INTERIM REPORT AND ACCOUNTS

CONSOLIDATED & SEPARATE

1st HALF 2021

NOVO BANCO, S.A.
Head Office: Avenida da Liberdade, n.º 195, 1250-142 Lisbon, Portugal
Registered at Lisbon Commercial Registry, under the single registration and tax identification number 513 204 016
Share Capital: 5,900,000,000 Euros represented by 9,799,999,997 shares

(Audited financial information under IFRS as adopted by the European Union)
(In accordance with article 9 of CMVM Regulation nr 5/2008)

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

INDEX

MANAGEMENT REPORT

MANAGEMENT REPORT INDEX

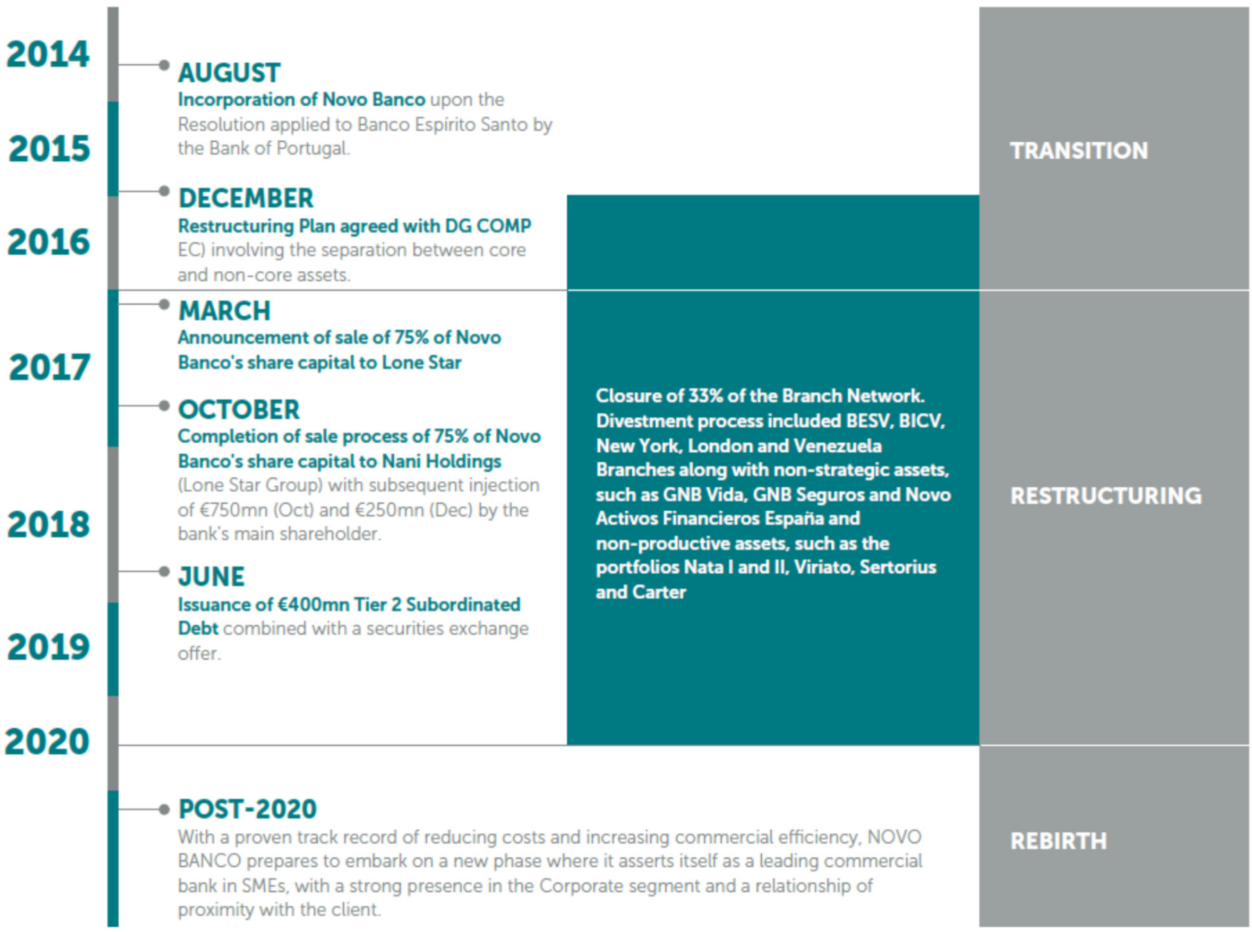
1 WHO WE ARE

1.1 NOVO BANCO GROUP

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

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

Chronology



In the 1st half of 2021 the Group continued to deploy the strategy defined for 2019-2021, focusing its actions on:

i. optimising its core activity, by striving for improved and increasingly efficient processes, and the divestment of the portfolio of non-performing loans;

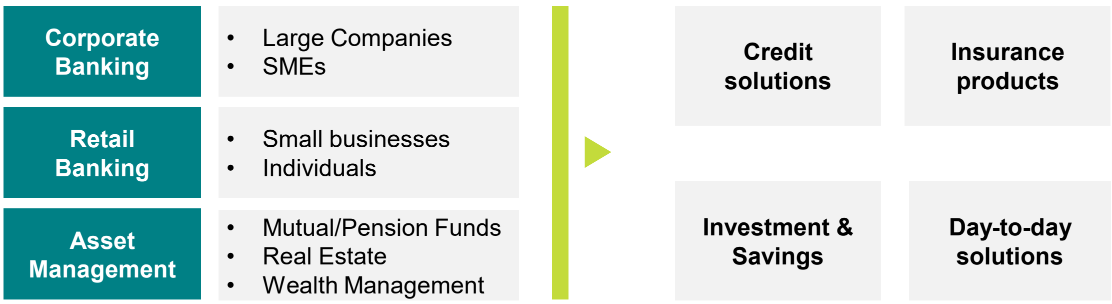
ii. consolidating its digital transformation by incorporating the most advanced technological developments and pre-empting the new client interaction trends; and

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

1.1.1 **Business Model**

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

Business model based on 3 main segments:



BRANDS:

NOVO BANCO

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

NOVO BANCO aims to be the best Bank for customers in Portugal, moving towards a highly efficient, personalized operating model, providing the best omni-channel experience for each customer and developing new business models.

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

Retail Banking

• Individual Clients, served by a straightforward and comprehensive digital platform and a national network of 348 branches;

• NB360º Individual Clients, served by a dedicated account manager through the digital channels, remotely or at NOVO BANCO's branches;

• Businesses served by a dedicated account manager specialised in supporting small business clients through the national branch network or the digital channels.

Corporate Banking

• Medium-sized Companies served by a corporate account manager at one of the 20 corporate centres across the country;

• Large Companies, served by a corporate account manager at 2 Corporate Centres, in Lisbon and Oporto.

NOVO BANCO aims to continue to be the first choice for SMEs, with an efficient service model based on relationships and to continue to finance the Portuguese businesses, being the right partner and supporting its customers to sustainably expand their activities.

NOVO BANCO DOS AÇORES

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

The mission of NBA is to serve its clients (individual, corporate and institutional) and the Azorean regional economy by deepening the links with the Azorean emigrant communities, particularly in the United States, Canada, Bermuda and Brazil. Its strategy leverages on unique competitive advantages such as economic and financial strength, a culture of service to the benefit of the population of the Azores, wide experience of the local markets and a strong tradition of close relationships with the Clients. As at June 2021, NBA had total net assets of €675.6mn.

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

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

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

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

As at June 2021, BEST had €2.5bn in assets under management, corresponding to a YoY increase of 24%, supported by the growth of both Asset Management (+30%) and Trading (+44%) segments.

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

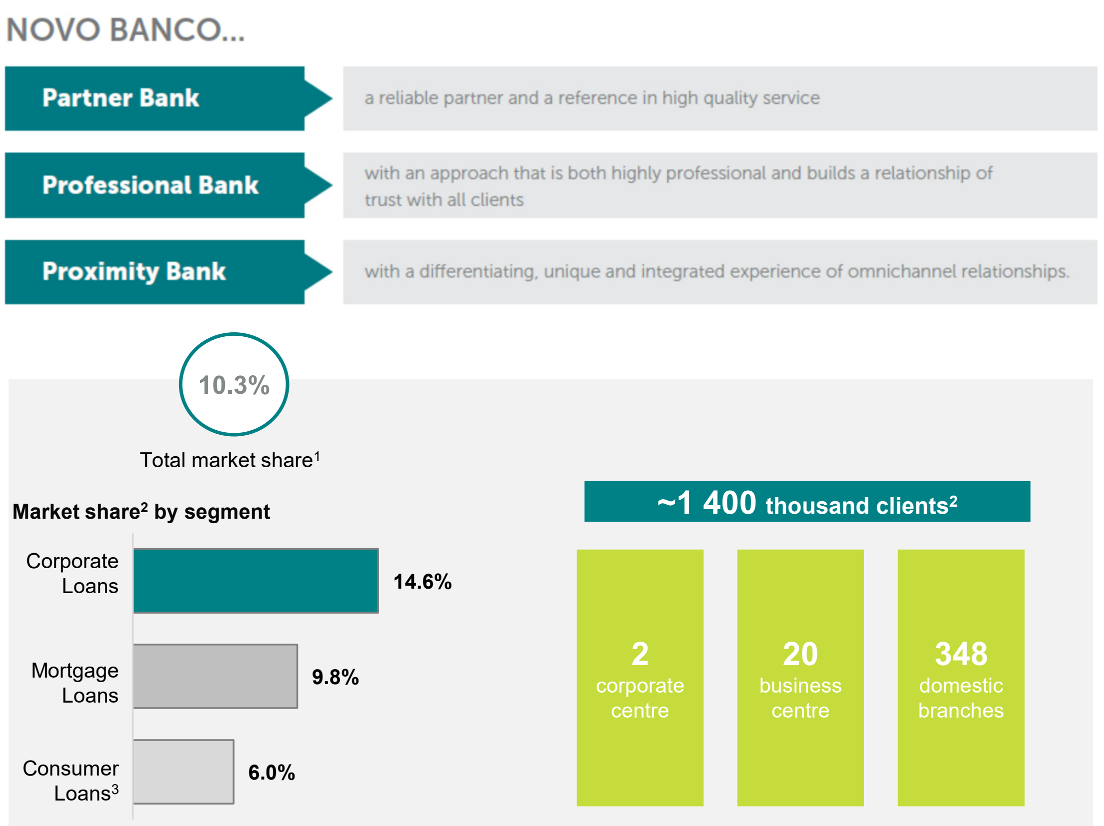
GNB GA

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

As at June 2021, GNB GA had €9.9bn assets under management in Portugal and the Luxembourg (vs €10.0bn in December 2020). From the €9.9bn, Discretionary and Portfolio Management totalled €4.8bn (-7% YTD), Pension Funds €2.6bn (+7% YTD), Real Estate €1.3bn (-1% YTD) and Funds €1.2bn (+9% YTD).

In the first half of 2021, GNB GA was distinguished at the Morningstar Fund Awards Portugal 2021 and at the Refinitiv Lipper Awards, with NB Obrigações Europa and NB Euro Bond funds being awarded for their performance in 2020.

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



(1) May-21 data; Total Market Share is the weighted average of resource and loans to both individual and corporate clients; market sources: Banco de Portugal, APS, APFIPP
(2) NOVO BANCO Group clients, including NB Açores and BEST
(3) Includes consumer loans and other loans to individuals.

1.2 ORGANISATION

1.2.1 Governance Model

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

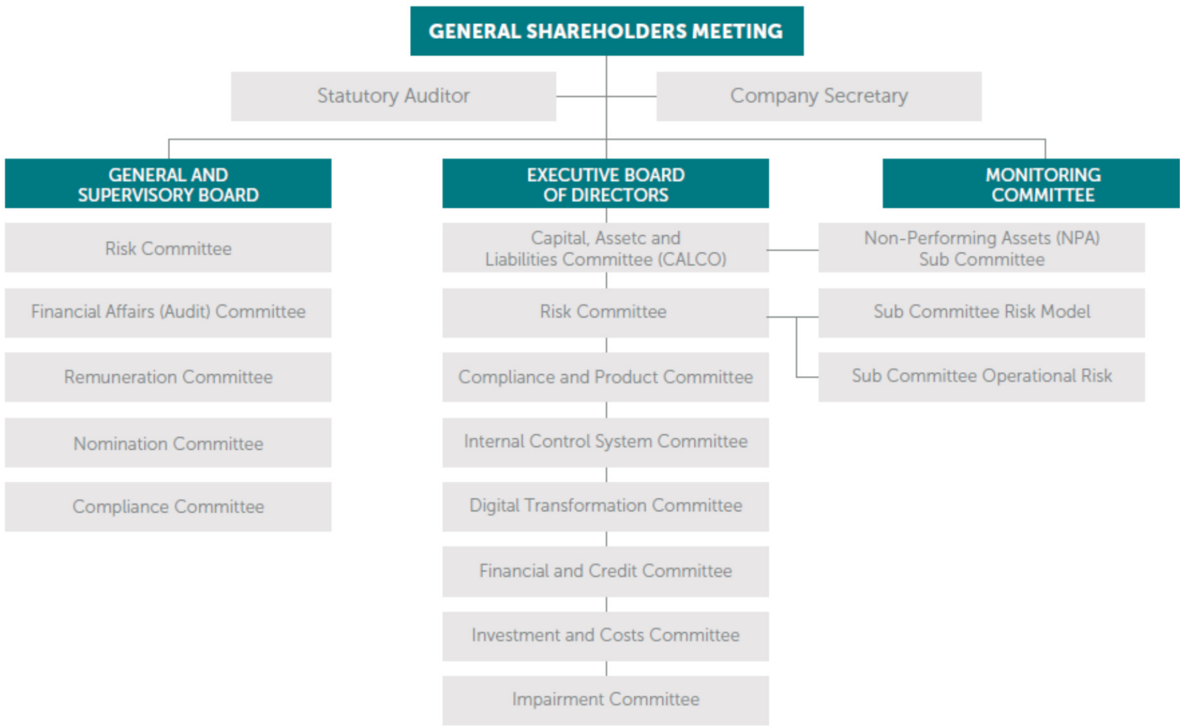
The GSB is responsible for regularly monitoring, advising and supervising the management of the Bank and of the Group companies, as well as for supervising the EBD with regard to compliance with the relevant regulatory requirements of banking activity. The GSB meets on a monthly basis, and its Chairman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

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

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

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

Organograma do Modelo de Governo do NOVO BANCO



Further information is provided in NB Website.

1.2.2 Organisational structure

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

Board of the General Meeting

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

General and Supervisory Board (GSB)

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

Executive Board of Directors (EBD)

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

Monitoring Committee

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

Statutory Auditor

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

Company Secretary

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

1.2.3 Human Capital

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

One of the main tools to analyse the organisational climate and the employees' involvement is the NB Experience questionnaire, used by the first time in late 2018. Successive half-yearly updates, through the PULSE rapid surveys, allow a continuous assessment and evolution of employee confidence levels, with the last survey in February 2021 seeing a participation rate of 78%.

KEY METRICS AS OF JUNE 2021:

4 470
EMPLOYEES

46 years
AVERAGE AGE

54%
WOMEN

46%
MEN

28.6%
FROM **31.3%** IN 2020
PERCENTAGE OF WOMEN IN HEADS OF DEPARTMENT

38.4%
FROM **38.2%** IN 2020
PERCENTAGE OF WOMEN IN MANAGEMENT

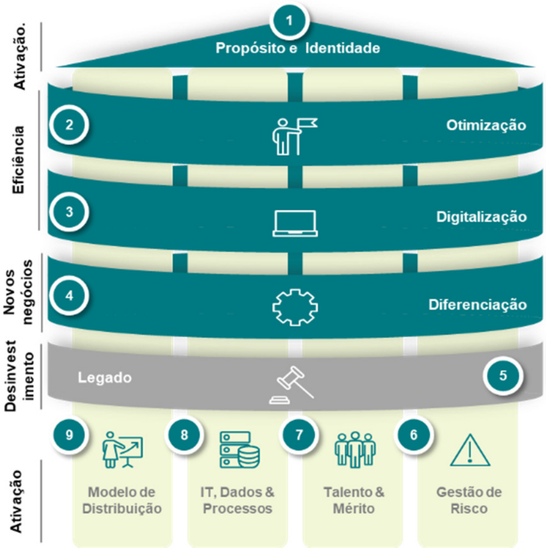
2 OUR STRATEGY

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

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

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

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



1. Purpose and Identity

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

2. Optimisation

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

3. Digitisation

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

4. Differentiation

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

5. Legacy

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

6. Risk Adjustment

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

7. Talent and Merit

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

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

8. IT, Data & Processes

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

9. Distribution Model

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

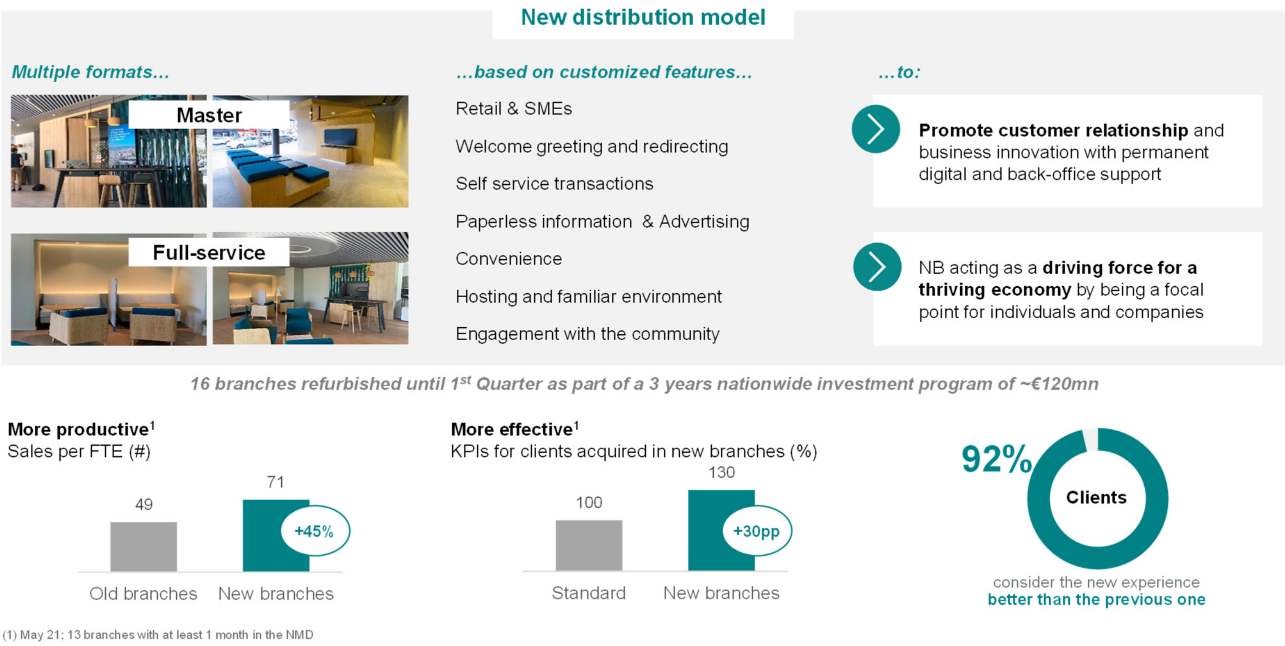
This new model will help build a more personalised, simple and convenient relationship between the client and the Bank, based on intelligent tools that will give client a unique, global and cohesive experience in their relationship and contact with the Bank throughout the different processes and through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

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

• Schedule a meeting from a digital device or self-check-in, and be serviced in the space/medium they deem most appropriate;

• Make self-service deposits of banknotes, coins and cheques 24/7 in the new Branch Model;

• Have the support of a specialist immediately upon starting a search and simulation on the website, and finalizing the process with a remote or face-to-face account manager.



3 OUR PERFORMANCE

3.1 ECONOMIC CONTEXT

The 1st half of 2021 was marked by a recovery in global economic activity, albeit with disparities between economies depending on the impacts of Covid-19, and with some constraints on productive activity, including the shortage of raw materials and labour, leading to an increase in inflation. Globally, the number of people infected with Covid-19 swelled from 84 million to nearly 183 million in the first 6 months of the year, with the spread of the virus being particularly strong in the emerging economies (notably India and Brazil). The number of daily cases reached a global peak in April, amidst a 4th wave of the pandemic. At the end of June, there was a spike of new cases associated with the Delta variant of SARS-Cov-2.

The US economy grew by 6.4% in the 1st quarter of 2021 on a quarterly annualised basis, with growth slightly quickening in the second quarter, to close to 8%. Progress in anti-Covid vaccination, the gradual reopening of economic activity and strong fiscal policy stimuli, benefiting households' disposable income, contributed to this performance. In China, where the impacts of Covid-19 and the reopening of the economy occurred earlier, GDP grew by 18.3% year-on-year in the 1st quarter, slowing down in the 2nd quarter to 7.9%. In the Eurozone, GDP shrank by 0.3% QoQ in the 1st quarter, impacted by new restrictions on mobility and activity forced by a new wave of the pandemic. A later start to vaccination, greater relative exposure to sectors more affected by the pandemic (such as tourism and hospitality) and relatively less aggressive fiscal stimuli restrained the recovery begun in the 2nd quarter. Still, quarterly growth rose to 1.5% as activity constraints were eased.

Year-on-year inflation climbed from 1.4% to 5.4% in the US and from 0.9% to 1.9% in the Eurozone. Apart from statistical base effects linked to the fall in oil prices in 2020, the acceleration of prices mainly reflected one-off distortions associated with the pandemic. These included a strong release of demand following the periods of lockdown, buttressed by fiscal support for families, as well as various constraints on production, such as shortages of raw materials, intermediate consumption and labour; and also, the marked increase in the cost of freight transport. By the end of the first half of 2021, the price of oil (Brent) was rising by 82.6% year-on-year, to USD 75.1/barrel.

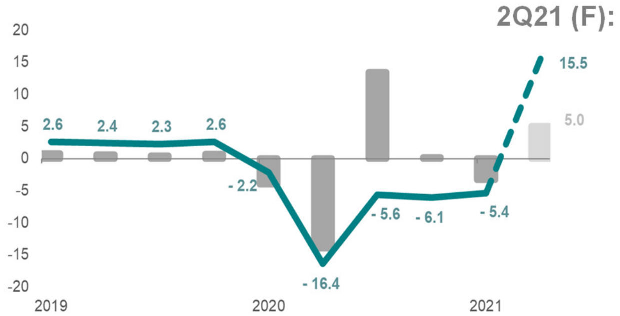
The main Central Banks perceived this rise in inflation as an essentially transitory phenomenon, maintaining the strongly expansionary nature of monetary policy. In the US, the Fed kept the fed funds target rate unchanged at 0%-0.25%, and asset purchases at a monthly pace of USD 120 billion. In June, it signalled an easing of the pace of purchases between 2021 and 2022 and brought forward to 2023 the expectation of the start of a rise in benchmark interest rates. In the Eurozone, the ECB kept key interest rates unchanged (deposit facility rate at -0.5%) and stepped up the monthly pace of debt securities purchases under the PEPP pandemic emergency purchase programme (while keeping the total amount at €1.85 trillion, scheduled until March 2022). Considering it was still too early to ease monetary stimuli, the Eurozone monetary authority opted for maintaining favourable financing conditions. The 3-month Euribor exhibited a very slight upward trend until May but ended the semester close to its level at the beginning of the year, at -0.54%. The euro lost 3.1% against the dollar in the first half of the year, to EUR/USD 1.1849.

In the first months of 2021, the recovery of activity and the patient posture of central banks supported expectations of reflation in the main economies, driving up long-term market interest rates in a steepening of the yield curves and, in the stock market, pushing up the price of the cyclical sectors. However, the 2nd quarter saw a partial reversal of these movements, with a scaling down of growth prospects as a result of the spread of the delta variant, the persistence of constraints on productive activity and fears of a faster withdrawal of monetary stimuli in the USA, while inflation remained high. The 10-year Treasury yield rose from 0.91% to a year high of 1.75% at the end of March, from hence it retreated to 1.44% by the end of June. The yield curve, measured by the spread between 10- and 2-year maturities, climbed from 80 to 162 bps at the end of March, then fell back to 121 bps by the end of June. The yield on the 10-year Bund rose from -0.57% to -0.1% between January and May, after which it recoiled to -0.21%. In this context, the S&P 500, Nasdaq and DAX stock market indices advanced by 14.4%, 12.5% and 13.2% respectively, in the first half of the year. By March, the S&P Financials and S&P Info Tech sub-indices had gained 15.5% and 1.7% respectively, reflecting the relative outperformance of the cyclical and value stocks earlier in the year. In the second quarter, the reversal of the reflation trade translated into a greater relative gain in the growth sectors, such as technology. The S&P Info Tech sub-index thus appreciated 11.3% in this period, above the 7.7% gain achieved by the financial sector. The Bovespa and Shanghai Composite indices recorded gains of 6.5% and 3.4%.

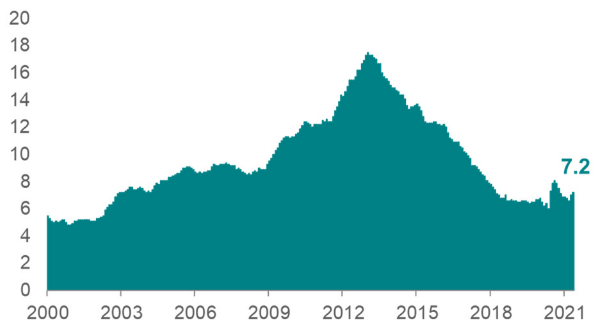
In Portugal, GDP shrank by 3.3% in the 1st quarter of 2021, or 5.4% year-on-year, reflecting the impacts of a new confinement forced by the increase in Covid-19 cases, which peaked at the end of January. Activity picked up in the 2nd quarter, with GDP quarterly growth of 5%, corresponding to a year-on-year increase of 15.5%, benefiting from favourable base effects and the gradual reopening of the economy. Manufacturing and retail trade activity resumed pre-pandemic levels at the end of the first semester, and the same happened with exports of goods. However, with the tourism and restaurant sectors being hardly hit, the recovery of the services sector was delayed. In May 2021, overnight stays by residents and non-residents had fallen by 22.3% and 83.8% compared to the same month in 2019, i.e., before the pandemic. Temporary support measures to businesses and the labour market, including loan moratoria, a simplified layoff scheme and gradual support to the recovery of activity, mitigated the economic impacts of the pandemic. The unemployment rate rose from 6.9% to 7.2% of the labour force between January and May. House prices decelerated in the 1st quarter, with year-on-year growth falling from 8.6% to 5.2%, but the real estate market remained resilient, with signs of recovery in the 2nd quarter. The yield on the Portuguese 10-year Government bonds itched up from 0.03% to 0.62% by mid-May, subsequently retreating to close the semester at 0.39%, with the spread against the Bund remaining at 60 bps. The PSI-20 index rose by 2.8%.

The second half of the year should remain shrouded in high levels of uncertainty and some volatility in the financial markets. The recovery is set to continue in the main economies, as progress is made in vaccination and economic activity gradually normalises, in a context of expansionary monetary and fiscal policies. In the Eurozone and in Portugal, activity should be sustained by favourable financial conditions and by the beginning of the execution of the recovery and resilience plan. But this process could be hampered by the increased incidence of new variants of SARS-Cov-2, as well as by persisting constraints on production, including the scarcity of raw materials and intermediate consumption, or high transport costs. More persistent than expected inflation, fuelling expectations of a faster withdrawal of monetary stimulus, could also condition sentiment. Tighter monetary and financial conditions could lead to a revaluation of assets in the financial and real estate markets, or to pockets of financial instability in emerging economies, penalising investor confidence at a global level. The risk of US-China trade and political tensions, or difficulties in implementing the Brexit deal, are also worth noting. In a baseline scenario, growth is expected to continue, albeit at a more subdued pace than in recent quarters.

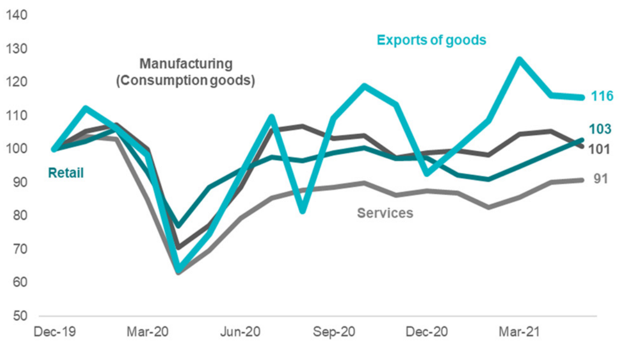
GDP growth (% QoQ and YoY)



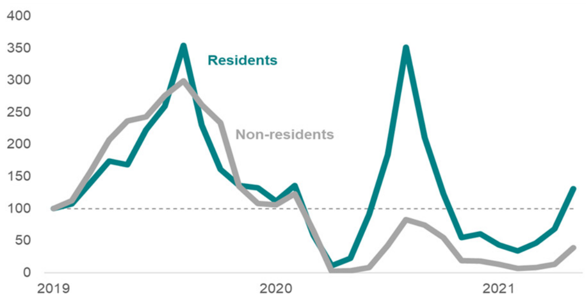
Unemployment rate (% labour force)



Economic activity by sector (Dec-19=100)



Number of overnight stays in tourist accommodation in Portugal (Jan-19=100)



3.2 HIGHLIGHTS

SECOND QUARTER OF POSITIVE PROFITABILITY

- **NOVO BANCO announces second consecutive profitable quarter with net profit of €137.7mn in the 1H21** (vs -€555.3mn in 1H20; 1Q21: €70.7mn; 2Q21: €67.0mn). This significant turn-around in profitability demonstrates the capacity of the business to consequently generate capital;

- **Net interest income increased 13.1% YoY,** contributing to an improvement in commercial banking income, +9.7% YoY (1Q21: €208.5mn; 2Q21: €216.3mn), as a result of the measures to reduce average deposit rates, lower cost of long-term financing and maintaining pricing discipline;

- **The Bank's core operating income** (commercial banking income - operating costs) **increased to €220.7mn (+27.5%; +€47.6mn YoY)**, driven by improved commercial banking income and lower operating costs (-4.7%; -€10.0mn YoY);

- **Further improvement of Cost to Income**, excluding markets and other operating results, reaching **48.1%** in the period (FY20: 52.2%; 1H20: 55.3%);

- **Impairments for credit totalled €84.7mn**, including €35.2mn impairments for Covid-19 related risks, a YoY reduction of -69.9% or -€196.4mn. The cost of risk reached 68bp, or 40 bps if excluded the impairments related with Covid-19.

SOLID BUSINESS MODEL WITH RESILIENT LENDING AND DEPOSITS GROWTH

- **Net customer loans at €23.5bn**, broadly stable across corporate (adjusted for NPL disposal), mortgage and consumer books;

- Total customer funds increased by +3.7% YTD, **with customer deposits increasing by 3.0% (+€782mn),** reflecting the continued confidence of clients in NOVO BANCO;

- Continuous investment in the business, to provide a unique integrated customer experience, with the implementation of a **new distribution model** and the execution of **digital transformation initiatives**. Growth in the digital segment with **52% of active digital customers (+5.5% YoY)** with 32% share of digital sales;

- **Continued reduction of the non-performing loans (NPL) ratio to 7.3% (Dec/20: 8.9%; Mar/21: 8.0%),** while **increasing the coverage ratio to 78.4%** (Dec/20: 74.1%), demonstrating the continued de-risking of the balance sheet and efforts to match the European average ratio in the medium-term.

STABLE CAPITAL RATIOS AND LIQUIDITY RATIO

- The Bank is well positioned to support retail and corporate customers, with CET 1 ratio at 10.9% (total solvency ratio at 12.8%), liquidity ratio (LCR) of 150% and NSFR of 112%.

Disclaimer:
During 2020, NOVO BANCO transferred the Spanish Branch to discontinued operations, in line with the strategy to discontinue the Spanish business. Thus, for comparison purposes, 1H20 is presented pro-forma.

