management of NOVO BANCO.

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

"**DTA's**" means deferred tax assets.

"**EBA**" means the European Banking Authority.

"**EBA Rulebook**" means the single supervisory set of rules applicable to the Eurozone Member States developed by EBA.

"**EBD**" means Executive Board of Directors.

"**EC**" means the European Commission,

"**ECB**" means the European Central Bank.

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"**ECL**" means expected credit loss.

"**EEA**" means the European Economic Area.

"**ELA**" means Emergency Liquidity Assistance.

"**EMMI**" means the European Money Markets Institute

"**EMU**" means the European Monetary Union.

"**ESCB**" means the European system of Central Banks.

"**ESI**" means Espírito Santo International.

"**ESMA**" means the European Securities and Markets Authority.

"**EU**" means the European Union.

"**EURIBOR**" means the Euro Interbank Offered Rate.

"**Euro**", "**EUR**", "**€**" or "**euro**" means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Euroclear**" means Euroclear Bank S.A./N.V..

"**Euronext Dublin**" means the Irish Stock Exchange plc, trading as Euronext Dublin.

"**Euronext Dublin Regulated Market**" means the regulated market of Euronext Dublin.

"**Eurosystem**" means the central banking system for the Euro.

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms.

"**FATCA**" means the U.S. Internal Revenue Code of 1986.

"**FCA**" means the UK Financial Conduct Authority.

"**FIEA**" means Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended.

"**Financial Assistance Programme**" means the 2011 Economic Adjustment Programme created by a memorandum of understanding on financial assistance with IMF, the EC and the ECB to address deteriorating economic conditions in Portugal stemming from the global financial crisis of 2007/2008.

"**Financial Reporting Regime**" means the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure implemented in Portugal by through Law 82-B/2014, of 31 December, and Decree-law 64/2016, of 11 of October, both as amended from time to time.

"**Final Terms**" means, in relation to each Tranche, the final terms applicable to such Covered Bonds.

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

“**FONDEN**” means Fondo de Desarrollo Nacional.

“**FSMA**” means the Financial Services and Markets Act 2000.

“**FTT**” means Financial Transaction Tax.

“**GBP**”, “**£**”or “**pounds sterling**” means pounds sterling, the lawful currency of the United Kingdom.

“**GDP**” means gross domestic product.

“**GDPR**” means the European Union General Data Protection Regulation, approved by the Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April of 2016, as amended.

“**GNB GA**” means GNB - Gestão de Ativos, S.G.P.S., S.A.

“**GRD**” means Global Risk Department.

“**Group**” or “**NOVO BANCO Group**” means the Issuer and its consolidated subsidiaries.

“**GSB**” means General and Supervisory Board.

“**G-SIIs**” means global systemically important institutions.

“**Hedge Counterparties**” means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

“**Hedging Contracts**” means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

“**HQLAs**” means high-quality liquid assets.

“**ICAAP**” means Internal Capital Adequacy Self-Assessment.

“**IFRS-EU**” means the International Financial Reporting Standards as adopted by the EU.

“**IMF**” means the International Monetary Fund.

“**Indemnification Mechanism**” means the indemnification mechanism established in connection with the Lone Star Sale.

“**Independent Adviser**” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise in the international debt capital markets transactions appointed by the Issuer under Condition 4.2 (E).

“**Investor’s Currency**” means the currency in which an investor’s financial activities are principally denominated.

“**Investor Report**” means the investor report prepared by the Issuer containing key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and Other Assets, as at the last business day of each calendar quarter

“**Insolvency Event**” means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-law 199/2006, of 25 October 2006, as amended from time to time, the RGICSF, and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-law 53/2004, of 18 March 2004, as amended from time to time).

“**Institutions**” means credit institutions for the purposes of the Covered Bonds Law, which may be can either be universal credit institutions (“**Credit Institutions**”) or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the “**Mortgage Credit Institutions**”).

“**Instruction 13/2006**” means the regulatory instruction (“*Instrução*”) 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

“**Interbolsa**” means Interbolsa **-** Sociedade Gestora de Sistemas de Liquidação e de Sistemas

Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Distribution Amount**" means the aggregate of the amount required to pay (i) the Interest Amount due under the Covered Bonds on such Interest Payment Date; and (ii) any sums payable to Other Preferred Creditors due on such Interest Payment Date.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**IRRBB**" means interest rate risk in the banking book.

"**ISDA**" means the International Swaps and Derivatives Association Inc.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds.

"**Issue Date**" means the date so specified in the applicable Final Terms being, in respect of any Covered Bond, the date of issue and purchase of such Covered Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

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

"**ISIN**" means International Securities Identification Number.

"**Italian Banking Act**" means Italian Legislative Decree 385, of 1 September 1993, as amended.

"**Italian Financial Services Act**" means the Italian Legislative Decree 58, of 24 February 1998, as amended.