MAIN HIGHLIGHTS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21
ACTIVITY (mn€)				
Net Assets	45 169	45 169	44 396	45 887
Customer Loans (gross)	27 436	25 696	25 217	24 986
Customer Deposits	28 793	26 722	26 093	26 875
Equity	3 494	3 494	3 147	3 239
SOLVENCY (3)				
Common EquityTier I / Risk Weighted Assets (3)	12.0%	12.0%	10.9% (4)	10.9%
Tier I / Risk Weighted Assets (3)	12.0%	12.0%	10.9% (4)	10.9%
Total Capital / Risk Weighted Assets (3)	13.5%	13.5%	12.8% (4)	12.8%
Leverage Ratio	7.3%	7.3%	6.2% (4)	6.2%
LIQUIDITY (mn€)				
European Central Bank Funding (2)	3 846	3 846	4 740	2 656
Eligible Assets for Repo Operations (ECB and others), net of haircut	15 760	15 760	16 684	17 048
(Total Credit - Credit Provision) / Customer Deposits (1)	89%	89%	90%	87%
Liquidity Coverage Ratio (LCR)	155%	155%	140%(4)	150%
Net Stable Funding Ratio (NSFR)	114%	114%	112%(4)	112%
ASSET QUALITY				
Overdue Loans > 90 days / Customer Loans (gross)	3.7%	3.6%	2.4%	2.3%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	10.2%	10.4%	8.9%	7.3%
Credit Provision / Overdue Loans > 90 days	186.6%	197.0%	262.2%	255.6%
Credit Provision / Customer Loans (gross)	6.9%	7.1%	6.3%	5.9%
Cost of Risk	2.11%	2.19%	2.08%	0.68%
PROFITABILITY				
Net Income for the Period (mn€)	-555.3	-555.3	-1329.3	137.7
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-2.4%	-2.4%	-2.9%	0.7%
Banking Income / Average Net Assets (1)	1.4%	1.3%	1.4%	2.2%
Income before Taxes and Non-controlling interests / Average Equity (1)	-26.7%	-26.7%	-32.0%	9.9%
EFFICIENCY				
Operating Costs / Banking Income (1)	72.6%	72.9%	69.9%	41.7%
Operating Costs / Commercial Banking Income	56.5%	55.3%	52.2%	48.1%
Staff Costs / Banking Income (1)	40.8%	41.3%	39.7%	24.1%
EMPLOYEES (No.)				
Total	4 855	4 668	4 582	4 470
- Domestic	4 646	4 646	4 560	4 448
- International	209	22	22	22
BRANCH NETWORK (No.)				
Total	386	376	359	349
- Domestic	375	375	358	348
- International	11	1	1	1

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

(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force

(2) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending

(3) Preliminary

(4) Updated values

3.2.1 **Results**

In the first half of 2021, NOVO BANCO delivered a positive net income of €137.7mn, being the second consecutive quarter with positive results and an outstanding half-year result since its creation. The bottom-line performance (+€693.0mn YoY) was supported by an increase in commercial banking income of +9.7% (+€37.7mn YoY), positive capital markets results (€129.1mn), lower impairment and provisions (-€254.5mn YoY) and the loss accounted in the 1H20 (-€260.6mn) related with the Restructuring Funds.

mn€

	INCOME STATEMENT	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
					absolute	%
	Net Interest Income	270.8	255.7	289.3	33.6	13.1%
+	Fees and Commissions	136.3	131.4	135.5	4.1	3.1%
=	**Commercial Banking Income**	**407.1**	**387.1**	**424.8**	**37.7**	**9.7%**
+	Capital Markets Results	- 35.1	- 35.7	93.3	129.1	...
+	Other Operating Results	- 54.9	- 57.9	- 29.1	28.8	49.7%
=	**Banking Income**	**317.0**	**293.5**	**489.0**	**195.5**	**66.6%**
-	Operating Costs	230.1	214.1	204.1	- 10.0	-4.7%
=	**Net Operating Income**	**87.0**	**79.4**	**284.9**	**205.5**	**...**
+	Restructuring funds - independent valuation	- 260.6	- 260.6	0.0	260.6	100.0%
-	**Net Impairments and Provisions**	**351.3**	**343.7**	**89.2**	**- 254.5**	**-74.0%**
	Credit	289.5	281.0	84.7	- 196.4	-69.9%
	Securities	1.2	1.2	16.0	14.8	...
	Other Assets and Contingencies	60.5	61.4	- 11.5	- 72.9	...
=	**Income before Taxes**	**- 524.9**	**- 524.8**	**195.7**	**720.5**	**...**
-	Corporate Income Tax	4.5	4.6	21.1	16.6	...
-	Special Tax on Banks	27.4	27.4	34.2	6.8	24.7%
=	**Income after Taxes**	**- 556.8**	**- 556.8**	**140.4**	**697.2**	**...**
-	Non-Controlling Interests	- 1.5	- 1.5	2.7	4.2	...
=	**Net Income for the period**	**- 555.3**	**- 555.3**	**137.7**	**693.0**	**...**

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

The most relevant features of the activity in the period include the following:

- Positive evolution of commercial banking income, which amounted to €424.8mn (+9.7%; +€37.7mn YoY), driven by net interest income increase of +€33.6mn (or +13.1%), and an improvement in fees and commissions (+3.1% or +€4.1mn), with the latter benefiting from 2Q21 QoQ performance (+€10mn; +16%);
- Capital markets results were positive by €93.3mn mostly due to the positive evolution of market interest rates in the period;
- Operating costs are lower YoY (-4.7%; -€10.0mn), standing at €204.1mn (1Q21: €102.7mn; 2Q21: €101.4mn), which reflects on the one hand the focus on cost efficiency achieved with processes simplification and optimisation, and on the other hand the investment in the business and in digital transformation, with both effects resulting in an improvement of the Bank's efficiency ratios;
- In the first half of 2021 the amount allocated to impairment and provisions totalled €89.2mn (including €35.2mn additional impairment within the scope of Covid-19), representing a YoY reduction of -€254.5mn (-74.0%).

Net Interest Income

Net interest income shows a YoY increase of 15 bp (from 1.31% to 1.46%), benefitting from 25 bp reduction of the average liability rate, with a slight decrease in the average asset rate as a result of the lower mortgage rates.

mn€

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	30-Jun-20			2020			30-Jun-21		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	40 738	1.76%	362	38 597	1.77%	694	39 395	1.65%	326
Customer Loans	27 054	2.07%	284	24 939	2.13%	541	25 033	2.03%	255
Mortgage Loans	*10 244*	*1.19%*	*62*	*9 987*	*1.20%*	*122*	*9 946*	*1.06%*	*53*
Consumer Loans and Others	*1 528*	*5.73%*	*44*	*1 328*	*6.24%*	*84*	*1 353*	*5.90%*	*40*
Corporate Lending	*15 281*	*2.31%*	*179*	*13 624*	*2.42%*	*335*	*13 734*	*2.35%*	*162*
Money Market Placements	2 896	0.63%	9	2 993	0.54%	16	3 883	0.18%	4
Securities and Other Assets	10 788	1.27%	69	10 665	1.26%	137	10 479	1.27%	67
INTEREST EARNING ASSETS AND OTHER	**40 738**	**1.76%**	**362**	**38 597**	**1.77%**	**694**	**39 395**	**1.65%**	**326**
INTEREST BEARING LIABILITIES	39 579	0.44%	87	36 782	0.35%	132	37 764	0.18%	35
Customer Deposits	28 611	0.28%	40	25 787	0.27%	72	26 425	0.20%	27
Money Market Funding	9 877	0.22%	11	9 913	-0.13%	- 13	10 390	-0.24%	- 25
Other Liabilities	1 091	6.64%	37	1 081	6.70%	74	949	7.01%	33
OTHER NON-INTEREST BEARING LIABILITIES	1 159	-	-	1 815	-	-	1 631	-	-
INTEREST BEARING LIABILITIES AND OTHER	**40 738**	**0.42%**	**87**	**38 597**	**0.34%**	**132**	**39 395**	**0.18%**	**35**
NIM / NII (without stage 3 impairment adjustment)		**1.33%**	**275**		**1.43%**	**562**		**1.47%**	**291**
Stage 3 impairment			**- 4**			**- 6**			**- 2**
NIM / NII		**1.31%**	**271**		**1.41%**	**555**		**1.46%**	**289**

The average rate on customer loans was 2.03%, lower YoY (-4bps) given the different weight of each segment (portfolio effect; -2bps) and the competitive environment (rate effect; -2bps). The lower YoY average balance reflects mainly the discontinuation of Spanish operations and the sale of the Carter and Wilkinson portfolio, with the loan portfolio broadly stable on an adjusted basis.

The average balance of deposits was €26.4bn, with an average interest rate of 0.20% (-8bps YoY), and Money Market Funding was €10.4bn, with -0.24% average interest rate, benefiting in part from the conditions of the ECB long-term refinancing operations.

The Group therefore continued to increase the spread between the rate on interest earning assets (1.65%; 1H20: 1.76%) and the cost of liabilities (0.18%; 1H20: 0.42%) with a positive impact on overall net interest margin (1.46%; 1H20: 1.31%).

Fees and Commissions

Driven by the performance in 2Q21 (€72.8mn; +14.5% compared with 2Q20), commissioning in the first half of 2021 posted a positive performance +3.1% YoY, totalling €135.5m.

This performance results from the revenue increase in Payments Management (+€1.8mn; +3.5% YoY) based on a higher volume of transactions/price and volume increase in the Asset Management & Bancassurance (+€4.6mn; +17.5%), reflecting a greater commercial activity and increased customer appetite for this line of products. Loans, Guarantees and Similar Commissions remained stable (-€0.2mn, -0.5%) even in the context of the current pandemic.

mn€

FEES AND COMMISSIONS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
				absolute	%
Payments Management	53.2	52.5	54.3	1.8	3.5%
Commissions on Loans, Guarantees and Similar	45.4	42.9	42.7	-0.2	-0.5%
Asset Management and Bancassurance	28.8	26.2	30.8	4.6	17.5%
Advising, Servicing and Other	8.8	9.8	7.7	-2.1	-21.4%
TOTAL	**136.3**	**131.4**	**135.5**	**4.1**	**3.1%**

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

Capital Markets and Other Operating Results

The results of financial operations were positive by €93.3mn mostly due to the positive evolution of market interest rates during the first half of 2021.

Other operating results, at -€29.1mn, includes, in addition to gains from credit recovery (+€16.1mn), the costs related with contributions to the Single Resolution Fund (€25.3mn) and to the Portuguese Resolution Fund (€15.2mn).

Operating Costs

Operating costs decreased -4.7% YoY, reflecting the continued optimisation and simplification of organisational structure and processes, alongside investment in the future of the business.

mn€

OPERATING COSTS	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
								absolute	%
Staff Costs	157.0	142.8	133.9	133.4	129.2	121.1	117.6	- 3.5	-2.9%
General and Administrative Costs	118.2	101.0	99.1	92.7	83.5	77.1	70.1	- 7.0	-9.0%
Depreciation	29.0	21.4	11.2	17.0	17.3	15.9	16.4	0.5	2.9%
TOTAL	**304.2**	**265.2**	**244.2**	**243.1**	**230.1**	**214.1**	**204.1**	**- 10.0**	**-4.7%**

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

Staff costs totalled €117.6mn (-2.9% YoY), maintaining the downward trend accounted in recent years, and as a result of the continuous recalibration of the business model towards increased efficiency. As of 30 June 2021, NOVO BANCO Group had 4,470 employees (Dec/20: 4,582; -112 YTD).

General administrative costs decreased 9.0% YoY, to €70.1mn, due a widespread effort to reduce operating costs, alongside investment in the future of the business.

The number of branches as of 30 June 2021 was 349 (Dec/20: 359; -10 branches YTD).

Impairments and Provisions

In the first half of 2021, NOVO BANCO Group recorded an increase in provisions in the amount of €89.2mn (including €35.2mn additional impairment within the scope of Covid-19), a reduction compared to the same period of the previous year (-74.0%). The cost of risk reached 68bps (or 40bps without the impact of Covid-19 additional impairment).

mn€

NET IMPAIRMENTS AND PROVISIONS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
				absolute	%
Customer Loans	289.5	281.0	84.7	-196.4	-69.9%
Securities	1.2	1.2	16.0	14.8	...
Other Assets and Contingencies	60.5	61.4	- 11.5	- 72.9	...
TOTAL	**351.3**	**343.7**	**89.2**	**- 254.5**	**-74.0%**

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

3.2.2 Balance Sheet and Activity

Customer Loans

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

mn€

CUSTOMER LOANS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YTD Change	
					absolute	%
Loans to corporate customers	**15 715**	**14 295**	**13 873**	**13 694**	**- 180**	**-1.3%**
Loans to Individuals	**11 720**	**11 402**	**11 344**	**11 293**	**- 51**	**-0.5%**
Residential Mortgage	10 244	10 064	10 010	9 926	- 85	-0.8%
Other Loans	1 476	1 338	1 333	1 367	34	2.5%
Customer Loans (gross)	**27 436**	**25 696**	**25 217**	**24 986**	**- 231**	**-0.9%**
Provisions	1 882	1 823	1 600	1 474	- 125	-7.8%
Customer Loans (net)	**25 554**	**23 874**	**23 617**	**23 512**	**- 105**	**-0.4%**

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

NOVO BANCO’s commitment to support corporates and households resulted in the granting that as of June 2021 totalled €5.6bn (Dec/20: €6.9mM), representing circa 22% of the gross loan book, along with €1.3bn of guaranteed credit lines granted to corporates, of which ~97% are already disbursed. The moratoria under the regulatory framework support more than 20,000 clients and represented ~30% of the corporate portfolio, ~15% of the mortgage book and ~3% of other individual loans portfolio.

Loans to customers (gross) totalled €24,986mn (in line with March 2021), with the YTD evolution (-0.9%) influenced by the execution of the strategy to reduce the stock of non-performing loans (NPL). NOVO BANCO sold a portfolio of non-performing loans and related assets (Project Wilkinson) in the first half of 2021 with a gross value of €210.4mn.

The main credit risk indicators presented the following evolution from December 2020:

mn€

ASSET QUALITY AND COVERAGE RATIOS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YtD Change	
					absolute	%
Overdue Loans > 90 days	1 009	925	610	577	- 33	-5.5%
Non-Performing Loans (NPL)[1]	3 120	3 007	2 498	2 209	- 288	-11.5%
Overdue Loans > 90 days / Customer Loans (gross)	3.7%	3.6%	2.4%	2.3%	-0.1 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	10.2%	10.4%	8.9%	7.3%	-1.5 p.p.	
Credit Provisions / Customer Loans	6.9%	7.1%	6.3%	5.9%	-0.4 p.p.	
Coverage of Overdue Loans > 90 days	186.6%	197.0%	262.2%	255.6%	-6.6 p.p.	
Coverage of Non-Performing Loans [1]	62.8%	63.2%	74.1%	78.4%	4.3 p.p.	

[1] Includes Deposits and Loans and advances to Banks and Customer Loans

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

The reduction in loans overdue by more than 90 days and in non-performing loans (including deposits with Banks and loans and advances to Banks), led to an improvement in the respective asset quality ratios to 2.3% and 7.3%, respectively (Dec/20: 2.4% and 8.9%; Jun/20: 3.6% and 10.4%).

On 30 June 2021, the coverage of non-performing loans by impairments (including deposits with Banks and loans and advances to Banks) was 78.4% (+4.3 pp YTD).

Provisions for credit amounted to €1.5bn, representing 5.9% of the total loan book.

Securities

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €11.1bn on 30 June 2021, representing 24.2% of assets.

net of impairment mn€

Securities portfolio	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YTD Change	
					absolute	relative
Portuguese sovereign debt	3 465	3 465	3 468	3 262	- 206	-5.9%
Other sovereign debt	3 517	3 483	3 710	3 489	- 221	-6.0%
Bonds	3 588	3 588	3 323	3 463	140	4.2%
Other	961	958	866	903	37	4.3%
Total	**11 531**	**11 495**	**11 367**	**11 117**	**- 249**	**-2.2%**

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

3.3 DIGITAL TRANSFORMATION & BUSINESS SEGMENTS

The main digitization initiatives and developments in 1st half 2021:

Innovation Highlights

Customer Journeys

- Improvements in the process of joining digital channels including request of debit card;
- Extending access to Online Business Credit to a larger customer base;
- Life Insurance simulation and subscription process in authenticated channels.

Digital Channels: NB smarter/smart app

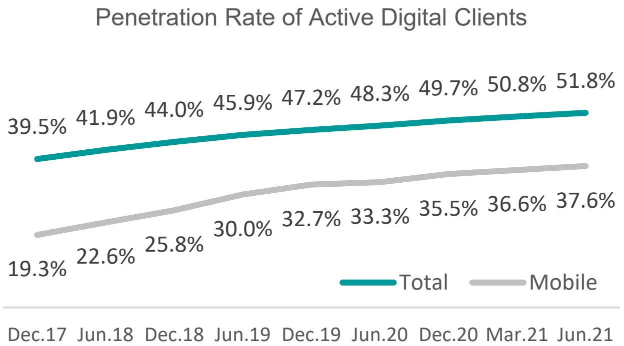
- New investment fund options in the NB smart app;
- Improved personalisation considering behavioural aspects in NB Smarter;
- Improved experience in the use of the mobile digital channel with the replacement of SMS by push notifications for operation validation.

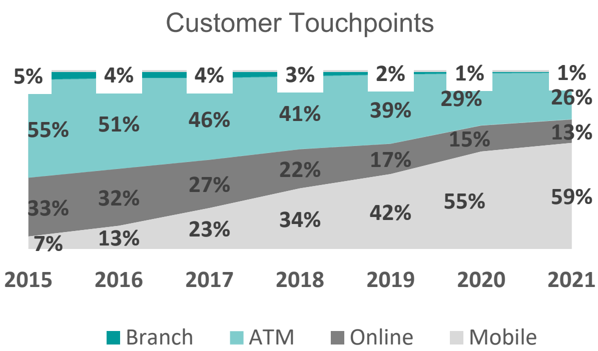
Digital Channels: NBnetwork

- Implementation of a functionality for secure sending of documents/files through the digital channel;
- All the documentation supporting Factoring and Confirming operations made available on the NBnetwork.

Digital Activation

- 51.8% active digital customers as of Jun/21 (number of digital customers increased by 5.5% YoY);
- Number of active mobile customers grew 11% YoY (37.6% of customers are mobile).





Customer Touchpoints

- Mobile continues to be the main mean of contact for retail customers, with interactions via mobile (# logins) increasing 21% YoY;

- 73% of the contacts of retail customers were made through digital channels (+3 p.p. vs. end of last year);

Digital channels, mainly mobile, are the relationship point par excellence, reinforcing the adoption of a "mobile digital first" strategy.

3.3.1 **Corporate**

NOVO BANCO, has an important presence in the Portuguese corporate sector and continues to act as a partner, seeking, as always, to provide financial support, to help companies adjust their strategies to new realities, aware that it is more important than ever to share experiences, to have a deeper knowledge of the supply chains, specialised consultancy information or new opportunities, and access to international markets.

In the first half of 2021, NOVO BANCO continued to monitor its corporate customer base, given the impacts of Covid-19 on its activity, through three fundamental pillars:

(i) financial support to small and medium-sized companies having granted in the 1H21 a total of €190mn of Credit Lines with the Mutual Guarantee Companies, covering more than 450 customers;

(ii) monitoring the developments of moratoria that currently cover some 2,184 corporate segment customers, for an overall amount of €4.0bn;

(iii) maintaining the focus on the digital transformation, investing in remote relationship and signature tools, to continue to quickly respond to customer needs.

In the period, medium and long-term credit originated in the medium and large corporate segment totalled €668mn, of which 28% related to Covid Credit Lines under guaranteed schemes (40% in medium corporates).

NOVO BANCO has an important presence in the Portuguese corporate sector, with market share of 14.6% in loans to non-financial companies and 12.8% in corporate deposits[1], maintaining a strong relevance in the exporting sector with around 58% of medium and large exporting companies as customers.

In Trade Finance, NOVO BANCO provides a wide range of products and specialised advice in support of international trade. The Bank's know-how in this segment is recognized by its clients, resulting in a market share of around 20.3%[2] (+1.3pp YTD).

NOVO BANCO was elected for the 16th time "Best Sub-custodian Bank 2021" in Portugal by the magazine Global Finance, in nineteen years of this distinction. This nomination represents the international recognition of NOVO BANCO's skills and performance in this business area, essential for the proper functioning of the financial market.

During the first half of 2021, NOVO BANCO continued to promote/participate in several initiatives, aiming to create solutions and the promotion of economic sectors, regions and companies that stand out and can be a reference for other Portuguese companies. These initiatives included regional events such as "Portugal que Faz", a partnership with Global Media, to give a voice to the Business Associations representing the Portuguese corporate sector, as well as sectoral events supporting the agricultural sector (37th Ovibeja; *Feira Nacional de Agricultura* 2021) and promoting the textile sector (*Simpósio da Indústria Têxtil e Vestuário*), one of the oldest and, at the same time, one of the most innovative Portuguese industries.

Reflecting the nature of a partner and proximity Bank, the relationship with the customer and the initiatives mentioned, the weight of Very Satisfied Customers (PCMS) with Customer Service reached 93.3% in June 2021, an increase of 4.6 pp compared to the previous year.

[1] May 2021
[2] June 2021, measured by the number of Swift messages

3.3.2 **Retail**

NOVO BANCO is redesigning the face-to-face service experience, more focused on personalisation and space for relaxed and engagement with clients. This experience has required a total redesign of the branches, which in addition to the layout and architectural elements, are open to its eco-system, with more transparency, and with available areas for the community at master branches. During the 1H21, 20 more branches were redesigned with the aim of covering the entire branch network in a 3-year programme.

In 1H21, NBlink, a remote manager service with follow-up capabilities for high value customers who prefer remote contact, was further reinforced. This service has demonstrated higher efficiency levels than the traditional customer portfolio management model.

<u>*Offer*</u>

Day-to-day needs

- NB provides a set of products aimed at meeting the day-to-day needs of our Customers, including service accounts, credit cards and *Solução Ordenado*, which recorded a substantial increase in production compared to 1Q21 (+5%), exceeding the targets set.

Insurance

- Reformulation of the Health Insurance offer and the widening of the Life Insurance offer, more complete and adjusted to the different target markets, benefiting from a new form of subscription (ie: digital platforms, guaranteeing a totally online, simple, convenient, fast and secure subscription process).

Lending

After the slowdown at the beginning of the year, credit production recorded an upward trend in the 2Q21, with execution line with the objectives set:

- Mortgages: production recorded a growth of +12% vs 1Q21, as well as an increase of +28% vs 2Q20;
- Consumer Loans: the signs of recovery were confirmed, with a substantial increase in production compared to 1Q21 (+35%) in the Personal Loans segment.

Savings and Investment Solutions

Worth highlighting the regular launch of Structured Deposits with the ESG (Environmental, Social and Governance) seal, seeking to index the product's remuneration to the performance of the shares of companies that stand out in their capacity to lead changes in social, governance and environmental criteria.
NB reinforced the selection criteria of the companies that make up this type of product, having developed an assessment model of compliance with ESG components. The *Best Distributor Portugal* award, given by the *Structured Retail Products* (SRP) of the Euromoney Group, confirms the strategy defined.

Business Solutions

As a relationship and proximity Bank, the evolution of the business segment includes:

- Growth in the active customer base (+4.6% vs Dec/20), driven by service accounts (+6.3%) and active POS (+5.5%);
- Support in meeting treasury or financing needs, through the growth of the loan portfolio by 3.4% (vs Dec/20), with 43% of lending related to credit lines under protocol;

Increase in business segment resources, with a growth of 6.4% YTD.

3.4 NOVO BANCO SEPARATE

3.4.1 Results

In the six-month period ended 30 June 2021, NOVO BANCO reported a positive result of €148.5mn, compared to a loss of €583.3mn in the same period of the previous year.

Commercial banking income amounted to €416.4mn (+8.4% YoY), driven by the increase in net interest income (+11.2%) and customer services (+2.2% YoY).

Market results were positive by €89.8mn, which compares to -€124.9mn in the first half 2020.

Operating costs amounted to €190.4mn, decreasing 5.1% YoY, as a result of improvements made in simplifying processes and optimizing structures.

Net Operating income was positive by €279.8mn. The amount allocated to provisions totalled €80.3mn (-75.5% YoY), reflecting the restructuring process executed by the Bank from 2017 to 2020.

mn€

INCOME STATEMENT	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	% Change
Net Interest Income	279.5	264.2	293.9	11.2%
+ Fees and Commissions	124.9	119.8	122.5	2.2%
= Commercial Banking Income	**404.4**	**384.1**	**416.4**	**8.4%**
+ Capital Markets Results	-124.2	-124.8	89.8	...
+ Other Operating Results	-21.0	-23.7	-36.0	-52.0%
= Banking Income	**259.1**	**235.6**	**470.2**	**99.6%**
- Operating Costs	216.7	200.7	190.4	-5.1%
= Net Operating Income	**42.5**	**34.8**	**279.8**	**...**
+ Restructuring funds - independent valuation	-260.6	-260.6	0.0	100.0%
- Net Impairments and Provisions	335.7	328.0	80.3	-75.5%
Credit	289.1	280.7	84.3	-70.0%
Securities	1.2	1.2	15.6	...
Other Assets and Contingencies	45.4	46.2	-19.6	...
= Income before Taxes	**-553.8**	**-553.8**	**199.5**	**...**
- Taxes	2.5	2.5	17.4	...
- Special Tax on Banks	27.0	27.0	33.5	24.3%
= Net Income for the year	**-583.3**	**-583.3**	**148.5**	**...**

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

3.4.2 Activity

NOVO BANCO's activity in the first half of 2021 developed around the guidelines already mentioned for NOVO BANCO Group.

mn€

ACTIVITY EVOLUTION	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	Change	
					absolute	%
Assets	**44 868**	**44 868**	**44 042**	**45 558**	**1 515**	**3.4%**
Customer Loans (gross)	**25 521**	**23 760**	**23 332**	**23 150**	**- 182**	**-0.8%**
Loans to Individuals	9 940	9 622	9 609	9 609	0	0.0%
Residential Mortgage	8 568	8 388	8 395	8 372	- 22	-0.3%
Other Loans	1 372	1 233	1 214	1 237	22	1.8%
Loans to corporate customers	15 581	14 138	13 723	13 541	- 182	-1.3%
On Balance Sheet Funds	**29 418**	**27 343**	**26 709**	**27 525**	**816**	**3.1%**
Deposits	28 116	26 041	25 557	26 262	705	2.8%
Other Customer Funds (1)	370	370	222	313	91	41.1%
Debt Securities	499	499	515	519	4	0.7%
Subordinated Debt	432	432	415	432	17	4.1%

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

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

Deposits as at 30 June 2021 totalled €26.3bn, increasing by €0.7bn versus December 2020 (€25.6bn).

Regarding the gross customer loan portfolio, excluding the effect of the sale of the Wilkinson Project (portfolio of non-performing loans and related assets) with a gross value of €210.4mn, the amount would be higher compared to December 2020. With this divestment, gross customer loans decreased by -€182mn compared to December 2020, accompanied by a decrease in non-performing loans (-€285mn, -11.7%).

The quality of the loan portfolio at the end of the period shows an improvement in the ratios, with the overdue loans over 90 days ratio evolving to 2.5% (2.6% as at 31 December 2020), and the NPL coverage ratio at 67.7% (64.9% on 31 December 2020).

ASSET QUALITY	30-Jun-20	30-Jun-20 Pro-forma** (exc. Spain)	31-Dec-20	30-Jun-21	Change absolute	Change %
DATA BASIS (Euro millions)						
Customer Loans (gross)	25 521	23 760	23 332	23 150	- 182	-0.8%
Overdue Loans	1 027	928	616	571	- 45	-7.3%
Overdue Loans > 90 days	999	915	603	568	- 35	-5.8%
Forborne Loans	2 683	2 570	2 054	1 839	- 215	-10.4%
Non-Performing Loans (NPL)*	3 066	2 953	2 445	2 160	- 285	-11.7%
Customer Loans Impairment	1 870	1 811	1 587	1 461	- 126	-7.9%
ASSET QUALITY AND COVERAGE RATIOS (%)						
Overdue Loans / Gross Loans to Customers	4.0%	3.9%	2.6%	2.5%	-0.2 p.p.	
Overdue Loans > 90 days / Gross Loans to Customers	3.9%	3.9%	2.6%	2.5%	-0.1 p.p.	
Forborne Loans / Gross Loans to Customers	10.5%	10.8%	8.8%	7.9%	-0.9 p.p.	
Non-Performing Loans (NPL)* / Gross Loans to Customers + Gross Loans to Credit Institutions	10.7%	11.0%	9.3%	7.7%	-1.7 p.p.	
Impairment / Total Loans to Customers	7.3%	7.6%	6.8%	6.3%	-0.5 p.p.	
Impairment / Overdue Loans	182.1%	195.2%	257.5%	255.9%	-1.6 p.p.	
Impairment / Overdue Loans > 90 days	187.2%	197.8%	263.3%	257.3%	-6.0 p.p.	
Impairment / Non-Performing Loans*	61.0%	61.3%	64.9%	67.7%	2.8 p.p.	

* includes Credit Institutions

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

3.5 RELEVANT FACTS FROM THE ACTIVITY AND SUBSEQUENT EVENTS

Relevant Facts

- On 5 April 2021, NOVO BANCO informed that following a competitive bidding process NOVO BANCO has signed an agreement with ABANCA CORPORACIÓN BANCARIA, S.A. for the sale of its Spanish branch business. With this agreement, NOVO BANCO divests its retail, private banking and SME operations in Spain, including all 10 branches and employees.

  The Spanish activities were reclassified as discontinued operations in NOVO BANCO's balance sheet as of 30 September 2020. The agreement represents the most suitable exit option for the Bank, while ensuring the maintenance of client service and offering attractive long-term prospects for both clients and employees in Spain.

  The sale is consistent with the Bank's medium-term plan in order to comply with the commitments set for 2021 undertaken by the Portuguese Republic with the European Commission in 2017 in the context of the sale of a shareholding of NOVO BANCO and will improve the Bank's cost to income and return on equity ratios. The transaction is expected to:

  - have a marginal impact on 2021 net income;
  - strengthen the capital position with an expected circa 55 bps increase in Common Equity Tier 1 ratio;
  - have positive impact in liquidity ratios (both LCR and NSFR).

  This transaction is an important milestone in NOVO BANCO's strategy to divest its non-core assets and operations, in particular to reduce complexity and costs, and allows the Bank to pursue its strategy to redeploy resources to its core banking business in Portugal.

  The completion of the transaction is subject to the respective authorities' approvals, and closing is expected to occur in the second half of 2021.

- On 1 June 2021, following the announcement on 22 October 2020, NOVO BANCO announced that the General and Supervisory Board and the Executive Board of Directors of NOVO BANCO received the authorization of the relevant regulatory authorities (fit and proper).

- On 7 June 2021, NOVO BANCO, noted that it received on 4 June 2021 an amount of €317.0 million under the Contingent Capital Agreement ("CCA") with relation to 2020 accounts.

  In addition, NOVO BANCO noted the following resolution of the Council of Ministers on 27 May 2021: "*As per the terms of the CCA, the Fundo de Resolução ("FdR") has determined an amount of €429.012.629,00. Without prejudice to the exercise of all control and verification prerogatives around fulfilment of contractual obligations, a State which abides by the rule of law honors all commitments undertaken, namely with regards to executed contracts. Thus, this resolution hereby creates the conditions for the FdR to proceed with the operationalisation of the bank loan as recourse to its budget, as per nº3 of art.59º of Law nº 151/2015, from 11 September, in its current drafting, and respective payment. This will enable the FdR to fulfil its contractual obligations, thus ensuring the fulfilment of a) of nº2 of art.44º of the referred law.*".

  In accordance with the above, on 31 May 2021, the Bank published its 1Q 2021 with phased-in capital ratios including a CCA receivable of €429.0 million, meaning a Common Equity Tier 1 Ratio ("CET1") of 11.3% and Total Capital Ratio of 13.3%.

  There is a difference of €112.0 million between the €429.0 million, that the FdR deemed payable having completed the verification process, and the €317.0 million received by NOVO BANCO.

  Despite the resolution of the Council of Ministers referenced above and the conclusion of a comprehensive, independent and transparent process, between NOVO BANCO and the FdR, the Bank was informed that the €112.0 million, has been retained and is subject to a further validation in relation to a matter that was previously considered and concluded by the parties. NOVO BANCO further notes that this matter is not related to 2020 financial year or related financial statements.