"**Law 61/2014**" means Law No. 61/2014 of 26 August 2014 (as amended from time to time).

"**Law 83/2017**" means Law 83/2017, of 18 August 2017, as amended, which implemented Directives 2015/849/EC of 20 May 2015, as amended, and 2016/2258/EC of 6 December 2016 in Portugal.

"**LIBOR**" means the London Interbank Offered Rate.

"**LCR**" means liquidity coverage ratio.

"**Liquidity Event**" means the Interest Payment Date of any Covered Bond in relation to which the Issuer has given a 5 day prior notice to the Liquidity Facility Provider of not having enough available funds to make the payment of the Interest Amount due on the Covered bonds.

"**Liquidity Facility Provider**" means an eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

"**LiST**" means liquidity stress test.

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London. "**Lone Star**" means the US private equity firm Lone Star Funds.

"**Lone Star Sale**" means the sale of 75% of the share capital of NOVO BANCO to Nani Holdings, S.G.P.S., S.A., a company indirectly held by investment funds managed by the Lone Star group, agreed in 31 March 2017 and completed on 18 October 2017.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable.

"Maturity Date" has the meaning given in the relevant Final Terms.

"**MiFID II**" means the Directive 2014/65/UE of the European Parliament and of the Council, of 15 May 2014.2014, as amended.

"**MiFID Product Governance Rules**" means the product governance rules under Commission Delegated Directive 2017/593.

"**MiFIR**" means the Regulation 600/2014 of the European Parliament and of the Council, of 15 May 2014.2014, as amended

"**Minimum Capital Condition**" means the capital ratio threshold under which the Issuer is able to claim payments under the CCA.

"**Ministerial Order 150/2004**" means Ministerial Order 150/2004, of 13 February 2004, as amended from time to time.

"**Moody's**" means Moody's Investors Service España, S.A., and any of its successors and affiliates.

"**Monitoring Committee**" means the committee to function as a consulting body in the context of the CCA foreseen in the Articles of Association of the Issuer.

"**Mortgage"** means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which is secured by first ranking mortgages over residential or commercial real estate located in an EU Member State;

b) notwithstanding (a) above, it is a pecuniary receivable secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the Cover Pool;

c) it is a receivable secured by (*i*) a personal guarantee granted by a credit institution, or (*ii*) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

"**MREL**" means minimum requirement for own funds and eligible liabilities.

"**MVO**" means Model Validation Office.

"**National Central Bank**" means the Eurosystem National Central Bank.

"**NBA**" means NOVO BANCO dos Açores, S.A..

"**NCA**" means national competent authority.

"**NCWOL**" means no creditor worse off than in liquidation.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

a) is in the course of being foreclosed or otherwise enforced; or

b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

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

"**Novo Banco Group**" means Novo Banco and its consolidated subsidiaries.

"**NPAs**" means non-performing assets.

"**NPLs**" means non-performing loans.

"**NPS**" means Net Promoter Score.

"**NSFR**" means net stable funding ratio.

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Covered Bonds in respect of any Interest Period(s).

"**O-SII**" means other systemically important institution.

"**O-SII Buffer**" the additional buffer requirement applicable to O-SIIs

"**Official List**" means the Official List of the Euronext Dublin.

"**OTC**" means over the counter.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

(a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the ECB and the national central banks of the Member States whose currency is the euro);

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating as required pursuant to the Covered Bonds Law and which will include, for the avoidance of doubt, funds standing to the credit of the Reserve Account which are subject to the same legal requirements and regime as such deposits (and which compliance at all times the Issuer shall ensure); and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and the counterparties under the Hedging Contracts.

"**Overcollateralisation**" has the meaning given in Condition 15.1.

"**Overcollateralisation Percentage**" means 105.26 per cent. or such other percentage as may be selected by the Issuer from time to time pursuant and subject to the terms of Condition 15.1 and notified to the Cover Pool Monitor.

"**Pass-through Date**" means the date which falls 15 days after the date in which a Pass-through Event occurs.

"**Pass-through Event**" means the occurrence of any of the following events: a) the Issuer fails to repay any Series of Covered Bonds in full on its Maturity Date or within two Business days thereafter, or b) an Insolvency Event in respect of the Issuer.

"**Paying Agents**" means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**PEPP**" means the Pandemic Emergency Purchase Programme.

"**Pension Fund**" means NOVO BANCO's defined benefit pension fund.

"**Portuguese Companies Code**" means the commercial companies code approved by Decree-law 262/86, of 2 September 1986 (as amended from time to time).

"**Portuguese Securities Code**" or "**CVM**" means Decree-law 486/99, of 13 November 1999 (as amended from time to time).

"**PRIIPs Regulation**" means Regulation (EU) No. 1286/2014 (as amended).