  In accordance with the CCA, a maximum total amount of €3.89 billion can be claimed. The total amount of funds received under the CCA, including the €317 million received on 4 June 2021, is €3.29 billion.

- On 23 June 2021, NOVO BANCO informed that it was notified by the Bank of Portugal of its Minimum Requirement for own funds and Eligible Liabilities ("MREL") requirements, on a consolidated basis, as determined by the Single Resolution Board, under the following terms:

From 1 January 2022, under the intermediate requirement, the target of own funds and eligible liabilities will be equivalent to:

- 14.64% of total risk exposure amount ("TREA") plus the combined buffer requirement (currently 2.88%), corresponding to a total requirement of 17.52%;
- 5.91% of the Leverage Ratio Exposure ("LRE").

From 1 January 2026, the requirement for own funds and eligible liabilities will be equivalent to:

- 22.78% of TREA plus the then applicable combined buffer requirement;
- 5.91% of the Leverage Ratio Exposure ("LRE").

In addition, NOVO BANCO noted that, as of today, a minimum subordination requirement was not applied.

As of 31 December 2020, NOVO BANCO had a MREL position of 15.13% of TREA, and already complies with the MREL requirements as percentage of LRE.

NOVO BANCO considers that these requirements are in line with its expectations and consistent with its funding plan, which may be adjusted to reflect the actual balance sheet evolution in the coming years, including the risk-weighted assets.

The decision on the MREL requirement is based on current legislation and is subject to review by the supervisor over time, including changes such as Pillar 2 Requirement evolution.

Subsequent Events

- On 9 July NOVO BANCO announced a voluntary "Tender Offer and Solicitation Memorandum" for bonds issued by Novo Banco, S.A. Luxembourg and NB Finance. The deadline for early participation ended on 28 July. In the Offer were tendered ZC bonds corresponding to €161mn repurchase amount, equivalent to a book value of €88mn. More information available at: www.bourse.lu/notices

- On 13 July, NOVO BANCO issued €300mn of senior preferred debt, with a 3 year tenor and the option of early redemption by the Bank at the end of year 2. The notes were subscribed at 100% price and have an annual interest rate of 3.5% in the first 2 years, and 3-month Euribor plus a margin thereafter. The issue was placed exclusively with institutional investors and settlement occurred on 23 July 2021. This inaugural senior issuance is part of the funding plan designed to meet the Minimum Requirements for own funds and Eligible Liabilities ("MREL") requirements and will improve the funding profile of NOVO BANCO.

3.6 MAIN RISKS AND UNCERTAINTIES

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

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

Beside an improvement of macro-economic outlook is expected for the 2H21, NOVO BANCO's view on uncertainty remains unchanged, expecting that potential credit deterioration could be seen once moratoria are finished, particularly in vulnerable areas of the portfolio. Limited defaults have been observed to date in response to the COVID-19 pandemic, partly as a result of government and Bank support measures. However, such support measures are scheduled to taper down from Q321 bringing with it uncertainty.

NOVO BANCO is subject to continuous political and public scrutiny (including, but not limited to) in relation to circumstances related to its incorporation and sale to Lone Star, in particular the CCA, which have led to a number of political initiatives such as an audit from the Court of Auditors (Tribunal de Contas) at the request of the Portuguese Parliament and the creation of a Parliament Inquiry (*"Comissão Eventual de Inquérito Parlamentar às perdas registadas pelo Novo Banco e imputadas ao Fundo de Resolução"*). In addition, 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, some independent audits have and may continue to be performed in the future to NOVO BANCO. These initiatives have impacted and may continue to impact NOVO BANCO's reputation, market perception and its business.

In the execution of the CCA there were some divergences, which should be resolved in arbitration under the contractual terms. More specifically, there is an arbitration proceeding at the International Chamber of Commerce regarding the transition of the implementation of IFRS9 from the transitional regime to full application and the impact of such implementation on the calculation of the amount due by the Resolution Fund under the CCA in financial year 2019. The full implementation of that regime was dependent on the conclusion of the arbitration proceedings, with the decision expected to be delivered in 4Q21.

There are other divergences, including the one relating to the implementation by the Bank, at the end of 2020, of the dynamic option of the transitional regime of IFRS9, and those relating to amounts that NOVO BANCO considers to be due and that should have been paid by the Resolution Fund for the year 2020 financial statement, including the capital impact from the provisions made for the discontinuation of Spanish operations and the fair value of the restructuring funds, which divergences will be settled in arbitration. There can be no assurance that NOVO BANCO will receive all or any of the amounts that were not paid and that are or may be under dispute and if the Resolution Fund will make such payments.

Furthermore, the Bank might be adversely affected by recent and future changes in the tax legislation and other regulations applicable in Portugal, the EU and other countries in which it operates, as well as by changes of interpretation by the competent tax authorities of legislation and regulation. These changes include those introduced in the State Budget Law for 2021. The tax implications of these changes for the Bank, including any potential liabilities for the 2021 financial year and subsequent years, are currently under analysis.

The Bank might still be adversely affected by legislative changes, changes in the interpretation or compliance with new laws and regulations, including those of a fiscal nature.

The materialisation of any of the risks mentioned above may have a material adverse effect on NOVO BANCO's strategy, financial condition, results of operations and prospects.

4 CAPITAL & LIQUIDITY

4.1 CAPITAL RATIOS

As at 30 June 2021, the CET1 ratio was 10.9% and total solvency ratio was 12.8% (preliminary values).

In this context, it is important to highlight the fact that the European Central Bank (ECB) disclosed during March 2020 several measures that allow Banks to operate temporarily below the required capital level. These measures aim to prevent Banks from suspending financing to the economy in an adverse economic environment. In addition, changes were introduced to the regulatory framework on the calculation of capital ratios, in force since June 2020, aimed at mitigating the impacts of the Covid-19 pandemic, both at the level of related impairment reinforcement and at the level of risk-weighted assets. In these circumstances, NOVO BANCO adhered to the dynamic option of the transitional regime of IFRS 9, in the context of NOVO BANCO and the Resolution Fund having recognized a divergence in relation to the application of the above mentioned option.

mn€

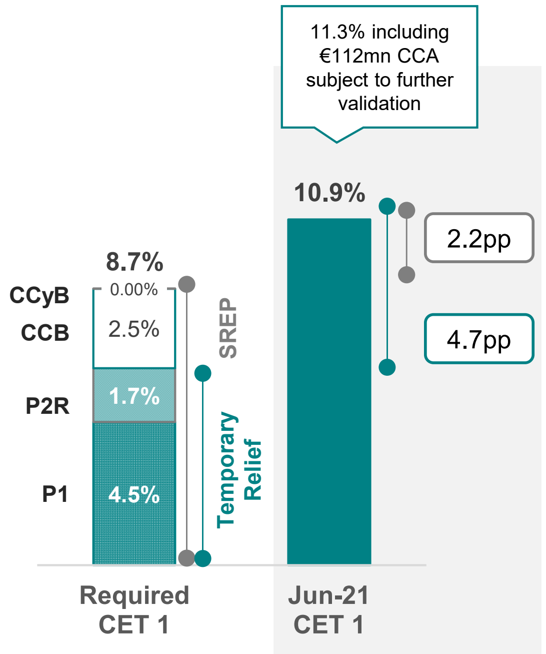
CAPITAL RATIOS (CRD IV/CRR)		31-Dec-20[1] (Phased-in)	31-Dec-20[1] (Fully loaded)	30-Jun-21[2] (Phased-in)	30-Jun-21[2] (Fully loaded)
Risk Weighted Assets	(A)	26 689	26 392	27 348	27 025
Own Funds					
Common Equity Tier 1	(B)	2 902	2 511	2 981	2 630
Tier 1	(C)	2 903	2 512	2 982	2 631
Total Own Funds	(D)	3 415	3 023	3 496	3 145
Common Equity Tier 1 Ratio	(B/A)	10.9%	9.5%	10.9%	9.7%
Tier 1 Ratio	(C/A)	10.9%	9.5%	10.9%	9.7%
Solvency Ratio	(D/A)	12.8%	11.5%	12.8%	11.6%
Leverage Ratio		6.2%	5.4%	6.2%	5.4%

(1) Updated values

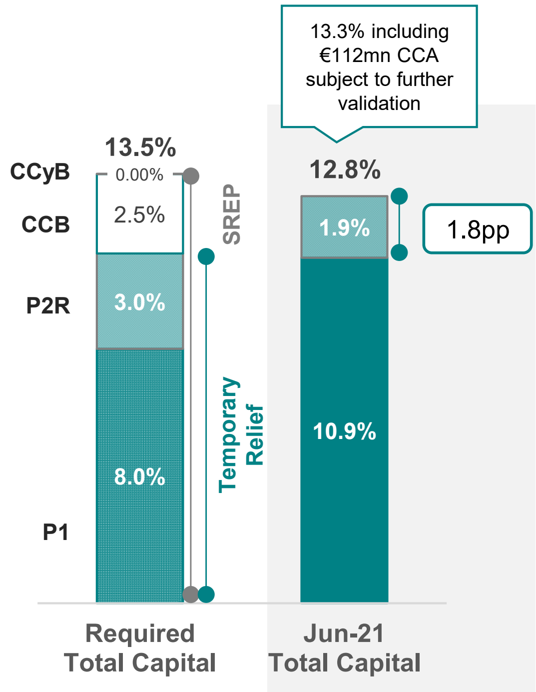
(2) Preliminary

Regarding the amount of €598mm requested to the Resolution Fund, regarding the year 2020, only a payment of €317mm was made. The difference results from divergences between NOVO BANCO and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain (€147mn), (ii) the valuation of participation units (€18mn) and (iii) the interest rate hedging policy (€112mn; retained by the Resolution Fund and subject to further validation). Given the limitation to immediately access to this amount, the Bank deducted, as of 30 June 2021, the amount of €277.4mn from the calculation of regulatory capital, despite being recorded as receivable in the accounts. NOVO BANCO considers the amount of €277.4mn as due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure the amount is received.

CET 1
(phased-in[1]; Preliminary; %)



Total Capital
(phased-in[1]; Preliminary; %)



(1) On 12-Mar-20 the European Central Bank disclosed several measures that allow Banks to operate temporarily below the required capital level; P2G not included.

4.2 FUNDING AND LIQUIDITY

Funding

Total customer funds amounted to €32.8bn at the end of the first half of 2021, showing an increase of 3.7% YTD. The deposits, which represent 81.8% of total customer funds, increased +3.0% YTD.

mn€

TOTAL FUNDS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YTD change	
					absolute	%
Deposits	28 793	26 722	26 093	26 875	782	3.0%
Other Customer Funds (1)	382	382	229	324	95	41.5%
Debt Securities (2)	699	699	558	559	1	0.1%
Subordinated Debt	432	432	415	432	17	4.1%
Sub -Total	**30 307**	**28 235**	**27 296**	**28 190**	**895**	**3.3%**
Off-Balance Sheet Funds	4 734	3 999	4 376	4 655	279	6.4%
Total Funds	**35 041**	**32 235**	**31 672**	**32 846**	**1 174**	**3.7%**

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

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

(2) Includes funds associated to consolidated securitisation operations.

Liquidity

In the first half of the year, NOVO BANCO maintained a comfortable liquidity position as shown by its Liquidity Coverage Ratio (LCR) of 150%, well above the regulatory requirement and representing an increase of 10pp YTD.

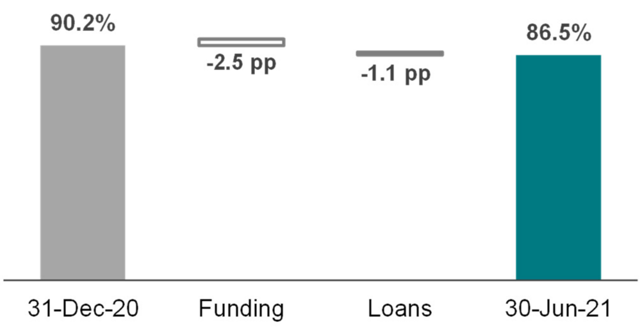
The improved liquidity position of the Bank in the first half of the year is mainly explained by the positive impact of the funding instruments of the Bank, namely: (i) the increase in customer funds of €0.9bn YTD (of which €0.8bn of customer deposits), reflecting a positive performance on both the retail and corporate segment, (ii) increase in short-term collateralized interbank funding of €0.3bn YTD and (iii) the €0.3bn capital contribution received from the Resolution Fund under the CCA.

In addition, in terms of asset evolution, the loan portfolio has registered a small reduction, resulting mostly from an NPL sale and also a small reduction on the securities portfolio due to a de-risking strategy of the Bank.

Therefore, at the end of the period, the amount of cash and deposits with central Banks increased by circa €2.2bn and, consequently, the net financing from the ECB (European Central Bank; taken from the ECB less applications with this institution) in the first half decreased to €2.7bn (vs €4.7bn in Dec/20).

Finally, the portfolio of assets eligible for rediscount with the ECB, on 30 June 2021, totalled €17.0bn (net of haircut), to which are added HQLA assets non-eligible for ECB rediscount purposes. Hence at the end of the semester the Bank maintained a liquidity buffer of €12.8bn, mostly composed of highly liquid assets (around 84%).

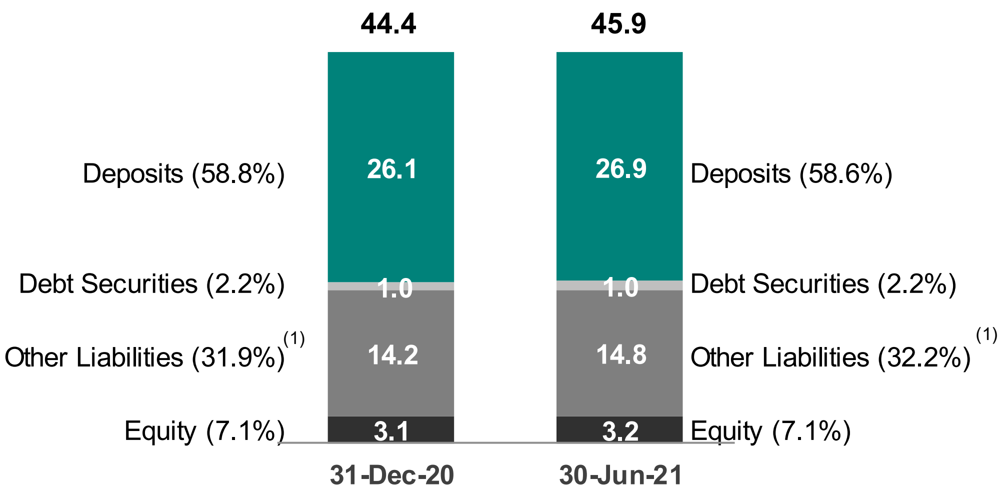
LOAN TO DEPOSIT RATIO



Customer deposits remained the main source of balance sheet funding, accounting for 63.0% of total liabilities and 58.6% of total assets.

FUNDING STRUCTURE

(figures in billion €)



(1) Includes ECB funding

5 SHAREHOLDER STRUCTURE

5.1 QUALIFIED HOLDINGS IN NOVO BANCO'S SHARE CAPITAL

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

Qualified holdings in NOVO BANCO's share capital as at 30 June 2021:

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%

5.1.1 Equity holders with special rights

There are no shareholders with special rights.

5.1.2 Restrictions on voting rights

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

5.2 SECURITIES HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

As at 30 June 2021, and with regard to the 1st half 2021, the members of the management and supervisory bodies of NOVO BANCO did not hold any securities issued by NOVO BANCO or by companies in a control or group relationship with NOVO BANCO.

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

5.3 NON-MATERIAL INDIRECT INVESTMENT IN NOVO BANCO

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

6 RESPONSIBILITY FOR THE INFORMATION

DECLARATION OF CONFORMITY WITH THE FINANCIAL INFORMATION REPORTED

According to Article 246 (1-c) of the Portuguese Securities Code ("Código dos Valores Mobiliários"), the members of the Executive Board of Directors of NOVO BANCO, S.A., identified below, state that:

(i) the separate and consolidated financial statements of NOVO BANCO, for the six-month period ending 30 June 2020, were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union;

(ii) to the best of their knowledge the financial statements referred to in (i) provide a true and fair view of the assets and liabilities, financial position and results of NOVO BANCO and of NOVO BANCO Group, according to the referred standards; and

(iii) the management report describes accurately the evolution of the business, the performance and financial position of NOVO BANCO and of NOVO BANCO Group for the six-month period ending 30 June 2020 and contains a description of the main risks and uncertainties faced.

The management report and the separate and consolidated financial statements were subject of approval in the meeting of the Executive Board of Directors held on 25 August 2021.

Executive Board of Directors

António Manuel Palma Ramalho

Mark George Bourke

Rui Miguel Dias Ribeiro Fontes

Luísa M. S. Soares da Silva Amaro de Matos

Luís Miguel Alves Ribeiro

Andrés Baltar

7 CONSOLIDATED FINANCIAL STATEMENTS

7.1 CONSOLIDATED FINANCIAL STATEMENTS

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2021 AND 2020

thousands of Euros

	30.06.2021	30.06.2020
Interest Income	370 383	368 626
Interest Expenses	(81 126)	(97 816)
Net Interest Income	**289 257**	**270 810**
Dividend income	5 359	9 925
Fees and commissions income	157 327	160 168
Fees and commissions expenses	(24 561)	(26 341)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10 832	84 826
Gains or losses on financial assets and liabilities held for trading	18 972	(71 877)
Gains or losses on financial assets mandatorily at fair value through profit or loss	30 125	(294 875)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	81	(7)
Gains or losses from hedge accounting	8 192	(10 948)
Exchange differences	13 438	(15 636)
Gains or losses on derecognition of non-financial assets	1 308	(63)
Other operating income	48 661	51 178
Other operating expenses	(63 161)	(94 257)
Operating Income	**495 830**	**62 903**
Administrative expenses	(187 775)	(212 740)
Staff expenses	*(117 628)*	*(129 194)*
Other administrative expenses	*(70 147)*	*(83 546)*
Cash contributions to resolution funds and deposit guarantee schemes	(40 535)	(35 048)
Depreciation	(16 364)	(17 322)
Provisions or reversal of provisions	23 570	(36 951)
Commitments and guarantees given	*18 610*	*7 326*
Other provisions	*4 960*	*(44 277)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(101 006)	(291 207)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	969	(1 105)
Impairment or reversal of impairment on non-financial assets	(12 730)	(22 019)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	953	386
Profit or loss before tax from continuing operations	**162 912**	**(553 103)**
Tax expense or income related to profit or loss from continuing operations	(21 115)	(4 487)
Current tax	*(4 409)*	*2 710*
Deferred tax	*(16 706)*	*(7 197)*
Profit or loss after tax from continuing operations	**141 797**	**(557 590)**
Profit or loss from discontinued operations	(1 411)	788
Profit or loss for the period	**140 386**	**(556 802)**
Attributable to Shareholders of the parent	**137 707**	**(555 303)**
Attributable to non-controlling interests	2 679	(1 499)
	140 386	**(556 802)**

The Certificated Accountant

Executive Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2021 AND 31 DECEMBER 2020

thousands of Euros

	30.06.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	4 897 885	2 695 459
Financial assets held for trading	372 135	655 273
Financial assets mandatorily at fair value through profit or loss	923 298	960 962
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	7 717 445	7 907 587
Financial assets at amortised cost	25 956 767	25 898 046
Securities	2 399 431	2 229 947
Loans and advances to banks	86 900	113 795
Loans and advances to customers	23 470 436	23 554 304
Derivatives – Hedge accounting	14 756	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	40 171	63 859
Investments in subsidiaries, joint ventures and associates	86 393	93 630
Tangible assets	789 825	779 657
Tangible fixed assets	198 663	187 052
Investment properties	591 162	592 605
Intangible assets	53 895	48 833
Tax assets	673 545	775 498
Current Tax Assets	610	610
Deferred Tax Assets	672 935	774 888
Other assets	2 921 067	2 944 292
Non-current assets and disposal groups classified as held for sale	1 439 924	1 559 518
TOTAL ASSETS	**45 887 106**	**44 395 586**
LIABILITIES		
Financial liabilities held for trading	418 523	554 791
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	39 194 843	37 808 767
Deposits from central banks and other banks	10 518 880	10 102 896
Due to customers	27 199 223	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 035 532	1 017 928
Other financial liabilities	441 208	365 883
Derivatives – Hedge accounting	52 349	72 543
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Provisions	322 887	384 382
Tax liabilities	15 014	14 324
Current Tax liabilities	10 585	9 203
Deferred Tax liabilities	4 429	5 121
Capital social reembolsável à vista	-	-
Other liabilities	523 669	417 762
Liabilities included in disposal groups classified as held for sale	2 121 016	1 996 382
TOTAL LIABILITIES	**42 648 301**	**41 248 951**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(964 669)	(823 420)
Retained earnings	(8 577 074)	(7 202 828)
Other reserves	6 711 831	6 570 153
Profit or loss attributable to Shareholders of the parent	137 707	(1 329 317)
Minority interests (Non-controlling interests)	31 010	32 047
TOTAL EQUITY	**3 238 805**	**3 146 635**
TOTAL LIABILITIES AND EQUITY	**45 887 106**	**44 395 586**

The Certificated Accountant

Executive Board of Directors

7.2 SEPARATE FINANCIAL STATEMENTS

NOVO BANCO, S.A.

INCOME STATEMENT AS AT 30 JUNE 2021 AND 2020

thousands of Euros

	30.06.2021	30.06.2020
Interest Income	375 148	379 092
Interest Expenses	(81 246)	(99 565)
Net Interest Income	**293 902**	**279 527**
Dividend income	12 063	8 681
Fees and commissions income	139 998	145 489
Fees and commissions expenses	(20 132)	(23 080)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9 224	83 257
Gains or losses on financial assets and liabilities held for trading	18 909	(72 161)
Gains or losses on financial assets mandatorily at fair value through profit or loss	20 854	(381 251)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	-	(7)
Gains or losses from hedge accounting	8 820	(11 183)
Exchange differences	13 553	(15 016)
Gains or losses on derecognition of non-financial assets	2 010	1 372
Other operating income	27 998	30 701
Other operating expenses	(49 065)	(39 961)
Operating Income	**478 134**	**6 368**
Administrative expenses	(174 129)	(198 298)
Staff expenses	*(108 560)*	*(119 349)*
Other administrative expenses	*(65 569)*	*(78 949)*
Cash contributions to resolution funds and deposit guarantee schemes	(40 172)	*(34 766)*
Depreciation	(16 282)	(18 387)
Provisions or reversal of provisions	32 396	(44 165)
Commitments and guarantees given	*18 622*	*7 554*
Other provisions	*13 774*	*(51 719)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(100 339)	(290 843)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	-	5 230
Impairment or reversal of impairment on non-financial assets	(12 382)	(5 872)
Profit or loss before tax from continuing operations	**167 226**	**(580 733)**
Tax expense or income related to profit or loss from continuing operations	(17 371)	(2 518)
Current tax	*(814)*	*4 827*
Deferred tax	*(16 557)*	*(7 345)*
Profit or loss after tax from continuing operations	**149 855**	**(583 251)**
Profit or loss from discontinued operations	(1 319)	-
Profit or loss for the period	**148 536**	**(583 251)**

The Certificated Accountant

Executive Board of Directors

NOVO BANCO, S.A.

BALANCE SHEET AS AT 30 JUNE 2021 AND 31 DECEMBER 2020

thousands of Euros

	30.06.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	4 716 188	2 524 868
Financial assets held for trading	372 070	655 327
Financial assets mandatorily at fair value through profit or loss	2 399 166	2 445 605
Financial assets at fair value through other comprehensive income	7 628 131	7 813 584
Financial assets at amortised cost	24 876 889	24 804 483
Securities	3 006 172	2 873 753
Loans and advances to banks	221 226	245 472
Loans and advances to customers	21 649 491	21 685 258
Derivatives – Hedge accounting	15 269	13 606
Fair value changes of the hedged items in portfolio hedge of interest rate risk	38 055	60 976
Investments in subsidiaries, joint ventures and associates	185 597	189 924
Tangible assets	199 332	188 968
Tangible fixed assets	199 332	188 968
Intangible assets	53 404	48 331
Tax assets	669 983	771 854
Current Tax Assets	-	-
Deferred Tax Assets	669 983	771 854
Other assets	2 952 341	2 956 010
Non-current assets and disposal groups classified as held for sale	1 451 467	1 568 912
TOTAL ASSETS	**45 557 892**	**44 042 448**
LIABILITIES		
Financial liabilities held for trading	418 227	554 343
Financial liabilities measured at amortised cost	39 310 182	37 895 984
Deposits from central banks and other banks	11 301 576	10 778 468
Due to customers	26 574 276	25 778 507
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	995 653	974 996
Other financial liabilities	438 677	364 013
Derivatives – Hedge accounting	52 349	72 543
Provisions	368 356	438 572
Tax liabilities	5 581	5 536
Current Tax liabilities	5 581	5 536
Other liabilities	410 501	314 611
Liabilities included in disposal groups classified as held for sale	2 133 666	2 007 770
TOTAL DO PASSIVO	**42 698 862**	**41 289 359**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(888 266)	(749 259)
Retained earnings	(8 577 074)	(7 202 828)
Other reserves	6 275 834	6 179 422
Profit or loss attributable to Shareholders of the parent	148 536	(1 374 246)
TOTAL EQUITY	**2 859 030**	**2 753 089**
TOTAL LIABILITIES AND EQUITY	**45 557 892**	**44 042 448**

The Certificated Accountant

Executive Board of Directors

8 ANNEX

8.1 ALTERNATIVE PERFORMANCE MEASURES

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

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

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

i) Reconciliation of the Income Statement

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

euro thousands

Official Income Statement		Management Income Statement												
		Net Interest Income	Fees and Commissions	Market Results	Other Operating Results	Staff Costs	General and Administrative Costs	Depreciation	Restructuring funds - independent valuation	Credit Impairment	Securities Impairment	Other Assets and Contingencies Provisions	Taxes	Special Tax on Banks
		289 257	**135 545**	**93 348**	**(29 110)**	**(117 628)**	**(70 147)**	**(16 364)**	**-**	**(84 681)**	**(16 018)**	**11 502**	**(21 115)**	**(34 203)**
Interest Income	370 383	370 383												
Interest Expenses	(81 126)	(81 126)												
Net Interest Income	**289 257**													
Dividend income	5 359			5 359										
Fee and comission income	157 327		157 327											
Fee and comission expenses	(24 561)		(24 561)											
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10 832			16 390	(5 558)									
Gains or losses on financial assets and liabilities held for trading	18 972			18 972										
Gains or losses on financial assets mandatorily at fair value through profit or loss	30 125			30 125										
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	81			81										
Gains or losses from hedge accounting	8 192			8 192										
Exchange differences	13 438			13 438										
Gains or losses on derecognition of non-financial assets	1 308				1 308									
Other operating income	48 661		2 779	1 858	44 024									
Other operating expenses	(63 161)			(1 067)	(27 891)									(34 203)
Operating Income	**495 830**													
Administrative expenses														
Staff expenses	*(117 628)*					(117 628)								
Other administrative expenses	*(70 147)*						(70 147)							
Contributions to resolution funds and deposit guarantee schemes	*(40 535)*				(40 535)									
Depreciation	(16 364)							(16 364)						
Provisions or reversal of provisions														
Commitments and guarantees given	18 610											18 610		
Other provisions	4 960											4 960		
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(101 006)									(84 681)	(16 018)	(307)		
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	969											969		
Impairment or reversal of impairment on non-financial assets	(12 730)											(12 730)		
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	953				953									
Profit or loss before tax from continuing operations	**162 912**													
Tax expense or income related to profit or loss from continuing operations														
Current tax	*(4 409)*												(4 409)	
Deferred tax	*(16 706)*												(16 706)	
Profit or loss after tax from continuing operations	**(1 309 358)**													
Profit or loss from discontinued operations	(1 411)				(1 411)									
Profit or loss for the period	**(1 338 310)**													
Attributable to Shareholders of the parent	**(1 328 236)**													
Attributable to non-controlling interests	2 679													
	140 386													

8.2 GLOSSARY

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

ALTERNATIVE PERFORMANCE INDICATORS

DESIGNATION	DEFINITION / UTILITY	CALCULATION BASIS	CONCILIATION WITH THE FINANCIAL STATEMENTS (DR): Income Statement Item (BAL): Balance Sheet Item
INCOME STATEMENT			
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients Historical financial performance indicator	Fee and commission income less fee and commission expenses	(DR): Fee and commission income and Fee and commission expenses
Commercial banking income	Indicator of the results of commercial activity most directly related to customers Historical financial performance indicator	Financial margin + Customer services	
Capital markets results	Indicator of results of activity in the financial markets Historical financial performance indicator	Results from trading and hedging operations, assets at fair value through other comprehensive income and at amortized cost	(DR): Dividend income, gains or losses on the derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets that must be accounted for at fair value through profit or loss, gains or losses on financial assets and liabilities accounted for at fair value through profit or loss, gains or losses from hedge accounting and exchange differences
Other operating results	Indicator of other diverse results, not directly related to activity with customers and markets Historical financial performance indicator	Gains or losses on the derecognition of non-financial assets + Other operating income + Other operating expenses + Proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equity method	(DR): Gains or losses on the derecognition of non-financial assets, other operating income, other operating expenses, proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equivalence method
Banking Income	Financial activity results indicator Historical financial performance indicator	Net interest income + Fees and commissions + Capital markets results + Other operating results	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs Indicator of historical financial performance	Personnel expenses + Other administrative expenses + Depreciation	(DR): Personnel expenses, Other administrative expenses and Depreciation
Operational result	Indicator of results of financial activity less costs and before impairment. Measures the extent to which the income generated covers / exceeds operating costs Historical financial performance indicator	Banking income - Operating costs	
Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year Historical financial performance indicator	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates + Impairment or reversal of impairment of non-financial assets	(DR): Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates and Impairment or reversal of impairment of non-assets financial
BALANCE SHEET / LIQUIDITY			
Assets eligible for rediscount transactions with the ECB	Trading financial securities or other types of assets, such as non-marketable assets or cash, accepted as collateral by the ECB in financing operations Indicator of historical financial performance	na	na
Securities portfolio	Indicator of the size of funds invested in trading assets, at fair value through profit or loss, at fair value through profit or loss mandatory, at fair value through other comprehensive income and at amortized cost Historical financial performance indicator	Securities (bonds, shares and other variable income securities) recorded in trading portfolios, at fair value through profit or loss, at fair value through mandatory income, at fair value through equity and amortized cost.	(BAL): Securities held for trading and Securities portfolio
Customer deposits Instruction No 16/2004 of Banco de Portugal	Indicator of the asset's financing capacity Historical financial performance indicator	Set of amounts entered in the following general ledges accounting items: [# 400 - # 34120 + # 52020 + # 53100]	(BAL): Customer resources
Net financing from the ECB	Indicator that reflects the net amount that was obtained from the ECB to finance the activity Historical financial performance indicator	Difference between the amount of financing obtained from the ECB and investments in the ECB	(BAL): Applications at the ECB and Resources from the ECB
Customer funds	Indicator of the asset's financing capacity Historical financial performance indicator	'Deposits + Other customer funds + Debt securities placed on customers	(BAL): Customer funds, Debt securities issued, subordinated liabilities and Liabilities associated with transferred assets
Off-balance funds	Indicator of off-balance sheet customer funds Historical financial performance indicator	Off-balance sheet resources managed by Group companies, which include real estate and investment funds, pension funds, banking insurance, portfolio management and discretionary management	
Total customer funds	Indicator of customer resources registered on the balance sheet and off balance sheet Historical financial performance indicator	Deposits + Other customer resources + Issued bonds + Subordinated liabilities + Disintermediation resources	(BAL): Customer resources, Liabilities represented by securities, subordinated liabilities and Liabilities associated with transferred assets
Commercial gap	Indicator that measures the need / excess of financing in absolute value of the commercial area Historical financial performance indicator	Difference between customer deposits and net credit	(BAL): Net customer loans and customer deposits
Liquidity gap	Indicator that allows assessing the need / excess liquidity accumulated up to 1 year, in each cumulative scale of residual maturity. Historical financial performance indicator	Difference between [(Net assets - volatile liabilities)]	
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	Indicator of the relationship between the financing of the activity and the funds raised from customers Historical financial performance indicator	Ratio between [(total credit - accumulated impairment for credit) and customer deposits]	(BAL): Net customer loans and customer deposits

ASSET QUALITY AND COVERAGE RATIOS

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

EFFICIENCY AND PROFITABILITY RATIO

EFFICIENCY I Instruction No 16/2004 of Banco de Portugal	It expresses the proportion of income necessary to cover the staff costs incurred. The lower the value of the indicator, the higher the level of efficiency of the organization's human resources *Historical financial performance indicator*	Ratio between staff expenses and banking income	(DR): Staff expenses
EFFICIENCY II Instruction No 16/2004 of Banco de Portugal	Expresses the proportion of income necessary to cover operating costs incurred. The lower the value of the indicator, the greater the level of efficiency of the organization *Historical financial performance indicator*	Ratio between [administrative expenses and depreciation] and banking income	(DR): Operating costs include Staff expenses, Other administrative expenses and Depreciation
Cost to Income	It expresses the proportion of income necessary to face the operating costs incurred and allows to measure the progression of efficiency levels. The lower the value of the indicator, the greater the level of efficiency of the organization *Historical financial performance indicator*	Ratio between operating costs and banking income	
PROFITABILITY Instrução nº16/2004 do Banco de Portugal	Expresses the banking income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate income per unit of assets used *Indicator of historical financial performance*	Ratio between banking income and average net assets	(BAL): Active; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered
Return on average net assets Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate results per unit of assets used *Indicator of historical financial performance*	Ratio between profits or losses of continuing operations before taxes and average net assets.	(DR): Profit or loss from continuing operations before taxes (BAL): Assets; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered
Return on average equity Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by equity in the period and provides information on the efficiency with which capital is used to generate results *Indicator of historical financial performance*	Ratio between profits or losses of continuing operations before taxes and average equity	(DR): Profit or loss from continuing operations before taxes (BAL): Equity; the calculation of average equity includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered

8.3 SUSTAINABILITY INDICATORS

		Jun-20	Jun-21
Social Indicators			
	Employees (#)	4,300	4,185
	Training hours	69,320	1,693
	Turnover[1]	2.4%	2.4%
	Woman employment rate	52.4%	53.9%
	Woman in leadership roles rate	37.2%	38.3%
	Woman senior leaders' roles rate	32.3%	28.6%
	Pay Gap (%)	10.4%	9.8%
Environmental Indicators			
	ESG structured products issued (#; in period)	5	1
	ESG structured products subscriptions (#; in period)	2,553	727
	ESG structured products subscriptions (#; cumulative amount)	6,604	13,505
	Clients who subscribed ESG structured products (#; in period)	2,410	723
	Clients who subscribed ESG structured products (#; cumulative amount)	7,363	10,477
	Total ESG structured products subscriptions (in period; € million)	60	16
	Total ESG structured products subscriptions (cumulative; € million)	148	306
	CO2 Emissions from electricity consumption (tCO2e)	3,104	1,632
	Active digital customers (#; thousand)	577	619
Governance Indicators			
	Account monitoring – alerts generated (#)	5,754	6,567
	Communication to the authorities (#)	457	372
	Account opening scoring Investigation (#)	1,567	2,399
	Participation Entry scoring Investigation (#)	321	1,228
	Account opening rejected with scoring Investigation (#)	57	20
Economic – Comunity Indicators			
	Planned savings/"Poupança programada" (# of clients)	270,352	175,441
	Planned savings/"Poupança programada" (€ million)	1,149	917
	Minimum Banking Services Account (# of accounts)	9,401	10,261
	Suppliers with sustainability scoring (#)	298	303
	Very satisfied/satisfied clients with service quality (Retail; %)	96.6%	96.0%
	Very satisfied/satisfied clients with service quality (SME; %)	98.3%	98.3%
	Donations (€ million)	0.31	0.8
	Direct economic value generated (€ million)	405	212.9
	Economic value distributed (€ million)	194	88.1
	Economic value retained (€ million)	211	124.8

(1) turnover rate was calculated based on the formula (Entries + Exits) / 2 / Total employees.

Note: Sustainability indicators refer to NOVO BANCO SA

INTERIM CONDENSED FINANCIAL STATEMENTS AND NOTES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF NOVO BANCO GROUP

FIRST HALF OF 2021

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	Three months period ended on		Six month period ended on	
		30.06.2021	30.06.2020 *	30.06.2021	30.06.2020 *
Interest Income	5	184 046	173 037	370 383	352 090
Interest Expenses	5	(40 534)	(47 508)	(81 126)	(96 384)
Net Interest Income		**143 512**	**125 529**	**289 257**	**255 706**
Dividend income	6	5 056	4 740	5 359	9 925
Fees and comission income	7	83 343	74 085	157 327	153 448
Fees and comission expenses	7	(12 082)	(11 741)	(24 561)	(24 434)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	8	(2 037)	80 733	10 832	84 826
Gains or losses on financial assets and liabilities held for trading	9	(16 296)	(28 872)	18 972	(72 252)
Gains or losses on financial assets mandatorily at fair value through profit or loss	10	30 478	(252 545)	30 125	(294 875)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	10	81	-	81	-
Gains or losses from hedge accounting	11	1 616	(6 061)	8 192	(11 186)
Exchange differences	12	18 085	(1 766)	13 438	(15 656)
Gains or losses on derecognition of non-financial assets	13	373	522	1 308	(80)
Other operating income	14	26 168	30 708	48 661	50 665
Other operating expenses	14	(20 972)	(49 743)	(63 161)	(92 774)
Operating Income		**257 325**	**(34 411)**	**495 830**	**43 313**
Administrative expenses		(93 165)	(97 842)	(187 775)	(198 194)
Staff expenses	15	*(58 918)*	*(59 677)*	*(117 628)*	*(121 100)*
Other administrative expenses	17	*(34 247)*	*(38 165)*	*(70 147)*	*(77 094)*
Contributions to resolution funds and deposit guarantee	18	(40 535)	(35 009)	(40 535)	(35 048)
Depreciation	25, 27	(8 226)	(8 006)	(16 364)	(15 912)
Provisions or reversal of provisions	32	19 643	(34 983)	23 570	(37 950)
Commitments and guarantees given		*17 433*	*4 286*	*18 610*	*6 183*
Other provisions		*2 210*	*(39 269)*	*4 960*	*(44 133)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	22	(45 076)	(141 772)	(101 006)	(282 747)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	24	1 305	(1 134)	969	(1 105)
Impairment or reversal of impairment on non-financial assets	27, 29, 30	(3 282)	(16 646)	(12 730)	(21 863)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	24	124	(198)	953	386
Profit or loss before tax from continuing operations		**88 113**	**(370 001)**	**162 912**	**(549 120)**
Tax expense or income related to profit or loss from continuing operations		(16 904)	(3 981)	(21 115)	(4 563)
Current tax		*(2 754)*	*3 873*	*(4 409)*	*2 727*
Deferred tax		*(14 150)*	*(7 854)*	*(16 706)*	*(7 290)*
Profit or loss after tax from continuing operations		**71 209**	**(373 982)**	**141 797**	**(553 683)**
Profit or loss before tax from discontinued operations	30	(2 856)	(3 838)	(1 411)	(3 119)
Profit or loss for the period		**68 353**	**(377 820)**	**140 386**	**(556 802)**
Attributable to Shareholders of the parent		**66 977**	**(376 231)**	**137 707**	**(555 303)**
Attributable to non-controlling interests	35	**1 376**	**(1 589)**	**2 679**	**(1 499)**
		68 353	**(377 820)**	**140 386**	**(556 802)**
Basic earnings per share (in Euros)	19	0,01	(0,04)	0,01	(0,06)
Diluted earnings per share (in Euros)	19	0,01	(0,04)	0,01	(0,06)
Basic earnings per share of continuing activities (in Euros)	19	0,01	(0,04)	0,01	(0,06)
Diluted earnings per share of continuing activities (in Euros)	19	0,01	(0,04)	0,01	(0,06)

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

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2021	30.06.2020	30.06.2021	30.06.2020
Net profit / (loss) for the period		68 353	(377 820)	140 386	(556 802)
Other comprehensive income/(loss)					
Items that will not be reclassified to results		***(45 330)***	***(75 846)***	***(45 885)***	***(78 097)***
Actuarial gains / (losses) on defined benefit plans	a)	(41 448)	(86 131)	(41 468)	(85 993)
Other comprehensive income from associates accounted for using the equity method	a)	135	(130)	(741)	(247)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(4 017)	7 382	(3 676)	(7 357)
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	-	3 033	-	15 500
Items that may be reclassified to results		***(16 748)***	***41 495***	***(95 364)***	***(46 520)***
Foreign exchange differences	a)	511	(285)	304	(1 398)
Financial assets at fair value through other comprehensive income	a)	(17 259)	41 780	(95 668)	(45 122)
Total other comprehensive income/(loss) for the period		**6 275**	**(412 171)**	**(863)**	**(681 419)**
Attributable to non-controlling interest		**1 376**	**(1 589)**	**2 679**	**(1 499)**
Attributable to Shareholders of the Bank		**4 899**	**(410 582)**	**(3 542)**	**(679 920)**

a) See INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2021 AND 31 DECEMBER 2020

(in thousands of Euros)

	Notes	30.06.2021	31.12.2020
ASSETS			
Cash, cash balances at central banks and other demand deposits	20	4 897 885	2 695 459
Financial assets held for trading	21	372 135	655 273
Financial assets mandatorily at fair value through profit or loss	22	923 298	960 962
Financial assets at fair value through other comprehensive income	22	7 717 445	7 907 587
Financial assets at amortised cost	22	25 956 767	25 898 046
Securities		2 399 431	2 229 947
Loans and advances to banks		86 900	113 795
Loans and advances to customers		23 470 436	23 554 304
Derivatives – Hedge accounting	23	14 756	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	40 171	63 859
Investments in subsidiaries, joint ventures and associates	24	86 393	93 630
Tangible assets		789 825	779 657
Tangible fixed assets	25	198 663	187 052
Investment properties	26	591 162	592 605
Intangible assets	27	53 895	48 833
Tax assets	28	673 545	775 498
Current Tax Assets		610	610
Deferred Tax Assets		672 935	774 888
Other assets	29	2 921 067	2 944 292
Non-current assets and disposal groups classified as held for sale	30	1 439 924	1 559 518
TOTAL ASSETS		**45 887 106**	**44 395 586**
LIABILITIES			
Financial liabilities held for trading	21	418 523	554 791
Financial liabilities measured at amortised cost	31	39 194 843	37 808 767
Deposits from banks		10 518 880	10 102 896
(of which, Repurchase Agreement)		*1 956 414*	*1 625 724*
Due to customers		27 199 223	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 035 532	1 017 928
Other financial liabilities		441 208	365 883
Derivatives – Hedge accounting	23	52 349	72 543
Provisions	32	322 887	384 382
Tax liabilities	28	15 014	14 324
Current Tax liabilities		10 585	9 203
Deferred Tax Liabilities		4 429	5 121
Other liabilities	33	523 669	417 762
Liabilities included in disposal groups classified as held for sale	30	2 121 016	1 996 382
TOTAL LIABILITIES		**42 648 301**	**41 248 951**
EQUITY			
Capital	34	5 900 000	5 900 000
Accumulated other comprehensive income	35	(964 669)	(823 420)
Retained earnings	35	(8 577 074)	(7 202 828)
Other reserves	35	6 711 831	6 570 154
Profit or loss attributable to Shareholders of the parent		137 707	(1 329 317)
Minority interests (Non-controlling interests)	35	31 010	32 046
TOTAL EQUITY		**3 238 805**	**3 146 635**
TOTAL LIABILITIES AND EQUITY		**45 887 106**	**44 395 586**

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the period attributable to shareholders of the Bank	Non-controlling interests		Total
							Other Comprehensive Income	Other	
Balance as at 31 December 2019		**5 900 000**	**(702 311)**	**(6 115 245)**	**5 942 501**	**(1 058 812)**	**(32 912)**	**69 536**	**4 002 757**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 087 583)**	**201 483**	**1 058 812**	**-**	**403**	**173 115**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 087 584)*	*28 772*	*1 058 812*	-	-	-
Reserve of Contingent Capital Agreement		-	-	-	*173 766*	-	-	-	*173 766*
Other movements		-	-	*1*	*(1 055)*	-	-	*403*	*(651)*
Total comprehensive income for the period		**-**	**(124 617)**	**-**	**-**	**(555 303)**	**(1 499)**	**-**	**(681 419)**
Changes in fair value, net of tax		-	*(41 118)*	-	-	-	-	-	*(41 118)*
Foreign exchange differences, net of tax		-	*(1 398)*	-	-	-	-	-	*(1 398)*
Remeasurement of defined benefit plans, net of tax		-	*(85 993)*	-	-	-	-	-	*(85 993)*
Other comprehensive income appropriated from affiliates		-	*(247)*	-	-	-	-	-	*(247)*
Credit risk changes of financial liabilites at fair value, net of tax		-	*15 500*	-	-	-	-	-	*15 500*
Reserves of impairment of securities at fair value through OCI		-	*(888)*	-	-	-	-	-	*(888)*
Reserves of sales of securities at fair value through OCI		-	*(10 473)*	-	-	-	-	-	*(10 473)*
Net income of the period		-	-	-	-	*(555 303)*	*(1 499)*	-	*(556 802)*
Balance as at 30 June 2020		**5 900 000**	**(826 928)**	**(7 202 828)**	**6 143 984**	**(555 303)**	**(34 411)**	**69 939**	**3 494 453**
Other Increase / (Decrease) in Equity		**-**	**-**	**-**	**426 170**	**-**	**-**	**5 093**	**431 263**
Reserve of Contingent Capital Agreement		-	-	-	*422 549*	-	-	-	*422 549*
Other movements		-	-	-	*3 621*	-	-	*5 093*	*8 714*
Total comprehensive income for the period		**-**	**3 508**	**-**	**-**	**(774 014)**	**(8 575)**	**-**	**(779 081)**
Changes in fair value, net of tax		-	*53 847*	-	-	-	-	-	*53 847*
Foreign exchange differences, net of tax		-	*(120)*	-	-	-	-	-	*(120)*
Remeasurement of defined benefit plans, net of tax		-	*(38 338)*	-	-	-	-	-	*(38 338)*
Other comprehensive income appropriated from affiliates		-	*(1 801)*	-	-	-	-	-	*(1 801)*
Credit risk changes of financial liabilites at fair value, net of tax		-	*(4 617)*	-	-	-	-	-	*(4 617)*
Reserves of impairment of securities at fair value through OCI		-	*(964)*	-	-	-	-	-	*(964)*
Reserves of sales of securities at fair value through OCI		-	*(4 499)*	-	-	-	-	-	*(4 499)*
Net income of the period		-	-	-	-	*(774 014)*	*(8 575)*	-	*(782 589)*
Balance as at 31 December 2020		**5 900 000**	**(823 420)**	**(7 202 828)**	**6 570 154**	**(1 329 317)**	**(42 986)**	**75 032**	**3 146 635**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 246)**	**141 677**	**1 329 317**	**-**	**(3 715)**	**93 033**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 374 246)*	*44 929*	*1 329 317*	-	-	-
Reserve of Contingent Capital Agreement	35	-	-	-	*96 413*	-	-	-	*96 413*
Other movements		-	-	-	*335*	-	-	*(3 715)*	*(3 380)*
Total comprehensive income for the period		**-**	**(141 249)**	**-**	**-**	**137 707**	**2 679**	**-**	**(863)**
Changes in fair value, net of tax	35	-	*(79 967)*	-	-	-	-	-	*(79 967)*
Foreign exchange differences, net of tax		-	*304*	-	-	-	-	-	*304*
Remeasurement of defined benefit plans, net of tax	16	-	*(41 468)*	-	-	-	-	-	*(41 468)*
Other comprehensive income appropriated from affiliates		-	*(741)*	-	-	-	-	-	*(741)*
Reserves of impairment of securities at fair value through OCI	35	-	*(220)*	-	-	-	-	-	*(220)*
Reserves of sales of securities at fair value through OCI	35	-	*(19 157)*	-	-	-	-	-	*(19 157)*
Net income of the period		-	-	-	-	*137 707*	*2 679*	-	*140 386*
Balance as at 30 June 2021		**5 900 000**	**(964 669)**	**(8 577 074)**	**6 711 831**	**137 707**	**(40 307)**	**71 317**	**3 238 805**

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	30.06.2021	30.06.2020
Cash flows from operating activities			
Interest received		343 737	379 003
Interest paid		(71 663)	(76 715)
Fees and commissions received		157 574	160 315
Fees and commissions paid		(24 561)	(26 341)
Recoveries on loans previously written off		16 089	15 223
Cash contributions to resolution funds and deposit guarantee schemes		(40 535)	(35 048)
Cash payments to employees and suppliers		(147 164)	(222 975)
		231 504	**97 670**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		115 801	230 954
Financial assets mandatorily at fair value through profit or loss		80 908	(347 197)
Financial assets designated at fair value through profit or loss		181 165	(32 202)
Financial assets at fair value through other comprehensive income		60 056	798 640
Financial assets at amortised cost		(263 508)	(1 213 175)
Debt securities		*(172 694)*	*(630 595)*
Loans and advances to banks		*(79 224)*	*24 519*
Loans and advances to customers		*(11 590)*	*(607 099)*
Financial liabilities at amortised cost		1 176 520	9 616
Deposits from banks		*298 164*	*(763 011)*
Due to customers		*878 356*	*772 627*
Derivatives - Hedge accounting		2 467	1 547
Other operating assets and liabilities		364 532	392 074
Net cash from operating activities before corporate income tax		**1 949 445**	**(62 073)**
Corporate income taxes paid		(37 534)	(21 348)
Net cash from operating activities		**1 911 911**	**(83 421)**
Cash flows from investing activities			
Dividends received		5 359	9 925
Sale of investment properties		4 483	62 339
Acquisition of tangible fixed assets		(26 155)	(5 809)
Sale of tangible fixed assets		2 146	1 860
Acquisition of intangible assets		(8 124)	(11 332)
Sale of intangible assets		4	-
Net cash from investing activities		**(24 721)**	**116 932**
Cash flows from financing activities			
Reimbursement of bonds and other debt securities		(3 458)	(3 812)
Net cash from financing activities		**313 555**	**1 031 204**
Net changes in cash and cash equivalents		**2 200 745**	**1 064 715**
Cash and cash equivalents at the beginning of the period		**2 432 237**	**1 585 602**
Net changes in cash and cash equivalents		2 200 745	1 064 715
Cash and cash equivalents at the end of the period		**4 632 982**	**2 650 317**
Cash and cash equivalents include:			
Cash	20	145 901	135 473
Deposits with Central Banks	20	4 494 747	2 526 605
(of which, Restricted balances)		(264 903)	(286 947)
Deposits with banks	20	257 237	275 186
Total		**4 632 982**	**2 650 317**

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

NOVO BANCO GROUP

Notes to the Interim condensed consolidated financial statements as at 30 June 2021

(Amounts expressed in thousands of Euro, except when otherwise indicated)

NOTE 1 – ACTIVITY AND STRUCTURE OF THE GROUP

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO focused on the banking activity, having been incorporated on the 3rd of August 2014 per deliberation of the Board of Directors of *Banco de Portugal* (Bank of Portugal) dated 3rd of August 2014 (8 p.m.), under no. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)[1], approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to NOVO BANCO, S.A. (NOVO BANCO or the Bank).

As a result of the resolution measure applied, Fundo de Resolução ("Resolution Fund") became the sole owner of the share capital of NOVO BANCO, in the amount of Euro 4 900 million, which acquired the status of a transition Bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively. Thus, as at 30 June 2021 and 31 December 2020, the share capital of NOVO BANCO amounted to Euro 5 900 million, represented by 9 799 999 997 nominative shares, with no nominal value.

Within the sale process, a Contingent Capital Agreement was created with the sale process, which in case its capital ratios decrease below the regulatory requirements defined for NOVO BANCO, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euro 3 890 million.

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition Bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon. LSF Nani Investments S.à.r.l., headquartered in Luxembourg, is the parent company of the Group.

NOVO BANCO S.A. has its registered office at Avenida da Liberdade, 195 in Lisbon.

NOVO BANCO Group (hereinafter referred to as Grupo or Grupo NB) has a retail network of 349 branches in Portugal and abroad (31 December 2020: 359 branches), branches in Spain and Luxembourg, in addition to 4 representation offices in Switzerland (31 December 2020: 4 representation offices).

The Group's structure is presented below, with a breakdown of the companies in which the Bank holds a direct or indirect stake, greater than or equal to 20%, or over which it exercises control or significant influence in its management, and which were included in the perimeter of consolidation.

[1] References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

Companies consolidated directly in NOVO BANCO:

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Bank		
Novo Banco dos Açores, SA (NB Açores)	2002	2002	Portugal	Bank	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Eletronic Bank	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt Collection	99.15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100.00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture Capital Fund	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture Capital Fund	56.78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real Estate Investment Fund	95.28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real Estate Investment Fund	91.31%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real Estate Investment Fund	56.29%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real Estate Investment Fund	95.24%	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Novimove - Fundo de Investimento Imobiliario Fechado	2004	2019	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real estate promotion	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate promotion	95.28%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Quinta da Areia - Sociedade Imobiliária, SA	2012	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate promotion	100.00%	Full consolidation
Promotur - Empreendimentos Turístico, SA	1983	2014	Portugal	Real estate promotion	99.875%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf Course Exploration	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering sector	95.28%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	2003	2003	Portugal	Renting	50.00%	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Financial credit company	17.50% a)	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Provision of various services	50.00% b)	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities
b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders.

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1987	1987	Portugal	Investment fund management	100,00%	Full consolidation
GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1992	1992	Portugal	Investment fund management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100,00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	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
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
Fundo 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	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**
LOGI C - Logística Integrada, SA	2014	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% a)	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	2008	2010	Portugal	Holding	40,00% a)	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities
b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Additionally, bearing in mind the requirements of IFRS 10, the Group's consolidation perimeter includes the following structured entities:

	Year incorporated	Year acquired	Registered office	% Economic Interest	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full Consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full Consolidation

(*) - Structured entities set up in the scope os securitization operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 38)

During the first half of 2021, the most relevant changes in the structure of the NOVO BANCO Group were as follows:

- Subsidiary companies and branches
  - In February 2021, the Imoinvestimento Fund granted additional supplementary capital contributions to the real estate companies Quinta D. Manuel I, Várzea da Lagoa and Promotur in the amount of Euro 50 thousand, Euro 110 thousand and Euro 260 thousand, respectively.

During the first half of 2020, the most relevant changes in the NOVO BANCO Group's structure were as follows:

- Subsidiary companies and branches:
  - In April 2020, NOVO BANCO sold the entire shareholding and supplementary capital contributions of the companies Herdade do Pinheirinho and Herdade do Pinheirinho II, recording a profit of Euro 209 thousand.

- Associated companies:
  - In June 2020, FCR PME NB converted a loan granted to Nexxpro in the amount of Euro 639 thousand into supplementary payments.

During the six-month periods ended on 30 June 2021 and 2020, movements related to acquisitions, sales and other investments and reimbursements in subsidiary and associated companies are detailed as follows:

(in thousands of Euros)

	30.06.2021						
	Acquisitions			Sales			
	Acquisition cost	Other investments (a)	Total	Sale value	Other reimbursements (a)	Total	Profit / (Loss) in Sales/Liquidations
Subsidiary companies							
Quinta D. Manuel I	-	50	50	-	-	-	-
Várzea da Lagoa	-	110	110	-	-	-	-
Promotur	-	260	260	-	-	-	-
	-	**420**	**420**	**-**	**-**	**-**	**-**

(a) Capital increases / reductions, supplementary payments, supplies, exchange operations of financial instruments and incorporation of companies

(in thousands of Euros)

	30.06.2020						
	Acquisitions			Sales			
	Acquisition cost	Other investments (a)	Total	Sale value	Other reimbursements (a)	Total	Profit / (Loss) in Sales/Liquidations
Subsidiary companies							
Herdade do Pinheirinho	-	-	-	14 996	-	14 996	4 284
Herdade do Pinheirinho II	-	-	-	44 744	-	44 744	(4 075)
	-	-	-	59 740	-	59 740	209
Associated companies							
			-			-	
Nexxpro	-	639	639	-	-	-	-
	-	639	639	-	-	-	-
	-	**639**	**639**	**59 740**	**-**	**59 740**	**209**

(a) Capital increases / reductions, supplementary payments, supplies, exchange operations of financial instruments and incorporation of companies

Subsidiaries that were classified under IFRS 5 as non-current assets held for sale and discontinued operations are detailed in Note 30.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 of the European Council and the Parliament and Notices 5/2015 of the Bank of Portugal, the interim condensed consolidated financial statements from NOVO BANCO, S.A. (the Bank or NOVO BANCO) were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2021.

The IFRS comprise accounting standards issued by International Accounting Standards Board (IASB) as well as interpretations issued by the International Reporting Interpretations Committee (IFRIC), and by their predecessor bodies Standing Interpretations Committee (“SIC”).

The interim condensed consolidated financial statements of NOVO BANCO are presented as at 30 June 2021. These interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting (“IAS 34”). Consequently, these interim condensed financial statements do not include all the information required by IFRS, and therefore they should be read together with the financial statements for the year ended on 31 December 2020. The most relevant changes to the accounting policies are described in the following section.

The accounting standards and interpretations recently issued, but which have not yet entered into force and which the Bank has not yet applied in the preparation of its interim condensed financial statements, can also be analyzed in Note 45.

The interim condensed consolidated financial statements are expressed in thousands of euros, rounded to the nearest thousand. These were prepared on the assumption of continuity of operations from the accounting records and following the principle of historical cost, with the exception of assets and liabilities recorded at their fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in their component being hedged.

Changes in accounting policies
The preparation of the interim condensed financial statements in accordance with IFRS requires the Bank to make judgments and estimates and use assumptions that affect the application of accounting policies and the amounts of income, costs, assets and liabilities. Changes in such assumptions or differences in relation to reality may have an impact on current estimates and judgments. The areas that involve a higher level of judgment or complexity or where significant assumptions and estimates are used in the preparation of the interim condensed consolidated financial statements are analyzed in Note 3.

The interim condensed consolidated financial statements and the Management Report of 30 June 2021 were approved at a meeting of the Executive Board of Directors on 25 August of 2021.

2.2. Consolidation Principles

These interim condensed consolidated financial statements comprise the assets, liabilities, income, expenses, other comprehensive income and cash flows of NOVO BANCO and its subsidiaries (Grupo or NOVO BANCO Group) and the results attributable to the Group relating to financial holdings in associated companies.

Subsidiaries
Subsidiaries are entities (including investment funds and securitization vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity and may take possession of same by way of the power it has over the entity and has the ability to affect these variable returns through the power it held over the relevant activities of the entity. As provided in IFRS 10, the Group analyses the objective and the structuring of how an entity's operations are developed when assessing its control over such entity. Subsidiaries are fully consolidated from the date on which control over their activities is transferred to the Group and until the date that control ceases. Holdings of third parties in these entities are presented in the caption Non-controlling interests, except for open investment funds in which these values are presented in the caption Other liabilities, due to the high probability of their redemption.

The accumulated losses of a subsidiary are attributed proportionally to non -controlling interests even if this results in the recognition of non-controlling interests of a negative value.

When control is obtained in a business combination achieved in stages (Step acquisition) the Group remeasures its previously held non-controlling interest in the entity at its fair value and recognizes the resulting gain or loss in the income statement upon determining the respective goodwill. At the moment of a partial sale, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to its fair value at the date the control is lost, and the resulting gain or loss is recognised in the income statement.

The entity identified as acquirer or incorporator integrates the results of the entity/ business acquired as from the date of its acquisition, that is, from the date of the takeover of control.

The accounting treatment of mergers by incorporation, between entities under common control, follows the same principles - the integration of the assets and liabilities of the entity to be incorporated is carried out at the amounts presented in the consolidated financial statements of the entity that has control over the two entities, at the highest level of the Group's financial holdings chain (the "predecessor"). The difference between the carrying book value of the incorporated assets and liabilities and the amount of the financial investment is recognised as a merger reserve.

Associated Companies
Associated companies are those entities over which the Group has significant influence over the company's financial and operating policies, but not its control. Generally, when the Group owns more than 20% of the voting rights but less than 50%, it is presumed to have a significant influence. Even if the Group owns less than 20% of the voting rights, it can still have a significant influence through its participation in the management of the associated company or its representation in its executive Management bodies.

Investments in associated companies are recorded in the consolidated financial statements of the Bank using the equity method of accounting from the date on which significant influence is attained by the Group and until the date that significant influence ceases. The carrying value of the investments in associated companies includes the value of the respective goodwill determined at the acquisition date and is presented net of impairment losses. The Group carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognised in prior years may be reversed, up to the limit of the accumulated losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to its fair value through the income statement when the equity method is first applied.

When the Group's share of losses of an associated company equals or exceeds its interest in the associated company, including any medium and long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation to cover those tosses or has made payments on behalf of the associated company.

Gains or losses on disposals of shares in associated companies are recognised in the income statement even if those disposals do not result in the loss of significant influence. Dividends attributed by associated companies reduce the balance sheet value recognised by the Group.

Structured Entities (SE)
The Group consolidates, using the full consolidation method, certain special purpose entities, created specifically to accomplish a narrows and well-defined objective, when the substance of relationship with those entities indicates that they are controlled by the Group, irrespective of the percentage of the equity held.

The evolution of the existence of control is made based on established by IFRS10 – Consolidated Financial Statements, according to which a SE is controlled if (i) the Group is exposed, or has the rights to its results, and (ii) the Group has the power to effect the SE´s results through the control it exercises over them.

Investment funds managed by the Group
As part of its asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over their activity, according to the criteria established by IFRS 10.

Goodwill
Goodwill represents the difference between the acquisition cost and the fair value Of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

Business combinations after 31 December 2009 were accounted using the purchase method. The acquisition cost includes the fair values: i) of the assets transferred, ii) of the liabilities assumed by the acquirer before the previous shareholders of the acquired, and iii) of the equity instruments issued.

In accordance with IFRS 3 — Business Combinations, the Group measures goodwill as the difference between the fair value of the consideration transferred including the fair value of any non-controlling interest previously held, and the fair value attributable to the assets acquired and the liabilities assumed and any equity instruments issued. The fair values are determined at the acquisition date. The costs directly attributable to the acquisition are expensed at the moment of the acquisition.

As at the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognised in these interim condensed consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

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

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is, or not, any indication of impairment. Impairment tosses are expensed directly in the income statement. The recoverable amount corresponds to the lower of market value less costs to sell and the respective value in use. In determining value in use, estimated future cash flows are discounted using a rate that reflects market conditions, the time value of money and business risks.

Transactions with non-controlling interests
Acquisitions of non-controlling interests that do not result in a change in control over a subsidiary are accounted for as transactions with shareholders and, therefore, no additional goodwill is recognised as a result of such transactions. Any difference between the acquisition cost and the carrying book value of the non-controlling interest acquired is recognised directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over subsidiary are always recorded against reserves.

Transcription of financial statements in foreign currency
The financial statements of each of the Group's subsidiaries and associated companies are prepared using their functional currency, which is defined as the currency of the primary economic environment in which that entity operates. The Group's interim condensed consolidated financial statements are prepared in Euro, which is NOVO BANCO's functional currency.

The financial statements of each of the Group entities that have a functional currency different from the Euro are translated into Euro in accordance with the following criteria:

- Assets and liabilities are translated using the exchange rate prevailing at the reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;
- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognised in results as an integral part of the gain or loss on the disposal.

Balances and transactions eliminated with consolidation
Intercompany balances and transactions, including any unrealized gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless the unrealized tosses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealized losses are also eliminated unless the transactions reveal evidence of impairment.

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, to ensure that same are applied consistently throughout the Group.

2.3. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognised in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as financial assets at fair value through other comprehensive income, which are recorded in equity reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognised in other comprehensive income.

2.4. Derivative financial instruments and hedge accounting

Classification
The Group classifies its derivative portfolio into (i) fair value hedge and (ii) trading derivatives, which include, in addition to the trading book, other derivatives contracted for the purpose of hedging certain assets and liabilities designated at fair value through profit or loss but not classified as hedging (fair value option).

Recognition and measurement
Derivative financial instruments are initially recognised at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organized markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 29 and 33) and comprise the minimum collateral mandatory for open positions.