"**Principal Amount Outstanding**" means, in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

"**Programme**" means the €10,000,000,000.00 Conditional pass-through Covered Bonds programme established on 5 October 2015 and updated on 21 December 2016, 18 July 2019, and 28 September 2020 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

"**Programme Agreement**" means the agreement, dated 5 October 2015, entered into between the Issuer, the Arranger and the Dealers named therein, as amended, supplemented and/or restated from time to time.

"**Programme Documents**" means the Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

"**Property**" means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and "**Properties**" means all of them.

"**Property Valuation**" means, in relation to any Property:

a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and

b) the amount determined by resorting to the use of adequate and recognized indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Prospectus Delegated Regulations**" means Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004, together with Commission Delegated Regulation (EU) 2019/979 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal, and repealing Commission Delegated Regulation (EU) No 382/2014 and Commission Delegated Regulation (EU) 2016/301.

"**Prospectus Regulation**" means Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, as amended.

"**PSD**" means Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015, as amended.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of Floating Rate Covered Bonds.

"**Rating**" means the then current rating of rated Covered Bonds given by the relevant Rating Agency and "**Ratings**" means all of such Ratings.

"**Rating Agencies**" means Moody's and DBRS.

"**REA**" means risk exposure amount.

"**Recast DGSD**" means Directive 2014/49/EU of the European Parliament and the Council of 16 April 2014, as amended.

"**Reforms**" means the legislative proposals for amendments to the CRR, the CRD IV Directive, the BRRD and the Single Resolution Mechanism.

"**Register**" means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations.

"**Regulation 5/2006**" means the regulatory notice ("*Aviso*") 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 6/2006**" means the regulatory notice ("*Aviso*") 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered BondsLaw.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation 10/2005-R**" means Regulation 10/2005-R of ASF.

"**Regulation 11971**" means CONSOB Regulation no. 11971, of 14 May 1999, as amended from time to time.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

i. the central bank for the currency to which the relevant benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the relevant benchmark or screen rate (as applicable); or

ii. any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the relevant benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the relevant benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Relevant State**" means a Member State of the European Economic Area and (until the end of the transition period under the UK-EU Withdrawal Agreement) the United Kingdom.

"**Repurchase Commitment**" means the commitment of the Issuer to, if the repurchase commitment is specified as applicable in the Final Terms relating to a particular Series of Covered Bonds, irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on its Repurchase Date at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms, if so requested by any holders of such Series which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to two Business Days after the Maturity Date.

"**Reserve Account**" means the account held by the Issuer with the Account Bank, as set out in Condition 5.4.

"**Reserve Account Agreement**" means the agreement so designated entered into between the Issuer and the Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on 6 October 2015 (as amended, supplemented and/or restated from time to time).

"**Reserved Matter**" means any proposal: (*i*) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (*ii*) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the

method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (*iii*) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (*iv*) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (*v*) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (*vi*) to amend this definition; and (*vii*) any other matter required by law to be approved by the majorities set out in Conditions 12(C)(ii) and 12(C)(iii).

"**Resolution**" means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

"**Resolution Measure**" means the resolution measure by the Bank of Portugal to Banco Espírito Santo, S.A., on 3 August 2014 (as amended and supplemented by related decisions, including by the Decisions of 29 December 2015 and the Decision of 29 December 2015 on Retransfer), subsequently revised in December 2015 and then superseded by a new set of commitments agreed in October 2017 (the "**Commitments**").

"**Resolution Fund**" means the Portuguese Resolution Fund (*Fundo de Resolução*).

"**Restructuring Period**" means the period within which the Commitments will generally remain in place, which will last until 31 December 2021.

"**RoE**" means return on equity.

"**RTD**" means Rating Department.

"**RWAs**" means risk weighted assets.

"Securities Act" means the United States Securities Act of 1933, as amended.

"**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are: (*i*) expressed to be consolidated and form a single series; and (*ii*) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 5 October 2015 and made and agreed by Novo Banco, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent, transfer agent, agent bank and/or registrar appointed by the Issuer.

"**SICR**" means significant increase in credit risk.

"**SME**" means small and medium-sized enterprise

"**Special regime approved by Decree-law 193/2005**" means the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7 November 2005, as amended from time to time.

"**SRB**" means the Single Resolution Board.

"**SREP**" means the Supervisory Review and Evaluation Process

"**SRM**" means the Single Resolution Mechanism.

"**SSM**" means the Single Supervisory Mechanism.

"**Stabilisation Manager(s)**" means the Dealer or Dealers (if any) named as the stabilising manager(s) for a particular Tranche of Covered Bonds.