The fair value of the remaining derivative financial instruments corresponds to their market value, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) Hedging instruments and hedged, items are eligible for the hedge relationship;
(ii) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedge item and hedging instrument and evolution of the effectiveness of the hedge;
(iii) There is an economic relationship between the hedged item and hedging instrument;
(iv) The Effect of credit risk does not dominate the changes in value that result from this economic relationship;
(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

For the cases in which the Group uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Group carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged item in the portion attributed to the hedged risk. Any ineffectiveness found is recognised in the income statement when it occurs in gains or losses of hedge accounting.

The use of derivatives is framed in the Groups risk management strategy and objectives.

- Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognised in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Group may adjust the hedging operation in order to meet the eligibility criteria (rebalancing).

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument, is amortized via the income statement over the period to its maturity, using the effective interest rate method.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognised in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognised in the income statement.

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

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of reference interest rates, which led to the transition from EONIA (Euro OverNight Index Average) to € STR (Euro Short Term Rate in the course of 2020, the Group changed the discount curve of its positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR In accordance with the implementation principle of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships Will occur, the Group did not record any relevant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were subject to the same change (hedged and hedged items).

Embedded Derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Group classifies the entire contract in accordance with the policy outlined in Note 2.5.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as derivative under this Standard if, and only if:

a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract.
b) a separate financial instrument with the same terms as the embedded derivatives satisfies the definition of a derivative; and
c) The hybrid contract is not measured at fair value and changes in fair value are recognised in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated.

These embedded Derivatives are measured at fair value with the changes in fair value being recognised in the income statement.

2.5. Other financial assets: Securities, Loans and advances to banks and Loans and advances to customer

The Group initially classifies all its financial assets based on the business model or managing the assets and the asset´s contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortized cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest);
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPL In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognised in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above If these assets are acquired for the purpose of trading in the short term, they are classified as held for trading.

Initial recognition and measurement

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

Deposits and loans and advances to Banks and loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterparty. Acquisitions and disposals of securities are recognised on the trade date, that is, on the date on which the Group undertakes to acquire or dispose of the asset.

Financial assets at amortised cost or accounted at fair value through other comprehensive income
In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

(i) The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

(ii) The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Group determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Group's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Group determines whether it is part of an existing business model or if it reflects a new business model. The Group reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IFRS 16 – Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently measured at fair value with changes in the fair value recognised in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognised in reserves are reclassified to the caption Gains and losses on financial assets and liabilities designated at fair value through profit or loss. In the specific case of equity instruments, the cumulative gains/ (losses) previously recognised in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognised in profit or loss.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest, calculated at the effective interest rate, and dividends are recognised in profit or loss.

Financial assets at fair value through profit or loss
Financial assets measured at fair value through profit or loss present the following characteristics:
- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or
- it is designated at fair value through profit or loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognised in the income statement.

Reclassifications
If the Group changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment
The Group record impairment allowance for expected credit losses (“ECLs”) for the following instruments:
- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities Portfolio;

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

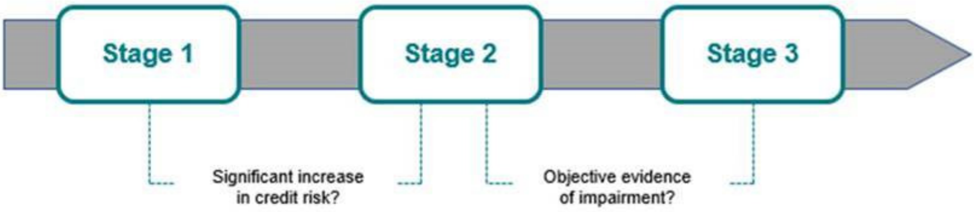
Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

Staging

The impairment calculation approach distinguishes between the 12 months' expected credit losses - Stage 1 - and the lifetime expected credit losses. To determine expected lifetime losses, the approach considers the projection of contractual cash flows - Stage 2 - or the present value of the expected recoveries - Stage 3. Thus, the model of impairment calculation by Stage is summarized as follows:

- expected credit loss resulting from a potential loss event occurring within the next 12 months after the calculation date (Stage 1); or
- expected credit loss, resulting from all potential loss events expected over the lifetime, applied to the projection of contractual cash flows (Stage 2); or
- expected credit loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure[2] (Stage 3).

Therefore, for the determination of impairment, the classification by Stage for all exposures according to their level of credit risk, as summarized in the figure below, is made beforehand:



- Stage 3

The process of assigning Stage to an exposure starts by checking if the Stage 3 criteria applies. If the exposure is classified as Default - according to the internal definition[3] - that exposure is classified as Stage 3.
Thus, the classification of exposures in Stage 3 is based on the occurrence of a default event, with objective evidence of loss occurring at the time from which a significant change occurs in the creditor-debtor relationship, being the creditor exposed to a monetary loss.
Whether by measuring the specific triggers of Default, or by the Stage 3 determination indicators, the result will be the determination of Default and Stage 3 in a consistent manner, starting with the Default setting.

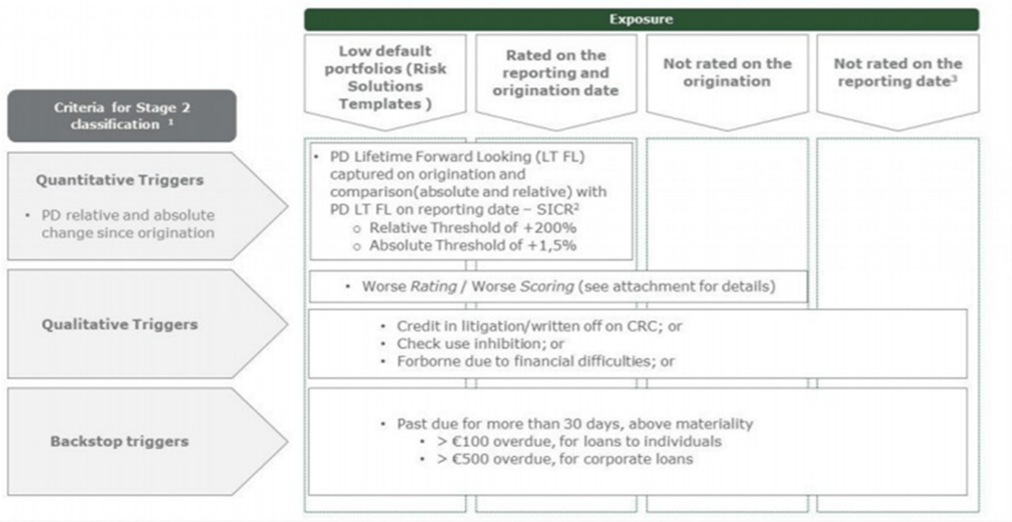
- Stage 2

Exposures are classified as Stage 2 whenever there is a significant increase in credit risk, since initial recognition. If there is no objective evidence of loss associated with the exposure, criteria are analyzed to determine whether exposure has significantly increased its credit risk.

The significant increase in credit risk is assessed through qualitative and quantitative evidence. Once it is verified that - at least - one of these triggers is active, the exposure is classified in Stage 2. The table below describes the criteria and respective thresholds applicable:

[2] Parameters used to determine recoveries vary, mainly depending on the risk profile / nature of the exposure.
[3] The internal definition of Default is in line with article 178 of CRD IV, providing for the criteria of material non-compliance with more than 90 days and unlikely to pay.

Stage 2



¹ – To some of the criteria presented, there are applicable concepts of contamination and cure period.
² – SICR not applicable in the case the rating/ scoring atribute to the contract / client represents a PD lower than 0.75 (3 x Investment Grade Rating)
³ – For unrated exposures it is only applicable qualitative and backstop triggers, in order to assess if they classify as for Stage 2.

As explained in IFRS 9, the assessment of the significant increase in credit risk also involves comparing the current risk level of an exposure against the level of risk at origination.

The Group assigns an internal credit risk grade to the exposure / borrower, depending on its quality and associated with the probability of default. In assessing whether the exposure credit risk has increased significantly since initial recognition, the Group compares, at the reporting date, the lifetime probability of default with the probability of default at origination of the exposure. Depending on whether the observed variation falls above a defined threshold - relative and / or absolute - the exposure is classified in Stage 2.

In addition to this event, the Group considers other events, that if verified imply the classification in Stage 2 – e.g.: material default for more than 30 days, risk events in the financial system, internal credit risk grade above a certain threshold, among others.

- Stage 1

The classification of exposures in Stage 1 depends on:
(i) absence of active events that qualify for Stage 3 and Stage 2, which were mentioned and described above; or
(ii) the framing of these exposures under the low-credit risk exemption. These exposures, if not in Stage 3, are automatically classified in Stage 1.

The outlined vision is based not only on the requirement in IFRS 9, but also on the approach defined for capital calculation, where for these exposures a 0% risk weight is considered. Thus, entities that are not classified as default and fully comply with the conditions mentioned above are classified as low credit risk, being assigned stage 1. Each month the list of entities in these conditions is reviewed, whose majority is composed of Portuguese public debt, public debt in the Euro zone, American public debt and / or equivalent.

Segmentation

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. For each of these homogeneous risk groups, risk factors are estimated and then applied for impairment assessment purposes.

For the purpose of determining collective impairment, operations are allocated to risk sub-segments in accordance with the following definitions in the table below:

<table>
<tr><td rowspan="2">1st Segmentation</td><td colspan="2">Client Type</td></tr>
<tr><td>Corporate</td><td>Individuals</td></tr>
<tr><td rowspan="2">2nd Segmentation</td><td>Risk Segment</td><td>Product type</td></tr>
<tr><td>Large companies
Real Estate
Medium Companies
Small Companies
Start-Ups
Financial Institutions
Sovereign</td><td>Mortgage
Consumer loans
Credit cards
Other Individuals</td></tr>
<tr><td>3rd Segmentation</td><td>Rating notation</td><td>Scoring notation</td></tr>
<tr><td rowspan="2">4th Segmentation</td><td colspan="2">Collaterals – LTV</td></tr>
<tr><td>Typically, Corporate segments consider the value of collateral for segmentation purposes</td><td>The mortgage segment considers the value of the financed asset for the purposes of segmentation</td></tr>
</table>

Scenarios

As required by IFRS 9, the impairment assessment of the Group reflects different expectations of macroeconomic developments, i.e., it incorporates multiple scenarios. In order to incorporate the effects of future macroeconomic behaviour on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios considers the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Group (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Group uses in internal and / or regulatory planning exercises;
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

Write-offs

Write-off is defined as the derecognition of a financial asset from the Group's balance sheet, which should only occur when:

- the maturity of the total amount of the credit to be written off (total or partial) has been required, that is, the credit must be fully recognized (total or partial) as overdue credit. Exemptions from this requirement are, for example, (i) debt restructuring / forgiveness carried out under extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial / extra-judicial decision and (ii) situations where the contract has not expired in its entirety, but the Group believes that it is facing a scenario of total or partial loss;
- all the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered);
- the credit recovery expectations are very low or almost nil. It is necessary to ensure that the amount to be written off is fully impaired and the impairment was booked at least in the month prior to the write-off.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries at other operating income.

Derecognition

Financial assets are derecognized from the balance sheet when (i) the Group's contractual rights relating to the respective cash flows have expired, (ii) the Group has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Group having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognized in other equity is not reclassified to profit or loss, being transferred between equity items.

In the specific case of loans to customers, at the time of sale, the difference between the sale value and the book value must be 100% provisioned, and at the time of the sale, the credit sold will be derecognized against the funds / assets received. and consequent use of impairment on the balance sheet.

Scenarios in impairment models

The exercise of constructing the central and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and the exercise of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of the Expenditure components, arriving at GDP through the identity GDP = Consumption + Investment + Exports – Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than a single forecast (the risk of errors and biases associated with specific methods and variables is minimized).

Forecasts for prices (consumption and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if these are available. In a base scenario, interest rate projections are based on market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered adequate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (expansion and contraction cycles), the reference of the EBA recommendations for extreme adverse scenarios, the stylized facts of the economic cycles, with respect to the components of the expenditure, prices, unemployment, etc. and estimates.

In that sense, when reviewing/updating the scenarios, the respective execution probabilities are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for further consideration in the scope of the Impairment calculation. The final impairment calculated will result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: central, less favorable and more favorable.

The main central scenario predicts a trend recovery in the form of a "swoosh". After the sharp drop-in activity in the 1st and 2nd quarters of 2020, there was an initially rapid recovery with the first deconfinement, followed by a recovery that was tending to be more gradual. The recovery in this scenario leaves economic activity at a level below the pre-Covid level for a relatively prolonged period, until 2022. Thus, some loss of productive potential of the economy is assumed.

This scenario assumes negative impacts from a second and third Covid-19 waves in the 4th quarter of 2020 and between the 1st and 2nd quarters of 2021, in line with scenarios projected for the pandemic. These waves restrict economic activity, but in a progressively less pronounced way than in the first wave. Still, relatively moderate quarterly GDP declines are admitted in the 4th quarter of 2020 and the 2nd quarter of 2021. This scenario assumes the gradual distribution of anti-Covid-19 vaccines throughout 2021 and 2022, allowing for a more visible normalization of economic activity from the 3rd quarter of 2021.

The central scenario, which is assigned a probability of 60%, indicates to an annual GDP drop of around 8.3% in 2020, followed by an annual growth of around 5.2% in 2021, which benefits from a favorable base effect. The following years assume a gradual evolution towards trend/potential growth, with annual growths of 3.4% in 2022 and 2% in 2023. The available information on the initial economic impacts of the Covid-19 crisis was used to build the scenario. In the baseline scenario, the increase in unemployment is strongly mitigated by income and employment protection measures, which are assumed to be prolonged until 2021. Housing prices avoid a fall, due to stabilization measures, such as moratoria and credit guarantees. The gradual withdrawal of these measures causes, however, a strong deceleration of these prices in 2021. The base scenario is marked by disinflationary pressures and the maintenance of strong monetary stimuli.

The less favorable scenario, with a probability of 30%, forecasts more severe impacts on the economy of a second and third wave of Covid-19, which force intermittent lockdowns, leading to stronger quarterly GDP contractions in the 4th quarter of 2020 and the 2nd quarter of 2021. The recovery of activity occurs more slowly than in the base scenario, which translates into more persistent negative economic effects and a severe loss of productive capacity. Activity is still significantly below pre-Covid levels in 2023, which translates into a significant rise in unemployment and a more depressed evolution of prices. GDP declines 9.6% in 2020 and grows 0.9% in 2021, which is explained, in this case, by a favorable base effect. GDP grows 2.8% in 2022, still benefiting from a favorable base effect, assuming in 2023 a movement towards trend/potential growth. The normalization of activity with the introduction of vaccines is assumed in a more time-consuming and gradual way.

The most favorable scenario, with a probability of 10%, predicts a "V" shaped recovery. The second wave of the pandemic has a less pronounced and shorter impact on economic activity and no third wave is assumed to be absent. This allows for faster normalization of activity and faster growth recovery. Above all, this allows for the recovery of pre-Covid activity levels as early as 2021, which translates into a gentler evolution of unemployment. Without a significant or persistent loss of capacity, prices have more visible growth. In this scenario, a rise in market interest is assumed, although at historically low levels.

4 macroeconomic models are used for the corporate segments (excluding real estate), real estate companies, mortgage loans and other loans to individuals.

The Corporate segment (excluding Real Estate) is particularly sensitive to the GDP growth rate and the unemployment rate. In all scenarios there is a fall in GDP, followed by a recovery in the following years, reaching in 2021 the levels recorded before the pandemic, with the exception of the adverse scenario, in which pre-pandemic levels are not reached within the horizon of 3 years. Unemployment registers a significant increase in the year 2020, followed by a recovery that is not enough to reach the levels of unemployment before the pandemic, with the exception of the favorable scenario which registers in 2022 levels slightly lower than those registered before the pandemic.

The Real Estate Companies segment is particularly sensitive to the evolution of real estate prices and the GDP growth rate. It is the most affected segment in the period in question.

Real estate prices record a significant drop in 2020 in all scenarios, followed by a more or less fast recovery, depending on the scenario in question.

The Mortgage Loan segment is mainly affected by the reduction in GDP and the fall in real estate prices, transversal to all scenarios in the year 2020.

The Other Loans to Individuals segment is substantially affected by the increase in Unemployment and the reduction in GDP, verified in 2020 in any of the scenarios.

Collective analysis adjustments to the automatic model result

After processing the automatic impairment calculation and validated the consistency of the results obtained, all situations that may require an adjustment to the calculated impairment value are evaluated. These adjustments are reflected, whenever possible, directly in the exposures.

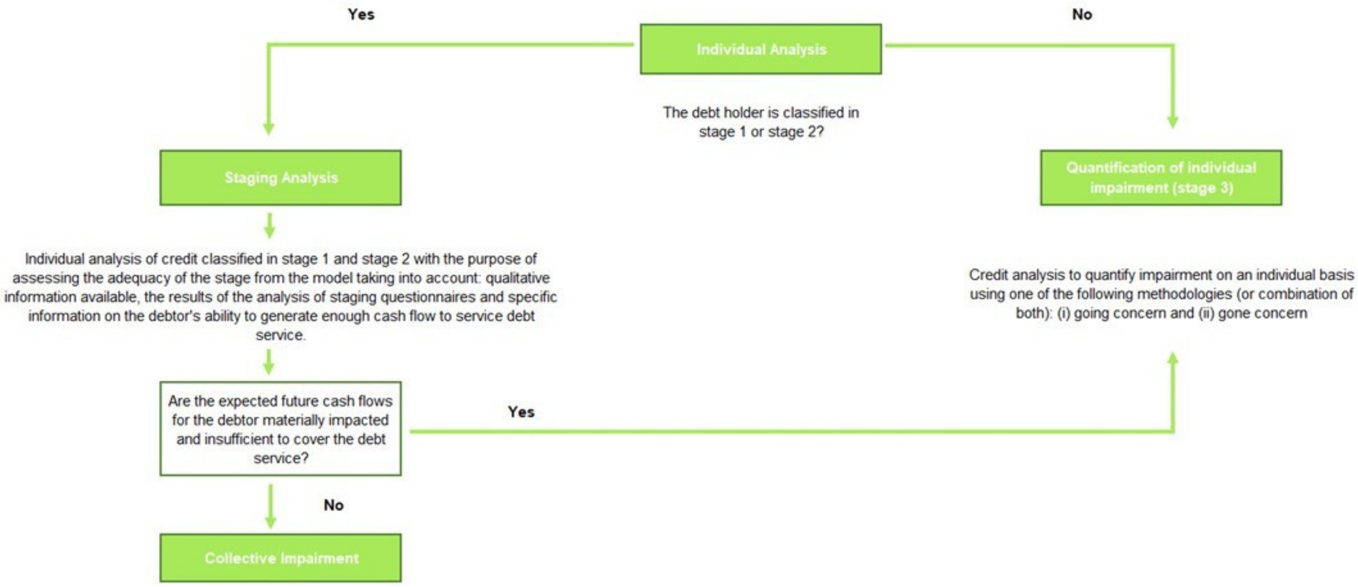
When this is not possible, the calculated impairment value is accounted for without being allocated to specific exposures and, for this purpose, the stage and type of credit to which it refers are associated with this amount. With the prerogative of guaranteeing that all the impairment set up is allocated to specific exposures, these impairment amounts initially set up in the unallocated form will, once the conditions exist for this purpose, be fully distributed among the exposures where their allocation is determined.

In terms of the governance model, both the adjustments to specific exposures and the impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

Individual impairment analysis process

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral.

The structure below is illustrative of the individual credit analysis to be carried out for the purpose of concluding on the classification in terms of staging of debtors:



Selection Criteria

The Group considers that the Individual Analysis (staging analysis and, when applicable, quantification of individual impairment) should be carried out for the borrowers who:

- Register Stage 3 exposure equal to or greater than Euro 1 million;
- Register Stage 2 exposure equal to or greater than Euro 5 million;
- Register Stage 2 exposure equal to or greater than Euro 1 million and have no rating assigned;
- Register Stage 1 exposure equal to or greater than Euro 5 million and have no rating assigned;
- Register Stage 1 exposure equal or greater than Euro 25 million (individually significant exposure);
- Fit into the Financial Holding risk segment and register exposure equal to or greater than Euro 5 million;
- Fit into the Real Estate risk segment and register exposure equal to or greater than Euro 5 million;
- Are identified by the Committee itself based on another criteria that justify (e.g.; sector of activity);
- In the past, specific impairment has been attributed to them;
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

The identification of the target customers for Individual Analysis will be updated monthly, in order to contemplate any changes that may occur throughout the year. The Committee analysis of the customers identified in the previous paragraph will be carried out in the month in which:

- The client registers, for the first time, one of the selection criteria for Individual Impairment Analysis, mentioned in the previous paragraph;
- Expiry of the Analysis expiration date;
- Its analysis is requested by one of the participants of the Impairment Committee or by another Body.

The Individual Impairment Analysis can be carried out for individual customers, but should whenever possible consider the Economic Group view of the selected customers.

Rules of Operation

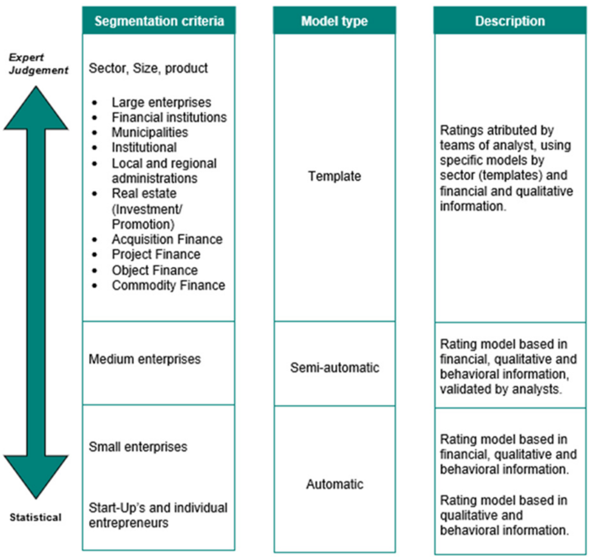
The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Units regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral. For the analysis of the impairment quantification on an individual basis, a scenario is established that is expected to recover credit: through the continuity of the client's business or through the execution of the collateral. If this analysis results in no impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model (except for cases with objective evidence of loss / Default, in which the final rate will have to be defined).

The Individual Impairment quantification analysis determines, for each period, the best recovery scenario, aligning the commercial strategies defined for the client, with the different recovery possibilities. When, due to lack of information, it is not possible to identify or update the recovery scenario, the previous rate is maintained, and a new date is set for the client's review.

Internal rating models for Corporates, Institutions and stocks portfolios

Regarding the rating models for corporate portfolios, different approaches are adopted depending on the size and sector of activity of the clients. Specific models are also used, adapted to loan operations of project finance, acquisition finance, object finance, commodity finance and real estate development finance.

Below is a summary table on the types of risk models adopted in the internal assignment of credit ratings:



Segmentation criteria	Model type	Description
Sector, Size, product • Large enterprises • Financial institutions • Municipalities • Institutional • Local and regional administrations • Real estate (Investment/ Promotion) • Acquisition Finance • Project Finance • Object Finance • Commodity Finance	Template	Ratings atributed by teams of analyst, using specific models by sector (templates) and financial and qualitative information.
Medium enterprises	Semi-automatic	Rating model based in financial, qualitative and behavioral information, validated by analysts.
Small enterprises	Automatic	Rating model based in financial, qualitative and behavioral information.
Start-Up's and individual entrepreneurs		Rating model based in qualitative and behavioral information.

he following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating models are not available are:
- Insurance and Pension Funds;
- Churches, political parties and non-profit associations with a turnover of less than Euro 500 thousand.

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and Specialized Loans - namely Project Finance, Object Finance, Commodity Finance and Acquisition Finance - the credit ratings are assigned by the Bank's Rating representation. This structure is made up of 7 multisectoral teams that comprise a team leader and several specialized technical analysts. The attribution of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of “expert-based” rating models (templates) that are based on qualitative and quantitative variables, strongly correlated with the sector or sectors of activity in which the clients under analysis operate. With the exception of assigning a rating to specialized loans, the methodology used by the Rating representation is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company in the respective economic group. The internal credit ratings are validated daily in a Rating Committee composed of members of the Rating Department's Management and the various specialized teams.

For the medium-sized companies segment, statistical rating models are used, which combine financial data with qualitative and behavioral information. However, the publication of credit ratings requires the execution of a previous validation process that is carried out by a technical team of risk analysts, who also consider behavioral variables. In addition to rating, these teams also monitor the customers’ loan portfolio of the Bank through the preparation of risk analysis reports, as provided for in internal regulations, in accordance with the current responsibilities / customer rating binomial, which may include specific recommendations on the credit relationship with a given customer, as well as technical advice on investment support operations, restructuring, or other operations subject to credit risk.

For the business segment, statistical scoring models are also used which have, in addition to financial and qualitative information, the behavioral variables of the companies and the partner(s) in the calculation of credit ratings.

There are also implemented scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and individual entrepreneurs (ENI). These customers together with the small companies, depending on the exposure value, are included in the regulatory retail portfolios.

Finally, for companies in the real estate sector (companies dedicated to the activity of real estate promotion and investment, especially small and medium-sized companies), taking into account their specificities, the respective ratings are assigned by a specialized central team, based on use of specific models that combine the use of quantitative and technical variables (real estate appraisals carried out by specialized offices), as well as qualitative and behavioral variables.

With regard to exposures equated to shares held by the NOVO BANCO Group, directly or indirectly through the holding of investment funds, as well as shareholders loans and supplementary capital contributions, all included in the risk class of shares for the purposes of calculating credit risk weighted assets, they are classified in the various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented above. These segmentation criteria determine the type of rating model to be applied to the issuers of the shares (or borrowers of the shareholders loans / supplementary capital contributions) and, therefore, to them.

Relationships between internal and external ratings
The assignment of an internal rating to entities with an external rating is made through the Markets Template available in the Rating Calculation application. The Markets Template gathers the external ratings that were assigned to a specific entity by the rating agencies Standard & Poor’s (S&P), Moody’s and Fitch.

Specifically, the functionality of providing external ratings from S&P - XpressFeed feeds the application of External Ratings on a daily basis, which allows the external ratings published by these agencies for a given entity to be filled in the Markets Template. The external ratings assigned by Moody’s and Fitch are not obtained automatically, having to be entered manually in the Markets Template, after consulting the websites www.moodys.com and www.fitchratings.com.

The internal rating results, in the majority of situations, from the S&P equivalent external rating and, in exceptional situations, from the S&P equivalent external rating plus an internal adjustment, which must always be accompanied by justifying comments prepared by the analyst.

It should be noted that the S&P equivalent external rating is obtained by making a correspondence between the available external ratings and the rating scale of the referred financial rating agencies. The internal ratings produced by the Markets Template and which have had adjustments must be mandatorily approved and validated by the Rating Committee

The table below shows the correspondence between the external ratings S&P, Moody's and Fitch and the equivalent external rating S&P:

S&P	Moody's	Fitch	Equivalent external rating S&P
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	Lower than CCC
CC	Ca	CC	
SD	C	C	
D		RD/D	

Internal scoring models for Individual portfolios
With regard to scoring models for individual portfolios, NOVO BANCO has origination / concession and behavioral scoring models (applied to operations older than 6 months).

These models are automatic, based on statistical models developed with internal information, considering socio-demographic information, loan characteristics, behavioral information and automatic penalties (if there are warning signs). In the case of behavioral models, information on the remaining loans of the contract holders is also considered.

The Group is authorized by Bank of Portugal to use internal models in the calculation of regulatory capital requirements for the main portfolios of individuals: Mortgage Loans and Individual Loans. In addition, it has origination and behavioral scorings for the Credit Card, Overdraft and Loan Accounts products, which it uses for the purposes of designing and monitoring credit quality, however, not being IRB portfolios.

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

Securities sold under repurchase agreements (repos) at a fixed price or at a price that equals the sale price plus an interest inherent to the term of the transaction are not derecognised from the balance sheet. The corresponding liability is accounted for in amounts payable to other credit institutions or customers, as appropriate. The difference between the sale value and the repurchase value is treated as interest and is deferred over the life of the agreement, using the effective rate method.

Securities purchased with resale agreement (reverse repos) at a fixed price or at a price that equals the purchase price plus an interest inherent to the term of the transaction are not recognized in the balance sheet, the purchase value being recorded as loans to others credit institutions or customers, as appropriate. The difference between the purchase value and the resale value is treated as interest and is deferred over the life of the agreement, using the effective rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.5. Securities received under borrowing agreements are not recognized in the balance sheet.

Short sales correspond to securities sold that are not included in the Group's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognized directly in the income statement in Gains or Losses from financial assets and liabilities held for trading.

2.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

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

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Group's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

The structured products issued by the Group – except for the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the abovementioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Group accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognises of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognized in the income statement.

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

2.8. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognized in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognized on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Group, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognized at the contract date is equal to the amount of the commission initially received, which is recognized in the income statement over the period to which it relates. Subsequent periodic fees are recognized in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Group has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.9. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

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

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events, and must be enforceable in the course of the normal activity of the NOVO BANCO Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterparty.

2.11. Foreclosed properties and non-current assets and disposal groups held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell.

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the General Law on Credit Institutions and Financial Companies (“Regime Geral das Instituições de Crédito e Sociedades Financeiras” (RGICSF)), banks are prevented, unless authorised by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (No. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article nº 114 of RGICSF).

Although the Group’s objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Group changed the classification of this real estate properties from Non-current assets held for sale to Other assets (and to Investment properties, in the case of assets owned by investment funds or real estate properties leased out), due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. For real estate properties recorded in the balance sheet of NOVO BANCO and of the remaining credit institutions integrating the consolidation perimeter of the Group, the amount recoverable from their immediate sale is considered to be their respective fair value. For real estate properties held by investment funds, and in accordance with Law No. 16/2015, of February 24, fair value is determined as the average between two valuations, obtained from independent entities, determined at the best price that could be obtained if it were put up for sale under normal market conditions at the time of valuation, which is reviewed at least annually or, in the case of open investment funds, with the frequency of redemption, and whenever acquisitions or disposals occur or when significant changes in the value of the real estate property occur. The market value of properties for which a promissory purchase and sale agreement was entered into corresponds to the value of that agreement.

The valuation of these real estate properties is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

(i) Market Method
The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the zone.

(ii) Income Method
Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

(iii) Cost Method
This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analyed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Additionally, since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Group proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

Assets / liabilities of subsidiaries acquired for resale purposes reflect, essentially, assets and liabilities of subsidiaries acquired by the Group in the scope of loan restructuring operations, for which the Group's objective is their subsequent disposal within one year. Since these acquisitions arise from loan restructuring operations, they are recognized at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognized as impairment losses on loans and advances. On the acquisition of an entity meeting the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these specific cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

These subsidiaries are consolidated until their effective sale. At each balance sheet date, the net carrying book value of their assets and liabilities is compared with their fair value, less costs to sell, and impairment losses are recognized when necessary. Assets and liabilities relating to discontinued operations are recorded in accordance with the valuation policies applicable to each category of assets and liabilities, as set down in IFRS 5, according to the IAS/IFRS applicable to the respective assets and liabilities.

For purposes of determining the fair value of subsidiaries held for resale, the Group adopts the following methodologies:
- for subsidiaries which assets comprise fundamentally real estate, their fair value is determined with reference to the value of those assets, which is based on valuations performed by independent specialised entities;
- for the remaining entities, their fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with that provided for in Note 29.

2.12. Tangible fixed assets

The Group's tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with tangible fixed assets are only recognized when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of tangible fixed assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires its recoverable amount to be estimated and an impairment loss recognized when the book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the net carrying book value is recognized under the caption Other operating income or Other operating expenses.

2.13. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Group to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

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

2.14. Leases

IFRS 16 – Leases
A. Lease Definition
- Determining whether an Agreement Contains a Lease: The Group assesses whether a contract is or contains a lease based on the lease definition which focuses on controlling the identified asset. In accordance with IFRS 16, a contract is or contains a lease if it has the right to control the use of an identified asset, allowing to obtain substantially all the economic benefits of using it and the right to guide the use of that identified asset for a certain period of time in exchange for retribution.

The Group has adopted some practical expedients provided for in the standard in applying IFRS 16:
- Applies the exception, mentioned above, of non-recognition of assets under right of use and liabilities for short-term leases (i.e. with a lease term of 12 months or less);
- Apply the exception, mentioned above, of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- For leases in which the entity is a lessee, it was decided not to separate the non-lease components and account for the lease and non-lease components as a single lease component.

The option of not applying this standard to leases of intangible assets was also used.

B. As lessee
In accordance with IFRS 16, the Group recognizes leased assets and lease liabilities for some asset classes, i.e., these leases are on the entity's balance sheet. Leasing contracts are recorded on the date they start, in assets and liabilities, being capitalized to the lower of the fair value of the leased assets and the minimum lease payments contracted. Rents are constituted (i) by the financial charge that is charged to the income statement and (ii) by the financial amortization of the capital that is deducted from the liability. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability in each period.

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

As previously mentioned, the Group has opted not to recognize assets under right of use and liabilities for short-term leases, with a lease term of 12 months or less, and low value asset leases (e.g. IT equipment) with a new value of less than Euro 5 thousand. The Group recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term in income statement as “Other administrative expenses – rents and rentals”.

The Group presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property.

The Group presents the lease liabilities under "Other liabilities" in the statement of financial position.

Significant judgment in determining contract lease term

The Group has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Group determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and recognized right-of-use assets.

The Group has the option, namely in real estate lease agreements, to lease assets for additional periods from 1 month to 20 years. The Group applies judgment in assessing whether it is reasonably right to exercise the renewal option. That is, it considers all the relevant factors that create an economic incentive for renewal.

Measurement and remeasurement of assets under right of use and lease liabilities

Lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve plus the Group’s risk spread, applied over the weighted average term of each lease.

The lease liability is initially recorded at the present value of the future cash flows from the lease and is subsequently measured (i) by increasing its carrying amount to reflect interest on it, (ii) by decreasing its carrying amount by to reflect lease payments.

An asset under right of use, initially measured at cost, must take into account the present value of the future cash flows of the lease liability, being subsequently subject to depreciation / amortization according to the lease term of each contract and to tests of impairment.

C. As lessor
In accordance with IFRS 16, lessors will continue to classify leases as financial or operational.

Financial leases

Transactions in which the risks and benefits inherent in the ownership of an asset are substantially transferred to the lessee are classified as finance leases. Financial leasing contracts are recorded in the balance sheet as credits granted for an amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in rents charged to customers is recorded as income while capital amortizations, also included in rents, are deducted from the amount of credit granted to customers. The recognition of interest reflects a constant periodic rate of return on the lessor's remaining net investment.

Operating leases

All lease transactions that do not fall under the definition of finance lease are classified as operating leases. Payments made by the Group under operating lease agreements, from the perspective of the lessee, are recorded in costs in the periods to which they relate.

2.15. Employee benefits

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

The liabilities’ coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, S.A., a subsidiary of the Group.

The pension plans of the Group are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semi-annually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan’s liabilities.

The Group determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan’s net assets / liabilities (liabilities net of the fair value of the fund’s assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds’ assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund’s assets and the actual investment returns, are recognized in equity under the caption other comprehensive income.

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognized as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACTV) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Group makes payments to the funds to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Group assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits
The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (*Boletim do Trabalho*) No. 29, of 8 August 2016, the Group's contributions to SAMS, correspond to a monthly fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year, recorded on a monthly basis in personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

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

Career bonus

The ACT provides for the payment by the Group of a career bonus, due at the time immediately prior to the employee's retirement if he retires at the Group's service, corresponding to 1.5 of his salary at the time of payment.

These long-term service bonuses were accounted for by the Group in accordance with IAS 19, as other long-term employee benefits. The Group's liability with these long-term service bonuses were periodically estimated by the Group using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement, in Personnel Expenses.

Employees' variable remuneration and other obligations

The Group recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Group recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.16. Corporate Income tax

NOVO BANCO and its subsidiaries are subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC Code).

Corporate income tax comprises current tax and deferred tax.

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

Current tax

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognized in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Current tax is calculated based on taxable income for the period, which differs from the accounting result due to adjustments resulting from expenses or income not relevant for tax purposes or which will only be considered in subsequent years.

Deferred tax

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for: i) goodwill non-deductible for tax purposes; ii) differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit; iii) that do not result from a business combination, and iv) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group does not control the timing of the reversal of the timing differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of Group.

The taxable profit or tax loss calculated by the Group may be corrected by the Portuguese tax authorities within a period of four years, except in the case of any deduction or tax credit being used, in which the expiry period is the same of the exercise of this right (5 or 12 years in the case of tax losses, depending on the year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in the interpretation of tax legislation, will not have a materially relevant effect on the financial statements.

The Group, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax with regard to the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax, with no material impact on its financial statements resulting from its application

2.17. Provisions and Contingent liabilities

Provisions are recognized when: (i) the Group has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Group to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognized in financial expenses.

Restructuring provisions are recognized when the Group has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognized when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

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

2.18. Recognition of interest income and expense

Interest income and expense is recognized in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Group estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest and similar income include interest from financial assets for which were recognized impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities at fair value through profit or loss (see Note 2.4).

2.19. Recognition of fee and commission income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;

- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 2.18.

2.20. Recognition of dividend income

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

2.21. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted exercised.

2.22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.23. Investment properties

The Group classifies as investment properties the real estate assets held to earn rentals or for capital appreciation or both. Investment properties are initially recognized at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognized in the income statement, under the caption Other operating income and expenses, based on periodic valuations performed by independent entities specialised in this type of service. Investment properties are not depreciated.

Since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Group proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

Reclassifications to and from the caption Investment properties may occur whenever a change in respect of the use of a real estate property is verified. On the reclassification of investment properties to real estate properties held for own use, the estimated cost, for accounting purposes, is the fair value, at the date of the change in usage. If a real estate property held for own use is reclassified to investment properties, the Group records that asset in accordance with the policy applicable to real estate properties held for own use, up to the date of its reclassification to investment properties and at fair value subsequently, with the difference arising in its measurement at the date of the reclassification being recognized in revaluation reserves. If a real estate property is transferred from other assets to investment properties, any difference between the fair value of the asset at that date and the previous carrying book value is recognized in the income statement.

Subsequent expenditure is capitalised only when it is probable that the Group will obtain future economic benefits in excess of those originally estimated based on the performance of the asset.

Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income and expenses. Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income or Other operating expenses.

Investment properties recorded relate solely to non-banking activities (Investment Funds and Real Estate Companies).

NOTE 3 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Group are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

The Bank and its subsidiaries do not have projects or intentions for actions that could question the continuity of the operations.

The COVID-19 pandemic, despite the government and regulatory response measures adopted, resulted in an additional high level of uncertainty about the Portuguese and European economy and in particular banking activity, with an impact on the judgments and estimates used in the financial statements. However, the internal control policies and standards adopted by the Group allow us to consider that these judgments and estimates were made independently and appropriately as of 30 June 2021.

The relevant judgments made by management in the application of the Group's accounting policies and the main sources of uncertainty in the estimates were the same as those described in the last reporting of the Financial Statements.

3.1. Impairment of financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognized impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Group determines its business model based on how it manages the financial assets and its business objectives. The Group monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 2.5 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Group management, constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by NOVO BANCO and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with NOVO BANCO. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Group monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: the Group uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

3.2. Fair value of derivative financial instruments and other financial assets and liabilities at fair value

Fair value is based on listed market prices when available; otherwise fair value is determined based on similar recent arm’s length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Group uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Note 40.

3.3. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 28.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are charged with reviewing the calculation of the tax base made by the Bank during a period of four or twelve years, in the event of reportable tax losses. Thus, it is possible that there are corrections to the tax base, resulting mainly from differences in the interpretation of tax legislation. However, the Bank's Executive Board of Directors believes that there will be no significant corrections to taxes on profits recorded in the financial statements.

3.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 14 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the NOVO BANCO Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

3.5. Provisions and Contingent Liabilities

The recognition of provisions involves a significant degree of complex judgment, namely identifying whether there is a present obligation and estimating the probability and timing, as well as quantifying the outflows that may arise from past events. When events are at an early stage, judgments and estimates can be difficult to quantify due to the high degree of uncertainty involved. The Executive Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognized. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognized provisions may also be sensitive to the assumptions used, which may result in a variety of potential results that require judgment in order to determine a level of provision that is considered appropriate in view of the event in question.

The Group recognises provisions intended to cover for losses arising from commercial offers approved during the financial year of 2016 by the Executive Board of Directors of the Bank and following the non-opposition of Bank of Portugal, aimed at retail customers holding non-subordinated bonds of the NOVO BANCO. The amount of the provisions reflects NOVO BANCO’s best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (i) due to variations in the assumptions used (ii) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (iii) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 32.

3.6. Investment properties, Foreclosed properties and Non-current assets and disposal groups held for sale

Investment properties are initially recognized at cost, including directly related transaction costs and subsequently at fair value. Foreclosed properties and Non-current assets held and disposal groups for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations conducted by independent entities specialized in this type of service, using the market, income or cost methods, as defined in Notes 2.11 and 2.23. The valuation reports are analyzed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

The use of alternative methodologies and different assumptions may result in a different level of fair value with respective impact on the recognized balance sheet value.

3.7. Entities included in the consolidation perimeter

For the determination of the entities to be included in the consolidation perimeter, the Group evaluates the extent to which (i) it is exposed, or has rights, to the variability of the return from its involvement with this entity, and (ii) it can seize that return through of its power. In this analysis, the Bank also considers shareholder agreements that may exist and that result in the power to take decisions that impact the management of the entity's activity. The decision that an entity should be consolidated by the Group requires the use of judgments to determine to what extent the Group is exposed to the variability of an entity's return and has the power to seize that return. In using this judgment, the Group analyses assumptions and estimates. Thus, other assumptions and estimates could lead to a different consolidation perimeter, with a direct impact on the balance sheet.

NOTE 4 – SEGMENT REPORTING

NOVO BANCO Group activities are centered on the financial sector targeting corporate, institutional and private individual customers. Its decision center is in Portugal, making the domestic territory its main market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services and the commercialization of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, as at 30 June 2021, the Group has NOVO BANCO as its main operating unit - with 329 branches in Portugal (31 December 2020: 339 branches) and branches in Luxembourg and Spain (discontinued) and 4 representation offices – with NB Azores (13 branches), Banco BEST (6 branches), GNB GA, amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Markets; and (5) Corporate Centre. Each segment integrates the NOVO BANCO structures that directly relate to it, as well as the units of the Group whose businesses are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group is complemented, at the Executive Board of Directors of NOVO BANCO level, by the definition of specific strategies and commercial programs for each unit.

During 2020, NOVO BANCO started the sale process of the Spanish Branch, which was reclassified to discontinued operations.

4.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures, aggregated by criteria of risk, market / geography and nature of the products and services:

Domestic Commercial Banking
This Operating Segment includes all the banking activity developed on national territory involving corporate and private customers and using the branch network, corporate centres and other channels, and includes the following sub segments:

a) **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;
b) **Corporate and Institutional: i**ncludes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;
c) **Private Banking:** comprises the Private banking activity integrating all the asset-side products and the fundraising activities, namely, deposits, discretionary management services, custodian services, brokerage services and insurance products.

International Commercial Banking
This Operating Segment integrates the units located abroad, which banking activities focus both on corporate and private customers, excluding the asset management business, which is integrated in the corresponding segment.

Amongst the units comprising this segment are NOVO BANCO's branches in Luxembourg and Spain (discontinuing). The aggregation of this units in the same segment is related with the geographic criteria and with the nature of the clients, the products and the services provided.

Asset Management
This segment, which depends on the specific nature of the products and services provided, includes the asset management activities developed both in Portugal and abroad through specialised companies incorporated for the purpose. The product range includes all types of funds - investment funds, real estate funds and pension funds - as well as discretionary management and portfolio management.

Markets
This segment includes the overall financial management of the Group, including the taking and ceding of funds on the financial markets, as well as the investment and risk management of credit, interest rate, currency and securities instruments, whether of a strategic nature or related to the current activity of the Markets' area. It also covers the activity involving non-resident institutional investments and the effects of strategic decisions with a transversal impact on the Group.

Corporate Centre
This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures that ensure the basic functions of the Group's global management, such as those linked to the Administration and Supervision, Compliance, Planning, Accounting, Risk Management and Control, Institutional Communication, Internal Audit, Organization and Quality, among others. Since the Bank is in a tax loss situation in the first six months of 2020, situation that is estimated to continue in 2021, the deferred taxes recognized were fully allocated to this segment.

4.2. Criteria for the allocation of activities and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed in the preparation of the internal information that is analyzed by the Executive Board of Directors of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 2, with the adoption of the following additional principles:

Measurement of the profit or loss of the segments
The Group uses net income / (loss) before taxes as the measure of the profit or loss for purposes of evaluating the performance of each operating segment.

Autonomous operating units
As mentioned above, each autonomous operating unit (foreign branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment centre. Additionally, based on the characteristics of the primary business developed by these units, they are fully integrated into one of the Operating Segments, i.e. their assets, liabilities, income and expenses.

NOVO BANCO structures dedicated to the Segment
NOVO BANCO's activity, given its characteristics, can be allocated to most of its operating segments and is, therefore, accordingly disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the Group, strategically, decides to securitize some of the assets; (ii) the allocation of a commercial margin to mass-products, defined at top management level when the products are launched; (iii) for non-mass products, the allocation of a margin directly negotiated by the commercial structures with customers; (iv) the allocation of the direct costs of commercial and central structures dedicated to the segment; (v) the allocation of indirect costs (central support and IT services) determined based on specific drivers; (vi) the allocation of credit risk determined in accordance with the impairment model; and (vii) the allocation of NOVO BANCO's total equity to the Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments, without any margin for the supplier; the strategic decisions and/or of an exceptional nature are analyzed on a case-by-case basis, with the income and/or costs being generally allocated to the Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, which mission it is to undertake the Bank's financial management, and which activity and results are included in the Markets segment.

Interest and similar income / expense
Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation "Net interest income / expense".

Investments presented using the equity method
Investments in associated companies presented under the equity method are included in the Markets segment, in the case of NOVO BANCO's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets
Non-current assets, according to IFRS 8, include Tangible fixed assets, Intangible assets and Non-current assets held for sale. NOVO BANCO includes these assets in the Markets segment, with the non-current assets held by the remaining subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income tax
Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the Operating Segments, by the Executive Board of Directors, does not affect the evaluation of most of the Operating Segments. In the tables presented below the deferred tax recognized in net income for the year are included in the Corporate Centre. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas
In the presentation of financial information by geographic area, the operating units that compose the International Area are NOVO BANCO's branches in Spain and Luxembourg, the subsidiaries NOVO BANCO Servicios and Novo Vanguarda, the GNB GA units located abroad, and also the Banco Delle Tre Venezie and Ijar Leasing Algérie as discontinued operations.

The financial and economic elements related to the international area are those consistent with the financial statements of such units, with the respective consolidation adjustments and eliminations.

The reporting by operating segments is presented as follows:

(in thousands of Euros)

	Six month period ended on 30.06.2021							
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	94 648	95 180	12 996	(1)	-	86 434	-	289 257
Net fees and commissions	83 722	42 307	5 354	11 885	-	(10 502)	-	132 766
Other operating income	6 716	15 774	12 253	(500)	-	39 564	-	73 807
Total operating income	185 086	153 261	30 603	11 384	-	115 496	-	495 830
Operational expenses	128 362	61 857	8 954	5 801	-	83 305	45 592	333 871
Of which:								
Provisions / Impairment losses	3 276	44 060	5 234	137	-	36 490	-	*89 197*
Depreciation and amortization	*6 900*	*485*	*283*	*331*	-	*550*	*7 815*	*16 364*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	953	-	953
Profit / (loss) from continued operations before taxes and non-controlling interests	**56 724**	**91 404**	**21 649**	**5 583**	**-**	**33 144**	**(45 592)**	**162 912**
Taxes	-	-	1 141	1 610	-	-	18 364	21 115
Profit / (loss) of discontinued operations	-	-	(1 319)	-	-	(92)	-	(1 411)
Net Profit / (loss) for the period attributable to non-controlling interests	949	-	-	-	-	1 730	-	2 679
Net Profit / (loss) for the period attributable to Shareholders of the parent	**55 775**	**91 404**	**19 189**	**3 973**	**-**	**31 322**	**(63 956)**	**137 707**
Intersegment operating income (1)	*1 175*	*3 112*	*21 350*	*170*	-	*(23 530)*	-	*2 277*
Total Net Assets	**21 296 636**	**10 457 272**	**4 329 425**	**95 268**	**-**	**9 708 505**	**-**	**45 887 106**
Total Liabilities	**21 064 816**	**10 359 006**	**4 312 789**	**14 517**	**-**	**6 897 173**	**-**	**42 648 301**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**86 393**	**-**	**86 393**
Investments in tangible fixed assets	**654**	**-**	**-**	**78**	**-**	**25 422**	**2**	**26 156**
Investments in intangible assets	**126**	**-**	**-**	**3**	**-**	**7 995**	**-**	**8 124**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**2 434**	**-**	**2 434**
Investments in other assets - real estate properties	**280**	**-**	**-**	**-**	**-**	**8 132**	**-**	**8 412**

(1) inter-segment operating income is mainly characterized by interest (financial result)

(in thousands of Euros)

	Six month period ended on 30.06.2020 *							
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	101 968	114 824	8 698	1	-	30 215	-	255 706
Net fees and commissions	80 470	50 335	5 454	10 041	-	(17 286)	-	129 014
Other operating income	7 116	10 535	(47)	(842)	-	(358 169)	-	(341 407)
Total operating income	189 554	175 694	14 105	9 200	-	(345 240)	-	43 313
Operational expenses	159 226	133 369	10 613	5 606	-	234 693	49 312	592 819
Of which:								
Provisions / Impairment losses	*29 315*	*114 360*	*14 174*	*123*	-	*185 693*	-	*343 665*
Depreciation and amortization	*5 889*	*451*	*332*	*225*	-	*585*	*8 430*	*15 912*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	386	-	386
Profit / (loss) from continued operations before taxes and non-controlling interests	**30 328**	**42 325**	**3 492**	**3 594**	**-**	**(579 547)**	**(49 312)**	**(549 120)**
Taxes	-	-	112	953	-	1 479	2 019	4 563
Profit / (loss) of discontinued operations	-	-	(3 907)	(203)	1 700	(709)	-	(3 119)
Net Profit / (loss) for the period attributable to non-controlling interests	564	-	-	-	-	(2 063)	-	(1 499)
Net Profit / (loss) for the period attributable to Shareholders of the parent	**29 764**	**42 325**	**(527)**	**2 438**	**1 700**	**(579 672)**	**(51 331)**	**(555 303)**
Intersegment operating income (1)	*1 949*	*2 804*	*23 532*	*(155)*	-	*(24 213)*	-	*3 917*
Total Net Assets **	**19 835 663**	**11 223 700**	**4 846 926**	**84 058**	**-**	**9 305 556**	**-**	**45 295 903**
Total Liabilities **	**19 541 454**	**11 605 333**	**4 964 199**	**13 649**	**-**	**5 168 511**	**-**	**41 293 146**
Investments in associated companies **	**-**	**-**	**-**	**-**	**-**	**92 628**	**-**	**92 628**
Investments in tangible fixed assets **	**1 633**	**-**	**767**	**1 196**	**-**	**16 363**	**-**	**19 959**
Investments in intangible assets **	**282**	**-**	**703**	**18**	**-**	**25 436**	**-**	**26 439**
Investments in other assets - real estate properties **	**1 134**	**-**	**4 358**	**-**	**-**	**81 319**	**-**	**86 811**

(1) inter-segment operating income is mainly characterized by interest (financial result)
* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020
** Values with reference to 31 December 2019

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

(in thousands of Euros)

	30.06.2021						
	Portugal	Spain	Luxembourg	Brazil	Angola	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	114 200	(1 441)	24 930	18	-	-	137 707
(of which: rel. to discontinued units)	*30*	*(1 441)*	-	-	-	-	(1 411)
Total income	2 325 236	-	91 670	18	-	-	2 416 924
Intersegment operating income	*(15 539)*	-	*17 816*	-	-	-	*2 277*
Net assets	41 911 648	2 273 324	1 690 393	2 056	3 060	6 625	45 887 106
(of which: rel. to discontinued units)	*11 063*	*1 421 460*	-	-	*775*	*6 626*	*1 439 924*
Investments in associated companies	86 393	-	-	-	-	-	86 393
Investments in tangible fixed assets	26 156	-	-	-	-	-	26 156
Investments in intangible assets	8 124	-	-	-	-	-	8 124
Investments in investment properties	2 434	-	-	-	-	-	2 434
Investments in other assets - real estate properties	8 368	-	-	44	-	-	8 412
Profits / (losses) of continuing operating units before taxes and non-controlling interests	140 052	-	22 860	-	-	-	162 912
Turnover [(a) (b)]	616 523	-	49 124	18	-	-	665 665
Number of employees [(a)]	4 448	-	11	4	-	7	4 470

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items in the consolidated operating account: interest income, dividend income, fee and commission income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss on financial assets and liabilities held for trading, gains or losses on financial assets mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities carried at fair value through profit or loss hedge accounting losses, exchange differences, gains or losses on derecognition of non-financial assets, other operating operating income and proportion of profits or losses on investments in subsidiaries, joint ventures and associates accounted for under the equity method.

(in thousands of Euros)

	30.06.2020 *								
	Portugal	Spain	Luxembourg	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	(550 852)	(3 170)	(1 295)	14	-	-	-		(555 303)
(of which: rel. to discontinued units)	*551*	*(3 670)*	-	-	-	-	-	-	*(3 119)*
Total income	2 044 670	-	86 004	53	-	-	-	-	2 130 727
Intersegment operating income	*(6 040)*	-	*9 957*	-	-	-	-		*3 917*
Net assets **	40 772 690	2 011 246	2 498 979	3 303	3 060	-	-	6 625	45 295 903
*(of which: rel. to discontinued units) ***	*25 349*	*4 240*	-	-	*2 946*	*1 299*	*4 121*	*2 300*	*40 255*
Investments in associated companies **	92 628	-	-	-	-	-	-	-	92 628
Investments in tangible fixed assets **	19 192	767	-	-	-	-	-	-	19 959
Investments in intangible assets **	25 736	703	-	-	-	-	-	-	26 439
Investments in other assets - real estate properties **	82 453	4 358	-	-	-	-	-	-	86 811
Profits / (losses) of continuing operating units before taxes and non-controlling interests	(550 242)	737	371	14	-	-	-	-	(549 120)
Turnover [(a) (b)]	222 811	(237)	70 591	367	-	-	-	-	293 532
Number of employees [(a)]	4 646	187	11	5	-	-	-	6	4 855

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items in the consolidated operating account: interest income, dividend income, fee and commission income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss on financial assets and liabilities held for trading, gains or losses on financial assets mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities carried at fair value through profit or loss hedge accounting losses, exchange differences, gains or losses on derecognition of non-financial assets, other operating operating income and proportion of profits or losses on investments in subsidiaries, joint ventures and associates accounted for under the equity method.

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

** Values with reference to 31 December 2019

NOTE 5 – NET INTEREST INCOME

The breakdown of this caption as at 30 June 2021 and 2020 is as follows:

(in thousands of Euros)

	Six month period ended on									
	30.06.2021					30.06.2020 *				
	Effective Interest Rate Method			Other		Effective Interest Rate Method			Other	
	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances to customers	249 617	6 352	-	-	255 969	257 740	7 517	-	-	265 257
Interest from deposits with and loans and advances to banks	7 424	-	36 640	-	44 064	9 701	-	3 836	-	13 537
Interest from securities	25 358	36 248	-	5 175	66 781	19 548	44 136	-	5 607	69 291
Interest from derivatives	-	-	948	2 406	3 354	-	-	465	3 195	3 660
Other interest and similar income	215	-	-	-	215	345	-	-	-	345
	282 614	**42 600**	**37 588**	**7 581**	**370 383**	**287 334**	**51 653**	**4 301**	**8 802**	**352 090**
Interest Expenses										
Interest on debt securities issued	16 516	-	-	-	16 516	19 590	-	-	-	19 590
Interest on amounts due to customers	26 595	-	-	-	26 595	38 889	-	-	-	38 889
Interest on deposits from Central Banks and other banks	3 666	-	3 826	-	7 492	8 265	-	904	-	9 169
Interest on subordinated liabilities	16 943	-	-	-	16 943	17 038	-	-	-	17 038
Interest from derivatives	-	-	3 665	5 984	9 649	-	-	2 802	4 723	7 525
Other interest and similar expenses	3 399	-	532	-	3 931	4 011	-	162	-	4 173
	67 119	**-**	**8 023**	**5 984**	**81 126**	**87 793**	**-**	**3 868**	**4 723**	**96 384**
	215 495	**42 600**	**29 565**	**1 597**	**289 257**	**199 541**	**51 653**	**433**	**4 079**	**255 706**

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

As at 30 June 2021, interest on deposits from Central Banks and other banks includes the amount of Euro 587 thousand from operations with repurchase agreement (30 June 2020: Euro 16 thousand in amounts due to customers and Euro 85 thousand in interest on deposits from Central Banks and other banks).

As at 30 June 2021, interest from loans and advances to customers includes Euro 15 895 thousand from financial leasing operations (30 June 2020: Euro 17 899 thousand).

In accordance with the accounting policy described in Notes 2.4 and 2.18, the amounts of income and expenses related to interest on derivatives include interest on hedging derivatives and interest on derivatives contracted for the purpose of economic hedging of certain assets and financial liabilities designated at fair value through profit or loss, in accordance with the accounting policies described in Notes 2.4 and 2.7.

The measures adopted to reduce the cost of amounts due to customers justify the decrease in the interest cost related to these liabilities.

NOTE 6 – DIVIDEND INCOME

The breakdown of this caption is as follows:

(in thousand of Euros)

	Six month period ended on	
	30.06.2021	**30.06.2020 ***
Financial assets mandatorily at fair value through profit or loss		
Shares	1 979	1 638
Participation units	2 050	5 852
Financial assets at fair value through other comprehensive income		
Shares	1 330	2 209
Participation units	-	226
	5 359	**9 925**

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

In the first half of 2021, dividend income was recorded in the amount of Euro 5 359 thousand (30 June 2020: Euro 9 925 thousand), whose breakdown is as follows:

- Euro 4 029 thousand in financial assets mandatorily recorded at fair value through profit or loss, which include dividends received from Explorer III B in the amount of Euro 2 050 thousand, from Euronext NV in the amount of Euro 1 801 thousand and from Visa Inc CL C in the amount of Euro 107 thousand (30 June 2020: Euro 7 490 thousand, which include dividends received from the Soluções Arrendamento fund in the amount of Euro 3 141 thousand, from the Arrendamento Mais fund in the amount of Euro 1 593 thousand and from Euronext NV in the amount of Euro 1 348 thousand); and
- Euro 1 330 thousand in financial assets recorded at fair value through other comprehensive income, which include dividends received from SIBS SGPS in the amount of Euro 865 thousand and from ESA Energia in the amount of Euro 462 thousand (30 June 2020: Euro 2 435 thousand, which include dividends received from SIBS SGPS in the amount of Euro 887 thousand and from ESA Energia of Euro 609 thousand).

NOTE 7 – FEE AND COMMISSION INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Fees and commissions income		
From banking services	116 091	112 431
From guarantees provided	16 923	17 887
From transaction of securities	4 383	3 113
From commitments to third parties	4 014	4 422
From transactions carried out on behalf of third parties - cross-selling	15 254	14 801
Other fee and commission income	662	794
	157 327	**153 448**
Fees and commissions expenses		
With banking services rendered by third parties	16 769	16 008
With guarantees received	813	959
With transaction of securities	1 286	724
Other fee and commission income	5 693	6 743
	24 561	**24 434**
	132 766	**129 014**

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

NOTE 8 – GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	15 939	8 595	7 344	94 317	6 529	87 788
Issued by other entities	9 511	323	9 188	737	5 454	(4 717)
	25 450	**8 918**	**16 532**	**95 054**	**11 983**	**83 071**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	142	(142)	-	-	-
Loans	5 221	10 779	(5 558)	1 843	88	1 755
	5 221	**10 921**	**(5 700)**	**1 843**	**88**	**1 755**
	30 671	**19 839**	**10 832**	**96 897**	**12 071**	**84 826**

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

NOTE 9 - GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2 038	11 768	(9 730)	8 462	16 109	(7 647)
Issued by other entities	38	20	18	-	-	-
Financial Derivatives						
Foreign exchange rate contracts	33 810	42 600	(8 790)	61 625	43 062	18 563
Interest rate contracts	253 362	216 968	36 394	298 615	382 679	(84 064)
Equity / Index contracts	20 634	20 035	599	55 022	54 502	520
Credit default contracts	16	18	(2)	23	22	1
Other	637	154	483	407	32	375
	310 535	**291 563**	**18 972**	**424 154**	**496 406**	**(72 252)**

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

In accordance with the accounting policy described in Note 2.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

The Group recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group’s access to the (wholesale market).

As at 30 June 2021, the gains related essentially to foreign exchange transactions amounted to approximately Euro 773 thousand (30 June 2020: Euro 2 640 thousand).

NOTE 10 - GAINS OR LOSSES ON FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFITS OR LOSS AND GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on financial assets mandatorily at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	14 602	2 440	12 162	1	14 412	(14 411)
Shares	17 313	-	17 313	15 127	114 011	(98 884)
Other variable income securities	8 022	7 372	650	1 500	183 080	(181 580)
	39 937	**9 812**	**30 125**	**16 628**	**311 503**	**(294 875)**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Other variable income securities	81	-	81	-	-	-
	81	**-**	**81**	**-**	**-**	**-**
	40 018	**9 812**	**30 206**	**16 628**	**311 503**	**(294 875)**

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

NOTE 11 – GAINS OR LOSSES FROM HEDGE ACCOUNTING

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Fair value changes of hedging instruments						
Foreign exchange rate contracts	62 352	30 470	31 882	24 500	44 411	(19 911)
Fair value changes of hedging item attributable to hedged risk	4 645	28 335	(23 690)	25 920	17 195	8 725
	66 997	**58 805**	**8 192**	**50 420**	**61 606**	**(11 186)**
Compensations for hedging operations interruptions (see Note 14)	1 166	-	1 166	835	-	835
Net amount of compensations	**68 163**	**58 805**	**9 358**	**51 255**	**61 606**	**(10 351)**

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

NOTE 12 – EXCHANGE DIFFERENCES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	685 749	672 311	13 438	520 827	536 483	(15 656)
	685 749	**672 311**	**13 438**	**520 827**	**536 483**	**(15 656)**

* Values restated to reflect the reclassification of the Spanish Branch to discontinued operation, which took place in the third quarter of 2020.

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.3.

NOTE 13 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Real Estate	192	(662)
Equipment	(62)	(275)
Other	1 179	857
	1 308	**(80)**

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

NOTE 14 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Other operating income		
Gains / (losses) on recoveries of loans	16 089	14 989
Non-recurring advisory services	245	154
Income of Funds and real estate companies	13 537	12 973
Gains on the acquisition of debt issued by the Group (see Note 31)	-	7
Gains on investment properties revaluation (see Note 26)	4 905	6 831
Other income	13 885	15 711
	48 661	**50 665**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 31)	(4)	-
Direct and indirect taxes	(1 733)	(2 395)
Contribution on the banking sector and solidarity additional	(34 203)	(27 439)
Membership fees and donations	(1 281)	(974)
Expenses of Funds and real estate companies	(6 458)	(5 464)
Charges with Supervisory entities	(927)	(1 289)
Losses on investments properties revaluation (see Note 26)	(4 283)	(44 314)
Other expenses	(14 272)	(10 899)
	(63 161)	**(92 774)**
Other operating income / (expenses)	**(14 500)**	**(42 109)**

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

As at 30 June 2021, the amount received relating to compensation for discontinuation of hedging operations, included in other income, amounts to Euro 1 166 thousand (30 June 2020: Euro 835 thousand) (see Note 11).

NOTE 15 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Wages and salaries	90 039	90 198
Remuneration	89 647	89 905
Long-term service / Career bonuses (see Note 16)	392	293
Mandatory social charges	25 466	28 533
Costs with post-employment benefits (see Note 16)	373	197
Other costs	1 750	2 172
	117 628	**121 100**

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

The provisions and costs related to the restructuring process are presented in Note 32.