"**State Rights**" means the rights of the Portuguese State (i) to demand the increase of NOVO BANCO's share capital through conversion of the special reserve and subsequent issue a delivery of ordinary shares representing NOVO BANCO's share capital; or (ii) to freely dispose of them, including by sale to third parties, which may subsequently demand such increase of NOVO BANCO's share capital, in light of the conversion of DTA's, which entails the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increased by 10 per cent., and conversely, the issuance of symmetric warrants to the Portuguese State.

"**Stock Exchange**" means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

"Substitute Credit Institution" means the entity appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

"**Sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET2 Day**" means any day on which the TARGET2 System is open.

"**TARGET2 System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer System.

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and "Taxes", "taxation", "taxable" and comparable expressions shall be construed accordingly.

"**Tax Authority**" means any government, state, municipal, local, federal or other tax, revenue, customs or excise authority, body or official anywhere in the world exercising a tax, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Temporary Legal Moratorium**" means the loan moratoria implemented by Law no. 1-A/2020 of 19 March, as amended.

"**Terms and Conditions of the Covered Bonds**" means in relation to the Covered Bonds, the terms and conditions applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**TLAC**" means total loss absorbing capacity

"**TLOF**" means total liabilities and own funds.

"**Total Own Funds**" Total Own Funds is Tier 1 and Tier 2.

"**Total Target Reserve Amount**" means on any date, the amount equal to the Interest Amount payable on the Covered Bonds on the three months following such date plus € 100,000.00.

"**Tranche**" means Covered Bonds which are identical in all respects (including as to listing).

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**TRIM**" means the Targeted Review of Internal Models.

"**UCITS Directive**" means Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009.

"**United Kingdom**" or "**UK**" means the United Kingdom.

"**U.S.$**", "**USD**" or "**U.S. dollars**" means United States dollars, the lawful currency of the United States of America.

"**UK-EU Withdrawal Agreement**" means Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (2019/C 384 I/01).

"**VaR**" means value at risk.

"**Value**" means:

a) in relation to a Mortgage Credit, (*i*) for the purpose of the Overcollateralisation, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (*ii*) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;

b) in relation to any Other Assets:

  i. the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

  ii. the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

ANNEX I – ALTERNATIVE PERFORMANCE MEASURES (GLOSSARY)

In addition to the financial information contained in this Base Prospectus prepared in accordance with the financial reporting framework applicable to the Issuer, some Alternative Performance Measures ("**APMs**"), in accordance with ESMA Guidelines on Alternative Performance Measures dated 5 October 2015 (ESMA/2015/1415en) (the "**ESMA Guidelines**"), are also herein disclosed. Novo Banco discloses these APMs for better understanding of its financial performance. These APMs constitute additional financial information and shall not, in any circumstance, replace the financial information produced under the applicable reporting framework. The definition and calculation of APMs by the Issuer may differ from the definition and calculation of APMs used by other issuers of securities and may not be compared.

For the purposes of the ESMA Guidelines an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

In addition to the APMs herein listed, for further information on the APMs used by the Group, including their definition and purpose, basis of calculation and reconciliation to the Group's financial statements, see pages 157 to 159 of the Group's 2018 Annual Report, pages 104 to 106 of the Group's 2019 Annual Report and pages 44 to 48 of the Group's interim report and accounts in respect of the six-month period ended 30 June 2020, which are incorporated by reference herein.

Pages	APM	Definition
Pages 33, 136, 142, 167, 173, 223.	Liquidity Coverage Ratio ("**LCR**")	Calculated in accordance with CRD IV/CRR
Pages 33, 136, 173, 225.	Net Stable Funding Ratio ("**NSFR**")	Calculated in accordance with CRD IV/CRR
Page 28.	Overdue loans> 90 days/Gross loans	Corresponds to the ratio of overdue loans for more than 90 days and the gross total loans to customers
Page 38, 39, 135.	Securities portfolio	Corresponds to the consolidated assets recorded on the balance sheet as Financial Assets and Liabilities Held For Trading, Other Financial Assets At Fair Value Through Profit and Loss and Available For Sale Financial Assets, excluding derivative financial instruments
Pages 44, 143.	Phased-in Common Equity Tier 1 ratio	Calculated in accordance with the CRD IV/CRR
Pages 133, 187.	Customer funds	Includes deposits and other customer funds, which corresponds to the line item Due to Customers on the Balance Sheet.
Page 122, 127, 187.	Commercial banking income	Corresponds to net interest income plus net fees and commissions
Pages 127.	Loan to deposits ratio	Calculated in accordance to Bank of Portugal Instruction no. 16/2004

Page 29, 122, 187, 188.	Cost of Risk	Corresponds to the annualized provisions for loan losses in the Profit and loss account divided by the amount of gross loans to customers. Annualized provisions are calculated by dividing the total provisions for loan losses in the profit and loss account for the period in reference by the number of months of the period in reference and then multiplying those results by 12. Annualized cost of risk is not necessarily indicative of the cost of risk that may be expected for a full year.

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