As at 30 June 2021 and 2020, the number of employees of NOVO BANCO Group has the following breakdown:

	30.06.2021	30.06.2020
Novo Banco employees	4 148	4 420
Employees of the Group's subsidiaries	322	435
Total employees of the Group	**4 470**	**4 855**

NOTE 16 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the years of service, applied to each year's negotiated salary table for the active workforce.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS) managed by the Union. As a result of the signing of the new Collective Labour Agreement (ACT) on July 5, 2016, with publication in Labour Bulletin No. 29 of August 8, 2016, the contributions to SAMS, under the responsibility of the Group, as of February 1, 2017 started to correspond to a fixed amount (according to Annex VI of the new ACT) for each employee, 14 times in a year. The calculation and recording of the Group's obligations with health benefits attributable to workers at retirement age are carried out in a similar way to pension liabilities. These benefits are covered by the Pension Fund, which integrates all liabilities with pensions and health benefits.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law No. 1-A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime that considers the number of years of contributions under that regime. The Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees on the behalf of *Caixa de Abono de Família dos Empregados Bancários* (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Bank of Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Bank of Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Bank of Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

On June 16, 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the former Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the Novo Mercado Pension Fund Bank. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - NOVO BANCO and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of NOVO BANCO or BES until the final decision of the court (limit of article 402), so NOVO BANCO transferred the amount of Euro 19.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 30 June 2021, the amount of Euro 278 thousand was recorded in Staff Expenses related to the defined contribution plan (31 December 2020: Euro 535 thousand).

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

	30.06.2021		31.12.2020	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	1.00%	-1.03%	1.00%	2.41%
Discount rate	1.00%	-	1.00%	-
Pension increase rate	0.25%	0.19%	0.25%	1.34%
Salary increase rate	0.50%	0.87%	0.50%	3.07%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-2 years		TV 88/90-2 years	

The application of IAS 19 translates into the following liabilities and coverage levels reportable as at 30 June 2021 and 31 December 2020:

(in thousands of Euros)

	30.06.2021	31.12.2020
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 932 965)**	**(1 934 668)**
Pensioners	(1 359 692)	(1 368 021)
Employees	(573 273)	(566 647)
Coverage		
Fair value of plan assets	**1 857 879**	**1 907 616**
Net assets / (liabilities) in the balance sheet (See Notes 29 and 33)	**(75 086)**	**(27 052)**
Accumulated actuarial deviations recognized in other comprehensive income	**765 171**	**723 723**

According to the policy defined in Note 2.15 - Employee Benefits, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

(in thousands of Euros)

	30.06.2021	31.12.2020
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**723 723**	**599 454**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial	-	101 787
- Plan assets return (excluding net interests)	41 280	23 225
Other	168	(743)
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**765 171**	**723 723**

The costs of retirement pensions and health benefits for the six month periods ended on 30 June 2021 and 2020 can be analyzed as follows:

(in thousand of Euros)

	Six month period ended on	
	30.06.2021	**30.06.2020**
Current service cost	210	197
Net interest	1 348	2 278
Early retirements	163	-
Post-employment benefits costs	**1 721**	**2 475**

In the first half of 2021, the value of early retirements was Euro 7.1 million (30 June 2020: Euro 8.6 million), of which Euro 6.9 million are part of the Group's restructuring process (30 June 2020: Euro 8.6 million) and, as such, were recognized against the use of the restructuring provision (see Note 32).

Career bonuses

As at 30 June 2021, the liabilities assumed by the Group amount to Euro 7 803 thousand, corresponding to the liabilities for past services of the career bonus, as described in Note 2.15 – Employee benefits (31 December 2020: Euro 7 591 thousand) (see Note 33).

As at 30 June 2021, there was a cost of Euro 392 thousand with career bonuses (30 June 2020: Euro 293 thousand) (see Note 15).

NOTE 17 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Rentals	1 896	1 654
Advertising	2 710	3 860
Communication	5 801	6 113
Maintenance and repairs expenses	4 673	4 332
Travelling and representation	787	1 412
Transportation of valuables	2 600	2 370
Insurance	2 737	1 593
IT services	18 849	22 000
Independent work	909	1 385
Temporary work	449	676
Electronic payment systems	5 619	5 673
Legal costs	2 419	2 959
Consultancy and audit fees	7 888	8 717
Water, energy and fuel	1 538	1 797
Consumables	861	884
Other costs	10 411	11 669
	70 147	**77 094**

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

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

NOTE 18 - CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

As at 30 June 2021 and 2020 this caption is analyzed as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Contribution to the Single Resolution Fund	25 341	22 266
Contribution to the Portuguese Resolution Fund	15 150	12 743
Contribution to the Deposit Guarantee Fund	44	39
	40 535	**35 048**

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

NOTE 19 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year /period.

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020
Net consolidated profit / (loss) attributable to shareholder of the Bank	**137 707**	**(555 303)**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**0.01**	**(0.06)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**0.01**	**(0.06)**

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share since there are no dilutive effects.

NOTE 20 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 30 June 2021 and 31 December 2020, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Cash	**145 901**	**149 205**
Demand deposits with Central Banks		
Bank of Portugal	4 491 885	2 289 339
Other Central Banks	2 862	3 458
	4 494 747	**2 292 797**
Deposits in other credit institutions in the country		
Repayable on demand	26 293	19 565
Uncollected checks	49 005	51 590
	75 298	**71 155**
Deposits with banks abroad		
Repayable on demand	137 894	143 614
Other deposits	44 045	38 688
	181 939	**182 302**
	4 897 885	**2 695 459**

The caption Demand deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 264.1 million (31 December 2020: Euro 262.2 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 30 June 2021 and 31 December 2020, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 30 June 2021 was included in the observation period running from 16 June to 27 July 2021.

Checks to be collected on credit institutions at home and abroad were sent for collection within the first business days following the reference dates.

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 30 June 2021 and 31 December 2020, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	78 286	267 016
	78 286	**267 016**
Derivatives		
Derivatives held for trading with positive fair value	293 849	388 257
	293 849	**388 257**
	372 135	**655 273**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	418 523	554 791
	418 523	**554 791**

Securities held for trading

In accordance with the accounting policy described in Note 2.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of securities held for trading by fair value hierarchy is presented in Note 40.

Derivatives

As at 30 June 2021 and 31 December 2020 Derivatives are analyzed as follows:

(in thousands of Euros)

	30.06.2021			31.12.2020		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for negotiation						
Foreign exchange rate contracts	1 864 314	38 672	36 558	1 779 664	57 205	45 493
Interest rate contracts	6 346 098	242 590	375 125	7 227 951	319 662	503 743
Equity / Index contracts	575 483	12 587	6 832	693 958	11 390	5 539
Credit default contracts	2 249	-	8	2 399	-	16
		293 849	**418 523**		**388 257**	**554 791**

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 2.4 and 2.7, and which the Group has not designated for hedge accounting.

The Group calculates the Credit Valuation Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a recovery rate, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, are applied to the exposure determined, an expected loss and a recovery rate.

In the first half of 2021, the Group recognized a loss of Euro 471 thousand related to the CVA of derivative instruments (first half of 2020: gain of Euro 604 thousand).

The Group chooses not to register "Debt Valuation Adjustment" (DVA), which represents the market value of own credit risk of the group of a certain negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.

Credit Support Annex (CSA)

NOVO BANCO has several contracts negotiated with counterparts with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 22 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTISED COST

As at 30 June 2021 and 31 December 2020, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2021				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	923 298	7 717 445	2 399 431	(1 193)	11 038 981
Loans and advances to banks	-	-	86 900	-	86 900
Loans and advances to customers	-	-	23 470 436	41 364	23 511 800
	923 298	**7 717 445**	**25 956 767**	**40 171**	**34 637 681**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 23)

(in thousands of Euros)

	31.12.2020				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	960 962	7 907 587	2 229 947	1 129	11 099 625
Loans and advances to banks	-	-	113 795	-	113 795
Loans and advances to customers	-	-	23 554 304	62 730	23 617 034
	960 962	**7 907 587**	**25 898 046**	**63 859**	**34 830 454**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 23)

Securities

As at 30 June 2021 and 31 December 2020, the detail of securities portfolio is as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	83 969	160 184
Shares	446 861	406 104
Other securities with variable income	392 468	394 674
	923 298	**960 962**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	6 273 229	6 490 076
From other issuers	1 380 711	1 352 759
Shares	63 505	64 752
	7 717 445	**7 907 587**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	400 053	421 249
From other issuers	2 215 047	2 009 935
Impairment	(215 669)	(201 237)
	2 399 431	**2 229 947**
Value adjustments for hedging operations for interest rate risk *	(1 193)	1 129
	11 038 981	**11 099 625**

* See Note 23

The securities mandatorily accounted at fair value through profit or loss include the participation units held by the Group in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 2.5, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

At the end of 2020, NOVO BANCO completed the independent assessment of the restructuring funds. These funds are “level 3” assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and NOVO BANCO requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 557.2 million for the total investment held in these assets on 30 June 2020 and Euro 498.8 million on 31 December 2020, which led to a loss of Euro -260.6 million and Euro -39.6 million in the first and second half of 2020, respectively, recorded under the caption Gains or losses on financial assets mandatorily accounted for at fair value through profit or loss (see Note 10). This assessment included the establishment of assumptions for the valuation of the assets held by the funds, a discount at the fund level based on similar parameters in quoted funds and an assessment of the fund's potential evolution (see Note 40).

As at 30 June 2021 and 31 December 2020, the breakdown of securities at fair value through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [(1)]	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 023 934**	**250 098**	**(803)**	**6 273 229**	**(2 834)**
Residents	2 679 931	105 325	(622)	2 784 634	(1 425)
Non residents	3 344 003	144 773	(181)	3 488 595	(1 409)
From other issuers	**1 341 769**	**42 823**	**(3 881)**	**1 380 711**	**(642)**
Residents	29 600	88	(2 334)	27 354	(3)
Non residents	1 312 169	42 735	(1 547)	1 353 357	(639)
Shares	**444 033**	**19 079**	**(399 607)**	**63 505**	**-**
Residents	347 692	15 405	(310 219)	52 878	-
Non residents	96 341	3 674	(89 388)	10 627	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**
Residents	3	-	(3)	-	-
Balance as at 30 June 2021	**7 809 739**	**312 000**	**(404 294)**	**7 717 445**	**(3 476)**

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

(in thousands of Euros)

	Cost (1)	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 130 285**	**360 033**	**(242)**	**6 490 076**	**(3 125)**
Residents	2 650 953	129 520	-	2 780 473	(1 435)
Non residents	3 479 332	230 513	(242)	3 709 603	(1 690)
From other issuers	**1 286 344**	**68 749**	**(2 334)**	**1 352 759**	**(565)**
Residents	29 605	107	(2 334)	27 378	(3)
Non residents	1 256 739	68 642	-	1 325 381	(562)
Shares	**463 232**	**18 163**	**(416 643)**	**64 752**	**-**
Residents	359 127	15 396	(319 824)	54 699	-
Non residents	104 105	2 767	(96 819)	10 053	-
Other securities with variable income	**2**	**-**	**(2)**	**-**	**-**
Residents	2	-	(2)	-	-
Balance as at 31 December 2020	**7 879 863**	**446 945**	**(419 221)**	**7 907 587**	**(3 690)**

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

During the first half of 2021, the Group sold Euro 511.3 million of financial instruments classified at fair value through other comprehensive income (31 December 2020: Euro 1 323.9 million), with a gain of Euro 16.5 million (31 December 2020: gain of Euro 82.4 million), recorded in the income statement, from the sale of debt instruments, and a loss of Euro 19.2 million that were transferred from revaluation reserves to reserves associated with sales (31 December 2020: loss of Euro 15.0 million), arising from the sale of equity instruments.

Movements in impairment reserves on securities at fair value through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**5 556**	**-**	**-**	**5 556**
Increases due to changes in credit risk	1 291	38	-	1 329
Decreases due to changes in credit risk	(2 018)	-	-	(2 018)
Utilization during the period	(181)	-	-	(181)
Other movements	(25)	6	-	(19)
Balance as at 30 June 2020	**4 623**	**44**	**-**	**4 667**
Increases due to changes in credit risk	2 225	-	-	2 225
Decreases due to changes in credit risk	(3 062)	-	-	(3 062)
Utilization during the period	(51)	(44)	-	(95)
Other movements	(45)	-	-	(45)
Balance as at 31 December 2020	**3 690**	**-**	**-**	**3 690**
Increases due to changes in credit risk	452	-	-	452
Decreases due to changes in credit risk	(516)	-	-	(516)
Utilization during the period	(163)	-	-	(163)
Other movements	13	-	-	13
Balance as at 30 June 2021	**3 476**	**-**	**-**	**3 476**

Changes in impairment losses on amortised cost securities are as follows:

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**2 296**	**54 056**	**102 422**	**158 774**
Increases due to changes in credit risk	4 554	328 412	23	332 989
Decreases due to changes in credit risk	(3 835)	(324 437)	(2 785)	(331 057)
Utilization during the period	-	(1)	-	(1)
Other movements	(13)	-	-	(13)
Balance as at 30 June 2020	**3 002**	**58 030**	**99 660**	**160 692**
Increases due to changes in credit risk	5 633	389 436	10 510	405 579
Decreases due to changes in credit risk	(4 981)	(359 496)	(509)	(364 986)
Utilization during the period	(36)	(1)	-	(37)
Other movements	307	(317)	(1)	(11)
Balance as at 31 December 2020	**3 925**	**87 652**	**109 660**	**201 237**
Increases due to changes in credit risk	5 494	539 674	16 392	561 560
Decreases due to changes in credit risk	(4 080)	(524 707)	(16 691)	(545 478)
Utilization during the period	(12)	-	(1 640)	(1 652)
Other movements	90	(89)	1	2
Balance as at 30 June 2021	**5 417**	**102 530**	**107 722**	**215 669**

In accordance with the accounting policy mentioned on Note 2.5, the Group regularly evaluates if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 3.1.

The dotation for impairment for securities during 2020 financial year include Euro 29.0 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic.

The breakdown of the securities portfolio by fair value hierarchy is presented in Note 40.

The securities given as guarantee by the Group are analyzed in Note 36.

Loans and advances to Banks

As at 30 June 2021 and 31 December 2020, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Loans and advances to Banks in Portugal		
Very short-term placements	9 929	4 075
Deposits	1 747	4 897
Loans	38 775	30 280
Other loans and advances	3	4
	50 454	**39 256**
Loans and advances to Banks abroad		
Deposits	6 085	10 532
Other loans and advances	288 620	279 419
	294 705	**289 951**
Overdue loans	**-**	**34 726**
	345 159	**363 933**
Impairment losses	(258 259)	(250 138)
	86 900	**113 795**

Loans and advances to Banks are all registered in the amortized cost portfolio.

Changes in impairment losses on loans and advances to Banks are presented as follows:

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**318**	**76 341**	**429**	**77 088**
Increases due to changes in credit risk	132	1 847	-	1 979
Decreases due to changes in credit risk	(140)	(1 359)	(11)	(1 510)
Other movements	1	248	9	258
Balance as at 30 June 2020	**311**	**77 077**	**427**	**77 815**
Increases due to changes in credit risk	404	610	317 540	318 554
Decreases due to changes in credit risk	(296)	(589)	(128 509)	(129 394)
Other movements	11	(77 096)	60 248	(16 837)
Balance as at 31 December 2020	**430**	**2**	**249 706**	**250 138**
Increases due to changes in credit risk	1 125	11	309	1 445
Decreases due to changes in credit risk	(1 137)	(1)	-	(1 138)
Other movements	6	-	7 808	7 814
Balance as at 30 June 2021	**424**	**12**	**257 823**	**258 259**

The increase of impairment for investments in credit institutions verified in 2020 results from the degradation of the credit risk of international exposures analyzed on an individual basis, whose partial default situation at the end of 2020, among other signs of impairment, led to the transfer of the same to stage 3 and the constitution of additional impairments of Euro 189.6 million, and the total impairment recorded on 31 December 2020 for this exposure was Euro 249.3 million.

Loans and advances to customers

As at 30 June 2021 and 31 December 2020, the detail of loans and advances to customers is presents as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Domestic loans and advances		
Corporate		
Current account loans	1 100 944	1 147 959
Loans	8 930 195	8 980 908
Discounted bills	81 417	81 843
Factoring	557 636	576 766
Overdrafts	23 442	7 109
Financial leases	1 307 827	1 421 599
Other loans and advances	23 125	21 077
Individuals		
Residential Mortgage loans	8 880 676	8 977 196
Consumer credit and other loans	1 150 100	1 118 813
	22 055 362	**22 333 270**
Foreign loans and advances		
Corporate		
Current account loans	988 317	851 881
Loans	99 464	146 986
Discounted bills	3	4
Factoring	43 398	51 483
Overdrafts	7 754	8 321
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	981 340	950 312
Consumer credit and other loans	186 696	186 020
	2 306 973	**2 195 008**
Overdue loans and advances and interests		
Under 90 days	5 605	15 632
Over 90 days	576 774	610 169
	582 379	**625 801**
	24 944 714	**25 154 079**
Impairment losses	**(1 474 278)**	**(1 599 775)**
	23 470 436	**23 554 304**
Fair value adjustaments of interest rate hedges *		
Corporate		
Loans	4 643	6 774
Individuals		
Residential Mortgage loans	36 721	55 956
	41 364	**62 730**
	23 511 800	**23 617 034**

* See Note 23

In the first half of 2021, NOVO BANCO carried out a sale of non-performing loans (called “Wilkinson”) and the impact of this operation on the balance sheet resulted in a reduction in net loans and advances to customers of Euro 62.3 million (Euro 210.4 million in gross value and Euro 148.1 million in impairment), and the impact on results was a loss of Euro 4.5 million (see Note 42).

During the year of 2020, the Group carried out a sale of non-performing loans (called “Carter”) and the impact of this operation on the balance sheet resulted in a reduction in net loans and advances to customers of Euro 37.0 million (Euro 82.8 million in gross value and Euro 45.8 million in impairment), and the impact in the income statement was a gain of Euro 2.9 million (see Note 42).

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

As at 30 June 2021, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1 327.9 million (31 December 2020: Euro 1 390.3 million), related to securitization operations in which, according to the accounting policy referred to in Note 2.2, structured entities are consolidated by the Group (see Notes 1 and 39). The liabilities associated with these securitization operations were recognized as Debt Securities (see Note 31).

As at 30 June 2021, the caption Loans and advances to customers include Euro 6 074.4 million of mortgage loans related to the issuance of mortgage bonds (31 December 2020: Euro 6 104.8 million) (see Note 31).

As at 30 June 2021, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 23 629 thousand (31 December 2020: Euro 25 256 thousand).

Changes in loan impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**53 945**	**139 775**	**1 658 775**	**1 852 495**
Financial assets derecognised	(2)	-	(153 828)	(153 830)
Increases due to changes in credit risk	10 160	122 602	198 223	330 985
Decreases due to changes in credit risk	(14 277)	(14 046)	(13 167)	(41 490)
Utilization during the period	(15)	(83)	(112 566)	(112 664)
Other movements	13 481	(2 396)	(4 761)	6 324
Balance as at 30 June 2020	**63 292**	**245 852**	**1 572 676**	**1 881 820**
Financial assets derecognised	-	-	(140 177)	(140 177)
Increases due to changes in credit risk	30 129	216 543	230 522	477 194
Decreases due to changes in credit risk	(101 915)	(84 892)	(55 440)	(242 247)
Utilization during the period	(1)	(30)	(328 755)	(328 786)
Other movements [(a)]	69 924	(67 468)	(50 485)	(48 029)
Balance as at 31 December 2020	**61 429**	**310 005**	**1 228 341**	**1 599 775**
Financial assets derecognised	(52)	(2 896)	(155 870)	(158 818)
Increases due to changes in credit risk	7 045	67 571	69 315	143 931
Decreases due to changes in credit risk	(24 212)	(17 504)	(17 534)	(59 250)
Utilization during the period	-	(113)	(52 525)	(52 638)
Other movements	24 440	(20 542)	(2 620)	1 278
Balance as at 30 June 2021	**68 650**	**336 521**	**1 069 107**	**1 474 278**

(a) It includes Euro 58 046 thousand of impairment of credits of the Spanish Branch transferred to discontinued operations (Euro 22 427 thousand in stage 1 and Euro 35 619 thousand in stage 3).

Impairments for credit risk reinforced during the first half of 2021 include Euro 35.2 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic (first half of 2020: Euro 138 .3 million, second half of 2020: Euro 80.5 million).

Main events in the first half of 2021

The most relevant events during the first half of 2021 and with an impact on credit risk management policies and procedures were:

1) Incorporation in the accounts for the first half of the additional impact expected due to the Covid-19 pandemic

In relation to the first half of 2021, the relevant change in terms of credit risk management occurred in the determination of impairments. Due to the extension of the 3rd wave of the Covid pandemic and subsequent slower economic recovery in 2021, NOVO BANCO understood that the effects arising from this situation would have additional impacts than what the IFRS 9 impairment model could capture with the IFRS 9 risk parameters into force. These additional impacts would be more likely to be felt in companies with economic activity in sectors critically affected by the pandemic and in the universe of individuals who resorted to the moratorium.

For this purpose, an additional amount of collective impairment was recorded to cover potential additional losses that could not be captured from the existing information and incorporated into the impairment model.

This additional amount accounted for the indicated purpose was calculated through simulations of alternative conditions on the portfolio position in force. Since an additional amount of impairments not allocated to specific exposures was recorded, this amount was calculated following the rules and procedures of the model in force, incorporating alternative conditions to those existing. In this way, the Group performed a post-model adjustment to the impairment value based on simulations that changed, just for their purpose, the risk and stage levels of some portfolios.

Below is a clarification of the alternative conditions that were introduced in these simulations and that supported the constitution of additional impairments to face the Covid-19 pandemic, not directly allocated to specific exposures:
1. projection of internal rating deterioration in exposures of Covid sectors, that is, in companies whose sector of economic activity is most affected by the Covid-19 pandemic;
2. significant deterioration of credit risk on exposures of individuals based on specific qualitative evidence or manifestation of intention to request debt restructuring;
3. projection of migration to stage 2 of part of the portfolio of loans to individuals - mortgage and consumer credit - whose default ended during the second quarter of 2021.

1. Projection of internal rating deterioration in company exposures
Although NOVO BANCO carried out an exhaustive and transversal review of the risk ratings in the portfolio of companies, the understanding regarding the economic situation and the possible consequences of the pandemic in the activity of the most affected sectors led NOVO BANCO to consider the registration of additional impairment amounts to address the Covid-19 pandemic;
For this purpose, companies whose economic activity is characterized as the Covid sector were considered, as they are sectors

critically affected by the pandemic. Regarding companies in these sectors of activity critically affected by the pandemic, the impact arising from a simulation that considered the degradation of 1 level of internal rating in Medium Enterprises and ½ level of internal rating for the remaining segments of companies was recorded as impairments. This simulation resulted in an impact of around Euro 21 million.

2. Significant deterioration of credit risk from exposures to individuals
For this purpose, a simulation of a significant deterioration in the rating of mortgage and consumer credit contracts classified in stage 1 and customers with a moratorium, for which qualitative signs of deterioration in credit risk were identified. To this universe was added a number of customers with a moratorium who, following proactive contacts by NOVO BANCO, indicated that they would ask NOVO BANCO to restructure their debt in the short term.
Thus, the impact resulting from this simulation combined the deterioration of the risk level of the contracts covered with their transition to stage 2 – and the consequent calculation of impairments until the contract's residual maturity.
Since the attribution of a moratorium is not a criterion for classification in stage 2, this factor was introduced in the simulation, as defaults do not allow, at this stage, an assertive assessment of the effective level of risk of borrowers and/or their ability to fully comply with its obligations, under the contracted conditions, upon expiration of the deadline of the moratoriums. Likewise, for the purposes of this simulation, the high probability of these credits being restructured at the end of the moratoriums was also considered.
This simulation resulted in an impact of around Euro 1.8 million.

3. Loans to individuals – mortgage and consumer credit – whose moratorium ended in the second quarter of 2021
For this purpose, a simulation was considered that reflected the expectation that a relevant part of this universe will request help from the Bank - for example, extension of grace period - which implies its classification in stage 2 and/or that its risk level does not improve. Since this impact may not be verifiable during the period immediately after the end of the moratoriums, an additional adjustment to the impairment calculated by the model was estimated. This adjustment was verified in two ways:

a) stage 1 to stage 2 migration of a part of this universe.
b) not allow it to lessen the impairment coverage of the universe that persisted in the same stage (1 or 2).

This simulation resulted in an impact of Euro 4.4 million.

2) Maintenance of risk mitigation initiatives in the current context
The Covid-19 pandemic event significantly impacted the normal development of economic activity, both due to limitations in the exercise and in the pattern of consumption and investment, as well as significant restrictions in the way of operating in almost all sectors and agents of the economy, as a result of movement restrictions, increasing demands for social distancing, as well as the gradual deterioration of the confidence indices of individuals and corporate.

This context changed the debtors' risk profile and their perspective of future evolution, which is why the Group has timely adopted a series of articulated initiatives to ensure an adequate management of credit risk:

- Quarterly review of risk appetite rules - on a quarterly basis, the risk appetite rules applicable to the different customer segments for the following quarter began to be evaluated, discussed and decided by the Executive Board of Directors. This review has led to different policy adaptations, initially focusing the Bank's credit activity on its customer base and placing greater restrictions on the risk to be assumed by new customers, and at the same time created levels of risk appetite differentiation based on the impacts of the pandemic:
  (i) In individual customers, the cut-off points for the admission of mortgage loans and consumer credit were revised for both new and existing customers;
  (ii) In corporate segment customers, maintenance of different risk appetite levels for each of the three define clusters. The first called “Covid sectors” is composed of the activities directly most affected by the pandemic and mobility restrictions and for this it defined a very limited risk appetite. The second cluster “Macro affected sectors” is composed of the economic activity sectors that are impacted by a macroeconomic deterioration due to changes in consumption and investment patterns, having defined a limited risk appetite for the worst rating levels. The third cluster “Other sectors” is composed of companies from other sectors of activities less impacted by the Covid-19 pandemic, or that are assessed as more resilient to that impact.

These risk appetite rules continue to be monitored and reviewed on a permanent basis, in order to ensure that at all times the Group maintains updated policies that are appropriate to the context and risk profile of each client:

- Monitoring of the credit contracting profile under the new risk appetite rules - to ensure sufficient knowledge about new production within or outside risk appetite, weekly and monthly management information was created for periodic sharing with the different bodies Bank's management.

- Periodic monitoring of rating review activity and rating migration flows - to allow timely knowledge and identification of rating upgrade or downgrade movements in each segment of corporate, new weekly and monthly management information was created with matrices of rating pre- and post-Covid migration for sharing with management bodies, which allow for the identification of individual cases that have been reassessed by the Rating Department, as well as changes justified by changes in the sector “Industry Anchors”.

- Review of portfolio limits: internal risk appetite measurement and monitoring instrument, which has been widely used by the Bank in recent years, as well as its metrics have been updated in the new post-Covid context. The definition of annual objectives and the monthly monitoring of the most relevant business lines allow the definition of mandates in the company segments for the worst rating levels, for the weight of exposures without an assigned rating, and for default exposures. In the case of private portfolios, these metrics are not defined based on the portfolio, but on the new contract, and are divided between the worst rating levels, the highest debt repayment ratios and the highest LTV bands. In the new context of revised risk appetite rules, this monitoring process has proven to be up-to-date and useful and continues to be shared periodically with the Bank's management bodies.

- Monitoring of legal moratorium regimes and monitoring the end of private moratorium regimes:
  Preparation of information that characterizes the evolution of the risk of this component of the portfolio, which has been permanently monitored by the Bank's management bodies.

In addition to this global monitoring of the portfolio, NOVO BANCO developed different initiatives in order to monitor the profile of customers who adhered to this regime, and their standard of compliance and solvency, in order to identify in advance those who have not capacity to comply with future debt service after the end of the moratorium period, they may need other forms of support or restructuring, preventing their entry into default, notably:

(i) Creation of a 2nd wave of company evaluation questionnaires - NOVO BANCO created a new questionnaire for evaluating companies with a significant set of questions that will allow them to collect information on the impact that the pandemic has had to date on these debtors, on the level of impact estimated by them in the full year 2020, as well as an estimate of impact on the activity in 2021. Since it was implemented, the information in this questionnaire is now integrated into the recurring credit risk admission and follow-up process, so that all new decisions and policies marked are already informed with these data. Additionally, using the results obtained with this questionnaire, and after relying on the responses collected, NOVO BANCO has information that allows it to individualize the impacts of the pandemic at the level of each debtor, and simulate the effects on a change in the rating level and on an eventual migration of the Stage in which it is integrated;

(ii) Indicators of financial deterioration of individuals - for individual customers, in addition to the current procedures for the prevention of default (PARI) and the management of default (PERSI), NOVO BANCO explored new sources of behavioral and transactional information for its customers, that allow it to identify internal or external signs of financial degradation. This set of enriched information will allow its customer base to be segmented by different levels of propensity to enter into default, and to implement a screening action and different support strategies adapted to the situation of each customer, preventing early entry in delinquency in view of the end date of the moratorium.

With priority for debtors under moratorium regime, for whom the Group failed to observe data of compliance of debt service, but in which it is crucial to avoid the “cliff effect” that could originate with the end of the moratoriums through an identification and offering support in advance to those who are in financial difficulties, a wide range of variables from the behavioral scoring models, the Default model, the PARI regime, transactional data and different sources of internal and external information were analyzed.

The exercise carried out based on analytical support and a multidisciplinary expert judgment, allowed to choose the variables understood as the most predictive for the situation of financial difficulty and to define the materiality triggers that will better identify those debtors.

The choice of these indicators allowed the Group to segment its portfolio of individuals into homogeneous groups of customers with a similar probability of future entry into default, in order to prioritize its performance: with immediate priority for the group of debtors who already exhibit financial difficulties, with a secondary priority for those who have a high propensity to default, and with low priority for those who do not register warning signs or have indicators of resilience.

In order to reinforce the set of operational measures to deal with the impacts of the pandemic on credit risk management, NOVO BANCO will continue to develop different initiatives to ensure correct identification and early offer of support to debtors who may be experiencing difficulties at the end of the moratorium period.

NOTE 23 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

As at 30 June 2021 and 31 December 2020, the fair value of the hedging derivatives is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Hedging derivatives		
Assets	14 756	12 972
Liabilities	(52 349)	(72 543)
	(37 593)	**(59 571)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 22)	(1 193)	1 129
Loans and advances to customers (see Note 22)	41 364	62 730
	40 171	**63 859**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting.

The Group calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 21 - financial assets and liabilities held for trading.

As at 30 June 2021, the ineffective portion of fair value hedging operations resulted in a cost of Euro 1.1 million that was recognized in the income statement (31 December 2020: cost of Euro 4.3 million). The Group periodically evaluates the effectiveness of hedges.

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Group proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Group did not record significant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were given the same change (hedged items and hedging).

NOTE 24 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	Cost of participation		Economic interest (b)		Book value		Group profit / losses attributable to the Group	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	30.06.2020
LOCARENT	2 967	2 967	50.00%	50.00%	20 933	20 607	169	364
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40.00%	40.00%	61 642	60 200	-	-
EDENRED	4 984	4 984	50.00%	50.00%	1 720	2 102	-	222
UNICRE **a)**	11 497	11 497	17.50%	17.50%	23 926	28 983	905	309
Others	16 118	28 572			10 440	19 701	(121)	(509)
	182 335	**194 789**			**118 661**	**131 593**	**953**	**386**
Impairment					**(32 268)**	**(37 963)**		
					86 393	**93 630**		

a) Despite the Group's economic interest being less than 20%, this entity was included in the consolidated balance sheet using the equity method since the Group exercises significant influence over its activities.

b) The percentage of economic interest indicated corresponds to the proportion of voting rights held.

In the first half of 2021, dividend income in the amount of Euro 6 981 thousand was recorded in financial assets in investments in associates and subsidiaries, which include dividends received from Unicre in the amount of Euro 6 321 thousand and from Edenred in the amount of Euro 660 thousand (30 June 2020: Euro 583 thousand, which includes dividends received from Edenred in the amount of Euro 583 thousand).

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

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	31.12.2020	30.06.2020
Balance at the beginning of the period	**37 963**	**37 422**	**36 317**
Charges	361	3 931	1 211
Utilizations	-	(2 680)	-
Reversals	(1 330)	(844)	(106)
Foreign exchange differences and other **(a)**	(4 726)	134	-
Balance at the end of the period	**32 268**	**37 963**	**37 422**

(a) As at 30 June 2021, includes Euro 4 725 thousand of impairment to Ijar Leasing transferred during the 1st half of 2021 to descontinued operations (see Note 30).

NOTE 25 – TANGIBLE FIXED ASSETS

This caption as at 30 June 2021 and 31 December 2020 is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Real estate properties		
For own use	234 908	225 571
Improvement in leasehold properties	132 410	135 909
Assets under right-of-use	51 693	53 082
	419 011	**414 562**
Equipment		
Computer equipment	103 417	106 337
Fixtures	54 440	56 936
Furniture	52 547	52 296
Security equipment	23 473	24 248
Office equipment	8 147	7 993
Transport equipment	583	583
Assets under right-use	9 991	10 228
Other	182	189
	252 780	**258 810**
	671 791	**673 372**
Work in progress		
Improvements in leasehold properties	506	-
Real estate properties	1 727	148
Equipment	1	1
Others	372	1 417
	2 606	**1 566**
	674 397	**674 938**
Accumulated impairment	(14 403)	(13 943)
Accumulated depreciation	(461 331)	(473 943)
	198 663	**187 052**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2019	**407 341**	**280 521**	**-**	**95**	**687 957**
Acquisitions	971	4 391	-	447	5 809
Disposals/write-offs	(2 155)	(5 349)	-	-	(7 504)
Transfers	91	6	-	(97)	-
Foreign exchange differences and other	43	998	-	-	1 041
Balance as at 30 June 2020	**406 291**	**280 567**	**-**	**445**	**687 303**
Acquisitions	30 207	11 123	-	1 146	42 476
Disposals/write-offs	(10 384)	(5 011)	-	-	(15 395)
Transfers **(a)(b)**	(1 756)	(153)	-	(24)	(1 933)
Foreign exchange differences and other	(9 796)	(27 716)	-	(1)	(37 513)
Balance as at 31 December 2020	**414 562**	**258 810**	**-**	**1 566**	**674 938**
Acquisitions	18 914	4 800	-	2 441	26 155
Disposals/write-offs	(16 563)	(10 926)	-	-	(27 489)
Transfers **(d)**	2 090	95	-	(1 402)	783
Foreign exchange differences and other	8	1	-	1	10
Balance as at 30 Junho 2021	**419 011**	**252 780**	**-**	**2 606**	**674 397**
Depreciation					
Balance as at 31 December 2019	**241 132**	**247 791**	**17**	**-**	**488 940**
Depreciation	9 625	6 367	-	-	15 992
Disposals/write-offs	(612)	(5 302)	-	-	(5 914)
Transfers	(31)	-	-	-	(31)
Foreign exchange differences and other	1 570	(4)	(3)	-	1 563
Balance as at 30 June 2020	**251 684**	**248 852**	**14**	**-**	**500 550**
Depreciation	8 204	6 089	-	-	14 293
Disposals/write-offs	(8 316)	(4 671)	(7)	-	(12 994)
Transfers **(c)**	(774)	(143)	-	-	(917)
Foreign exchange differences and other	(2 371)	(24 618)	-	-	(26 989)
Balance as at 31 December 2020	**248 427**	**225 509**	**7**	**-**	**473 943**
Depreciation	6 917	6 388	-	-	13 305
Disposals/write-offs	(14 999)	(10 828)	-	-	(25 827)
Transfers **(d)**	(281)	(1)	-	-	(282)
Foreign exchange differences and other	137	55	-	-	192
Balance as at 30 Junho 2021	**240 201**	**221 123**	**7**	**-**	**461 331**
Impairment					
Balance as at 31 December 2019	**10 609**	**-**	**-**	**-**	**10 609**
Balance as at 30 June 2020	**10 609**	**-**	**-**	**-**	**10 609**
Impairment loss	3 334	-	-	-	3 334
Balance as at 31 December 2020	**13 943**	**-**	**-**	**-**	**13 943**
Impairment loss	3 403	-	-	-	3 403
Reversals of impairment losses	(3 904)	-	-	-	(3 904)
Transfers	961	-	-	-	961
Balance as at 30 Junho 2021	**14 403**	**-**	**-**	**-**	**14 403**
Net book value at 30 June 2021	**164 407**	**31 657**	**(7)**	**2 606**	**198 663**
Net book value at 31 December 2020	**152 192**	**33 301**	**(7)**	**1 566**	**187 052**
Net book value at 30 June 2020	**143 998**	**31 715**	**(14)**	**445**	**176 144**

(a) Includes Euro 9 005 thousand and Euro 27 118 thousand of fixed asset (real estate and equipment) transferred by discontinued activities during the financial year 2020.

(b) Includes Euro 1 951 thousand of fixed assets (real estate and equipment) and Euro 1 064 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

(c) Includes Euro 2 034 thousand and Euro 24 274 thousand of amortizations related to fixed assets (real estate and equipment) of the Spain branch transferred to discontinued activities during the financial year 2020.

(d) Includes Euro 717 thousand of fixed assets (real estate and equipment) and Euro 281 thousand of accumulated amortizations related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

NOTE 26 – INVESTMENT PROPERTIES

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

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	31.12.2020	30.06.2020
Balance at the beginning of the exercise	**592 605**	**607 855**	**700 744**
Acquisitions	2 434	74 305	(62 339)
Alienation	(4 483)	(74 527)	6 946
Changes in fair value	622	(64 344)	(37 483)
Other **(a)**	(16)	49 316	(13)
Balance at the end of the exercise	**591 162**	**592 605**	**607 855**

(a) At 31 December 2020, it includes Euro 52 915 thousand of real estate assets transferred in financial year 2020 within the scope of the Restructuring of Real Estate Funds that were previously classified as Other Assets (see Note 29).

According to the accounting policy described in Note 2.23, the book value of investment properties is the fair value of the properties, as determined by a registered and independent appraiser with a recognized professional qualification and experience in the geographical location and category of the property being valued. For the purposes of determining the fair value of these assets, generally accepted criteria and methodologies are used, which integrate analyses by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 40). In view of the uncertainty associated with the estimated value of these assets, NOVO BANCO Group considers the impacts of the current context of the Covid-19 pandemic as the assets are subject to revaluation.

Investment properties comprise some assets held by Funds and Real Estate firms, and include commercial properties leased for revenue and properties held for valuation. Most of the lease contracts have no specific tenor, enabling the lessee to cancel it at any time. However, for a small number of these commercial properties leased to third parties there is a non-cancelling clause for approximately 10 years. Subsequent leases are negotiated with the lessee.

In the first half of 2021, the increase in the fair value of investment properties of Euro 0.6 million (30 June 2020: reduction of Euro 37.5 million) (see Note 14), and the rental income recorded from investment properties of Euro 9.4 million (30 June 2020: Euro 7.5 million), are recorded in Other operating income and expenses.

NOTE 27 – INTANGIBLE ASSETS

This caption as at 30 June 2021 and 31 December 2020, is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Goodwill	**13 907**	**13 907**
Internally developed		
Software - Automatic data processing system	69 511	69 511
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	353 865	353 678
	423 377	**423 190**
Work in progress	**29 376**	**21 439**
	466 660	**458 536**
Accumulated amortization	(398 858)	(395 796)
Impairment losses	(13 907)	(13 907)
	53 895	**48 833**

The changes in this caption were as follows:

(in thousands of Euros)

	Goodwill e Value In Force	Software	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2019	**13 908**	**440 946**	**17 464**	**472 318**
Acquisitions				
Acquired from third parties	-	1 796	9 536	11 332
Foreign exchange differences and other	(1)	(1)	-	(2)
Balance as at 30 June 2020	**13 907**	**442 741**	**27 000**	**483 648**
Acquisitions				
Acquired from third parties	-	934	14 600	15 534
Disposals / write-offs	-	(24)	-	(24)
Transfers	-	20 161	(20 161)	-
Foreign exchange differences and other **(a)**	-	(40 622)	-	(40 622)
Balance as at 31 December 2020	**13 907**	**423 190**	**21 439**	**458 536**
Acquisitions				
Acquired from third parties	-	187	7 937	8 124
Disposals / write-offs	-	(4)	-	(4)
Foreign exchange differences and other	-	4	-	4
Balance as at 30 June 2021	**13 907**	**423 377**	**29 376**	**466 660**
Amortizations				
Balance as at 31 December 2019	**-**	**432 032**	**-**	**432 032**
Amortization for the period	-	1 330	-	1 330
Foreign exchange differences and other	-	(1)	-	(1)
Balance as at 30 June 2020	**-**	**433 361**	**-**	**433 361**
Amortization for the period	-	1 457	-	1 457
Disposals / write-offs	-	(20)	-	(20)
Foreign exchange differences and other **(b)**	-	(39 002)	-	(39 002)
Balance as at 31 December 2020	**-**	**395 796**	**-**	**395 796**
Amortization for the period	-	3 059	-	3 059
Foreign exchange differences and other	-	3	-	3
Balance as at 30 June 2021	**-**	**398 858**	**-**	**398 858**
Impairment				
Balance as at 31 December 2019	**13 908**	**-**	**-**	**13 908**
Foreign exchange differences and other	(1)	-	-	(1)
Balance as at 30 June 2020	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2020	**13 907**	**-**	**-**	**13 907**
Balance as at 30 June 2021	**13 907**	**-**	**-**	**13 907**
Net balance at 30 June 2021	**-**	**24 519**	**29 376**	**53 895**
Net balance at 31 December 2021	**-**	**27 394**	**21 439**	**48 833**
Net balance at 30 June 2020	**-**	**9 380**	**27 000**	**36 380**

(a) Includes Euro 40 083 thousand related to the Spain branch transferred to Discontinued Entities during the financial year 2020.

(b) Includes Euro 38 463 thousand related to the Spanish Branch transferred to Discontinued Entities during the financial year 2020.

Goodwill is recognized in accordance with the accounting policy described in Note 2.2, is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Subsidiaries		
Imbassaí	13 526	13 526
Other	381	381
	13 907	**13 907**
Impairment losses		
Imbassaí	(13 526)	(13 526)
Other	(381)	(381)
	(13 907)	**(13 907)**
	-	-

NOTE 28 – INCOME TAXES

NOVO BANCO and its subsidiaries and associated companies located in Portugal are subject, individually, to taxation in accordance with the Corporate Income Tax (IRC) Code. As a result, deferred taxes are recorded depending on the temporary differences between accounting and tax income relevant for IRC purposes, whenever such temporary differences are to be reverted in the future.

The income taxes correspond to the value determined of taxable income (if applicable) of the period, using the overall Corporate Income Tax (IRC) at the general rate of 21% and autonomous taxations.

Corporate income taxes (current or deferred) are recognized in the income statement except when the underlying transactions or items to which they are related have been reflected under equity captions (e.g. revaluation of financial assets at a fair value through other comprehensive income). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

Deferred taxes are calculated based on the tax rates expected to be in force at the temporary differences' reversal date, which correspond to the rates enacted or substantively enacted at the balance sheet date.

Thus, at 30 June 2021 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime.

Thus, at 30 June 2021, the Group continued to apply Regulatory Decree No. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework arising from Notice No. 3/95 of Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation, as well as changes introduced by the State Budget Law for 2021 which are under analysis. However, Management believes that, in the context of the interim condensed consolidated financial statements, there will be no additional charges of significant value.

On 30 June 2021 and 31 December 2020, NOVO BANCO Group recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met.

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime has been extended. As at 30 June 2021, NOVO BANCO Group recognised Banking Levy charges as a cost in the amount of Euro 28 892 thousand (31 December 2020: Euro 27 439 thousand). The cost recognised as at 30 June 2021 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures provided for in Economic and Social Stabilization Program (SSPE) and following the art. 18 of Law no. 27 -A / 2020, of July 24, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates. A transitional regime was established for the year 2020 and 2021, the settlement of which was carried out in accordance with the following rules:

- The reserve base is calculated by reference to the half-yearly average of the final balances of each month, which correspond in the accounts for the first half of 2020, in the case of the solidarity surcharge due in 2020, and in the accounts for the second half of 2020 , in the case of the solidarity surcharge due in 2021, published in compliance with the obligation established in Banco de Portugal Notice No. 1/2019;
- Settlement is carried out by the taxable person through the declaration to be sent until 15 December 2020 and 2021, respectively, with payment due on the same dates.

The Solidarity Supplement on the Banking Sector is not eligible as a tax cost.

As at 30 June 2021, the Group recognized as an expense in relation to the Solidarity Supplement for the Banking Sector the amount of Euro 5 311 thousand (31 December 2020: Euro 5 313 thousand). The expense recognized was calculated and paid based on the maximum rate of 0.02% that focuses on the average annual liability calculated in the balance sheet deducted from own funds and deposits covered by the guarantee of the Deposit Guarantee Fund.

Tax assets and liabilities recognized in the balance sheet as at 30 June 2021 and 31 December 2020 can be analyzed as follows:

(in thousands of Euros)

	30.06.2021		31.12.2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Current tax	**610**	**10 585**	**610**	**9 203**
Corporate tax recoverable	144	10 466	144	9 129
Other	466	119	466	74
Deferred tax	**672 935**	**4 429**	**774 888**	**5 121**
	673 545	**15 014**	**775 498**	**14 324**

The deferred tax assets and liabilities recognized in the balance sheet as at 30 June 2021 and 31 December 2020 are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	30.06.2021	**31.12.2020**	**30.06.2021**	**31.12.2020**	**30.06.2021**	**31.12.2020**
Financial instruments	67 255	64 322	(96 733)	(138 855)	(29 478)	(74 533)
Impairment losses on loans and advances to customers	657 340	790 784	-	-	657 340	790 784
Other tangible assets	-	-	(8 116)	(8 203)	(8 116)	(8 203)
Provisions	28 795	39 136	-	-	28 795	39 136
Pensions	29 123	31 676	-	-	29 123	31 676
Long-term service bonuses	22	22	-	-	22	22
Other	109	123	(10 040)	(9 989)	(9 931)	(9 866)
Tax losses carried forward	751	751	-	-	751	751
Deferred tax asset / (liability)	**783 395**	**926 814**	**(114 889)**	**(157 047)**	**668 506**	**769 767**
Asset / liability set-off for deferred tax purposes	(110 460)	(151 926)	110 460	151 926	-	-
Net Deferred tax asset / (liability)	**672 935**	**774 888**	**(4 429)**	**(5 121)**	**668 506**	**769 767**

Deferred tax assets are recognized to the extent they are expected to be recovered with future taxable income. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverability of deferred tax assets covered by the Special Regime (per Law no. 61/2014) applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2020, this exercise was made based on the latest business plan ("MTP") for the period 2021-2023, submitted to the European Central Bank in the end of February 2021.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2023, it is assumed, thereafter an increase in pre-tax results at a rate of 2.64% from 2023;
- Financial results moderate growth (average of 4%), with the expected cost of debt issuing to meet MREL requirements offset by the development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous years;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favorable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes; and
- Credit impairment charges in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

In addition, during the financial year 2020, the Bank became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. In this context, the Bank is assessing the impacts related to the potential creation of deferred tax assets arising from temporary differences.

Special Regime applicable to Deferred Tax Assets

During 2014, NOVO BANCO adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

The breakdown of deferred tax assets recorded by the Group and considered eligible under the special regime at 30 June 2021 and 31 December 2020 is as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Credit impairment	267 091	400 414
	267 091	**400 414**

Following the determination of a negative net income for the years between 2015 and 2010, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018	2017	2016	2015
Tax credit	124 721	110 922	161 974	127 575	99 474	153 555

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 29 – OTHER ASSETS

As at 30 June 2021 and 31 December 2020, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Collateral deposits placed	672 913	806 215
Derivative products	*535 657*	*655 952*
Collateral CLEARNET and VISA	*33 092*	*33 092*
Collateral deposits relating to reinsurance operations	*104 117*	*117 127*
Other collateral deposits	*46*	*45*
Debtors for mortgage credit interest subsidies	8 617	6 756
Public sector	959 917	703 701
Contingent Capital Agreement	377 712	598 312
Other debtors	436 191	491 627
Income receivable	92 162	64 025
Deferred costs	51 826	52 822
Retirement pensions and health-care benefits (see Note 16)	388	-
Precious metals, numismatics, medal collection and other liquid assets	9 705	9 722
Real estate properties [a)]	749 931	770 054
Equipment [a)]	3 218	3 488
Stock exchange transactions pending settlement	65 607	60 917
Other assets	152 523	62 752
	3 580 710	**3 630 391**
Impairment losses		
Real estate properties [a)]	(472 192)	(481 358)
Equipment [a)]	(2 182)	(2 285)
Other debtors - Shareholder loans, supplementary capital contributions	(112 342)	(124 939)
Other	(72 927)	(77 517)
	(659 643)	**(686 099)**
	2 921 067	**2 944 292**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

As at 30 June 2021, the caption Other debtors include, among others:

- Euro 2.3 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business which are entirely provisioned (31 December 2020: Euro 14.7 million, fully provisioned);
- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2020: Euro 111.6 million, entirely provisioned),
- Euro 63.3 million receivable relation to the sale operation of non-performing loans (NATA II Project) (31 December 2020: Euro 67.0 million);
- Euro 1.1 million in receivable in relation to the sale operation of real estate assets in 2019 (called "Sertorius Project") (31 December 2020: Euro 28.8 million);
- Euro 9.7 million receivable relation to the sale operation of non-performing loans in 2020 (called "Carter Project") (31 December 2020: Euro 27.4 million) (see Note 42); and
- Euro 37.3 million receivable relation to the sale operation of non-performing loans in 2021 (called the "Wilkinson Project") (see Note 42).

As at 30 June 2021, the caption Deferred costs includes the amount of Euro 39 418 thousand (31 December 2020: Euro 41 346 thousand) related to the difference between the nominal amount of the loans and advances granted to Group employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Group has the objective of immediate sale.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Group regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Group has to hold foreclosed assets.

During the first half of 2021, a net impairment amount of Euro 3.2 million was booked for real estate assets (30 June 2020: Euro 18.7 million). Given the uncertainty associated with the estimated value of these assets, NOVO BANCO Group considers the impacts of the current context of the Covid-19 pandemic as the assets are subject to revaluation.

During 2020, the Group started a process of reorganization of the real estate funds that are the object of consolidation, which implied the transfer of properties from Other assets to Investment properties according to the strategy defined for them. The gross value of the transferred properties amounted to Euro 118 987 thousand and the respective impairment to Euro 66 072 thousand. Since the valuation method for these properties is different, as indicated in the accounting policies (Notes 2.11 and 2.23), the change resulted in the recognition of a gain of Euro 1 805 thousand recorded in Other operating income.

Stock exchange transactions pending settlement refer to transactions of securities, recorded at the trade date and pending settlement, in accordance with the accounting policy described in Note 2.5.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	**31.12.2020**	**30.06.2020**
Balance at the beginning of the exercise	**686 099**	**755 327**	**764 808**
Allocation for the exercise	7 300	56 685	21 928
Utilisation during the exercise	(28 042)	(16 138)	(18 710)
Write-back for the exercise	(4 755)	(10 991)	(2 947)
Foreign exchange differences and other **(a)**	(959)	(98 784)	(9 752)
Balance at the end of the exercise	**659 643**	**686 099**	**755 327**

(a) Includes Euro 66 072 thousand of impairment of assets transferred to Investment Properties during the financial year 2020 (see Note 26) and Euro 19 854 thousand of impairment of assets of the Spanish Branch transferred to discontinued operations.

NOTE 30 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinued operations if their balance sheet value is recoverable through a sale transaction, which must be ready for immediate sale.

This category includes the subsidiaries and associated companies in the Group's consolidation perimeter, but which the Bank intends to sell and are actively in the process of selling with the net value of assets and liabilities measured at the lower of book value or fair value net of costs to sell.

The breakdown of Non-current assets and liabilities held for sale and discontinued operations on 30 June 2021 and 31 December 2020, net of consolidation adjustments, is as follows:

(in thousands of Euros)

	30.06.2021		31.12.2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Assets/Liabilities of discontinued operations				
International Investment Bank, S.A. (former BICV)	1 299	-	1 299	-
Banco Well Link (former NB Ásia)	1 946	-	1 883	-
Banco Delle Tre Venezie	9 633	-	9 633	-
Económico FI	3 060	-	3 060	-
Greendraive	2 735	1 744	1 887	1 969
ESEGUR	13 757	-	14 003	-
Multipessoal	2 644	-	2 687	-
Novo Banco - Spanish branch	1 582 510	2 118 778	1 696 245	1 993 851
NB Servicios	14 900	474	14 845	535
Novo Vanguarda	50	20	48	27
Ijar Leasing	9 051	-	-	-
	1 641 585	**2 121 016**	**1 745 590**	**1 996 382**
Impairment losses				
Novo Banco - Spanish branch	(176 000)	-	(166 000)	-
Banco Delle Tre Venezie	(7 333)	-	(7 333)	-
Económico FI	(2 285)	-	(2 023)	-
Greendraive	(2 735)	-	(1 887)	-
ESEGUR	(8 583)	-	(8 829)	-
Ijar Leasing	(4 725)	-	-	-
	(201 661)	**-**	**(186 072)**	**-**
	1 439 924	**2 121 016**	**1 559 518**	**1 996 382**

The results of discontinued operations at 30 June 2021 and 2020 are detailed as follows:

(in thousands of Euros)

	30.06.2021	30.06.2020 *
Profit / (loss) generated by discontinued operations		
Greendraive	350	(806)
NOVO AF	-	237
GNB Seguros	-	1 700
ESEGUR	(276)	97
Multipessoal	(44)	-
GNB IM	-	(440)
NB Espanha	(1 319)	(3 603)
NB Servicios	(116)	(280)
Novo Vanguarda	(6)	(24)
	(1 411)	**(3 119)**

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

The impairment movement for non-current Assets and Liabilities held for sale is as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	**31.12.2020**	**30.06.2020**
Balance at the beginning of the period	186 072	11 341	8 303
Allocation/reversals for the exercise	10 686	174 731	3 038
Exchange differences and other **(a)**	4 903	-	-
Balance at the end of the period	**201 661**	**186 072**	**11 341**

(a) Includes Euro 4 725 thousand of impairment of Ijar Leasing transferred from Investments in associates in the 1st halfof 2021 (see Note 24)

In the first half of 2021, the associate Ijar Leasing was transferred to non-current assets held for sale as it is in active sale process with the objective of its sale in the short term.

NOVO AF
At the end of the year 2020, the sale process of this subsidiary in Spain was concluded, with a gain of Euro 2.7 million recognized in the income statement.

GNB Seguros
Also due to the commitments assumed between the Portuguese State and the European Competition Comission and communicated to the Group at the end of 2017, during the financial year 2020 the Group completed the process of divesting its stake in GNB Seguros (25%), recognized a gain of Euro 6.4 million.

Spanish Branch
Following the accounting policy followed by the Group, and in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, during the financial year 2020 the Group transferred its activity in Spain to the caption of Non-current assets and disposal groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs of implementing the sale strategy, of the operation of blocks, carried out by an independent external entity, took into account the valuation references received from potential interested in partial sales of this activity, the estimated cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of Euro 176.0 million. On April 2, 2021, NOVO BANCO entered into a sale agreement for a set of assets and liabilities of Spanish Branch, being the impact of this transaction within the previously recorded impairment value. The transaction is expected to be completed in the last quarter of 2021.

NOTE 31 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 30 June 2021 and 31 December 2020 is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Deposits from banks	10 518 880	10 102 896
Due to customers	27 199 223	26 322 060
Debts securities issued, subordinated debt and liabilities associated to transferred assets	1 035 532	1 017 928
Other financial liabilities	441 208	365 883
	39 194 843	**37 808 767**

* Fair value changes of the elements covered by the interest rate hedge portfolio

Deposits from Banks

The balance of Deposits from Banks is composed, as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	146 514	29 030
Other funds	7 004 000	7 004 000
	7 150 514	**7 033 030**
Deposits from credit institutions		
Domestic		
Deposits	163 714	155 313
Other funds	20 413	4 788
	184 127	**160 101**
Foreign		
Deposits	592 065	651 656
Loans	596 937	596 534
Operations with repurchase agreements	1 956 414	1 625 724
Other resources	38 823	35 851
	3 184 239	**2 909 765**
	3 368 366	**3 069 866**
	10 518 880	**10 102 896**

As at 30 June 2021, the balance of the European Resources System of Central Banks caption includes Euro 7 004 million collateralized by the Group's financial assets, within the scope of the third series of long-term refinancing operations of the European Central Bank (TLTRO III) The bonus introduced by the ECB in the interest rate of these operations, in accordance with the stipulated in IAS 20, is being deducted from the financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the requirements of eligibility criteria defined by the ECB.

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 2.6.

Due to customers

The balance of Due to customers is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Repayable on demand		
Demand deposits	12 713 645	11 883 026
Time deposits		
Time deposits	8 887 434	9 234 116
Other	26	251
	8 887 460	**9 234 367**
Savings accounts		
Retirement saving accounts	229 536	233 160
Other	5 044 181	4 742 284
	5 273 717	**4 975 444**
Other funds		
Other	311 609	216 598
	311 609	**216 598**
	27 199 223	**26 322 060**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	30.06.2021	31.12.2020
Debt securities issued		
Euro Medium Term Notes (EMTN)	522 550	518 866
Bonds	36 362	39 377
	558 912	**558 243**
Subordinated debt		
Bonds	432 169	415 234
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	1 035 532	**1 017 928**

Under the Covered Bonds Program (“Programa de Emissão de Obrigações Hipotecárias”), which has a maximum amount of Euro 10 000 million, the Group issued covered bonds which, on 30 June 2021, amount to Euro 5 500 million (31 December 2020: Euro 5 500 million), being these covered bonds totally repurchased by the Group. The main characteristics of the outstanding issues as at 30 June 2021 and 31 December 2020 are as follows:

(in thousands of Euros)

30.06.2021									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2020									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	3 months Euribor rates + 0,25%	XDUB	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6, 7 and 8 and Instruction No. 13 of Bank of Portugal. As at 30 June 2021, the assets that collateralize these covered debt securities amount to Euro 6 074.4 million (31 December 2020: Euro 6 104.8 million) (see Note 22).

The changes in the first semester of 2021 and the financial year of 2020 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2020	Issues	Redemptions	LME	Net purchases	Other Movements [a)]	Balance as at 30.06.2021
Debt securities issued							
Euro Medium Term Notes (EMTN)	518 866	-	-	-	(440)	4 124	522 550
Bonds	39 377	-	(3 014)	-	-	(1)	36 362
	558 243	-	(3 014)	-	(440)	4 123	558 912
Subordinated debt							
Bonds	415 234	-	-	-	-	16 935	432 169
Financial liabilities associated to transferred assets							
Asset lending operations	44 451	-	-	-	-	-	44 451
	1 017 928	**-**	**(3 014)**	**-**	**(440)**	**21 058**	**1 035 532**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousands of Euros)

	Balance as at 31.12.2019	Issues	Redemptions	LME	Net purchases	Other movements [a)]	Balance as at 31.12.2020
Debt securities issued							
Euro Medium Term Notes (EMTN)	661 849	-	-	(155 869)	(570)	13 456	518 866
Bonds	45 855	-	(6 476)	-	-	(2)	39 377
	707 704	-	(6 476)	(155 869)	(570)	13 454	558 243
Subordinated debt							
Bonds	415 069	-	-	-	-	165	415 234
Financial liabilities associated to transferred assets							
Asset lending operations	44 450	-	-	-	-	1	44 451
	1 167 223	**-**	**(6 476)**	**(155 869)**	**(570)**	**13 619**	**1 017 928**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

Liability Management Exercise (LME) – NB Finance

As at 10 December 2020, following an early redemption offer, the EMTN issued by the subsidiary NB Finance with a total nominal amount of Euro 440.8 million (out of a total amount of Euro 453.3 million). This operation resulted in a loss in the amount of Euro 26 980 thousand.

The main characteristics of these liabilities, as at 30 June 2021 and 31 December 2020, are as follows:

(in thousands of Euros)

			30.06.2021						
Entity	ISIN	Description	Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0.22	34 862	2031 a)	Euribor 3m + 0,40%	Ireland
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1.00	1 500	2031 a)	Euribor 3m + 0,60%	Ireland
Euro Medium Term Notes									
NB (Sucursal Luxemburgo)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	41 418	2043	Fixed rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	95 311	2043	Fixed rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	61 863	2043	Fixed rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	45 560	2043	Fixed rate 3.5%	XLUX
NB (Sucursal Luxemburgo)	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	37 472	2048	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	47 206	2049	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	41 546	2049	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	36 011	2051	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	15 719	2051	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	45 184	2048	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	39 862	2052	Zero Coupon	XLUX
NB (Sucursal Luxemburgo)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	11 881	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1.00	1 845	2044	Zero Coupon	XLUX
NB Finance	XS0723597398	EMTN 114	EUR	2011	0.91	1 672	2021	Fixed rate 6%	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	432 169	2023 a)	8.50%	XDUB
						991 081			

a) Date of the next call option

(in thousands of Euros)

			31.12.2020						
Entity	ISIN	Description	Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0.24	37 877	2031 a)	Euribor 3m + 0,40%	Ireland
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1.00	1 500	2031 a)	Euribor 3m + 0,60%	Ireland
Euro Medium Term Notes									
NB (Luxemburgo Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 287	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	97 153	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 183	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	46 521	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	36 398	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	45 717	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	40 220	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	34 848	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	15 212	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	43 649	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	38 646	2052	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	11 477	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1.00	1 782	2044	Zero Coupon	XLUX
NB Finance	XS0723597398	EMTN 114	EUR	2011	1.00	1 773	2021	Fixed rate 6%	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 234	2023 a)	8.5%	XDUB
						973 477			

a) Date of the next call option

As at 31 December 2020, this caption did not include balance sheet amounts of liabilities represented by securities recorded at fair value through profit or loss, as it was reimbursed during 2020 within the scope of the LME program previously mentioned.

The table below shows the fair value component attributable to the credit risk of the fair value through profit or loss:

(in thousands of Euros)

	30.06.2021	31.12.2020
Fair value attributable to credit risk at the beginning of the exercise	-	47 935
Recognized in other comprehensive income		
Changes through other comprehensive income	-	10 883
Variation due to debt repurchases	-	(58 818)
Fair value attributable to credit risk at the end of the exercise	**-**	**-**

The change in fair value attributable to changes in the credit risk of the issues is calculated using the credit spread observed in recent issues of similar debt, adjusted for subsequent changes in the credit spread of the senior debt CDS issued by Group entities. As of January 1, 2018, in accordance with IFRS 9, this liability component is reflected in Other comprehensive income. With the redemption in 2020 of the issue recorded at fair value through profit or loss, the Group no longer has associated credit risk. However, the credit risk recognized since 1 January 2018 in the amount of Euro 9 214 thousand, was fixed in the respective credit risk reserve caption, in accordance with IFRS 9 (see Note 35).

The Group did not have capital or interest defaults on its debt issued in the first half of 2021 and in the year of 2020.

NOTE 32 – PROVISIONS

As at 30 June 2021 and 31 December 2020, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Other provisions	Total
Balance as at 31 December 2019	**24 044**	**97 086**	**41 334**	**145 353**	**307 817**
Allocation / (write-backs) for the period	23 446	(7 326)	(629)	21 460	36 951
Utilization during the period	(15 698)	-	(23 445)	(6 616)	(45 759)
Foreign exchange differences and other	-	(104)	-	(9)	(113)
Balance as at 30 June 2020	**31 792**	**89 656**	**17 260**	**160 188**	**298 896**
Allocation / (write-backs) for the period	100 469	29 442	-	19 561	149 472
Utilization during the period	(26 490)	(2 188)	(6 061)	(9 962)	(44 701)
Foreign exchange differences and other [(a)]	(8 798)	(14 924)	-	4 437	(19 285)
Balance as at 31 December 2020	**96 973**	**101 986**	**11 199**	**174 224**	**384 382**
Allocation / (write-backs) for the period	-	(18 610)	-	(4 960)	(23 570)
Utilization during the period	(12 792)	-	(10 205)	(14 929)	(37 926)
Foreign exchange differences and other	-	42	-	(41)	1
Balance as at 30 June 2021	**84 181**	**83 418**	**994**	**154 294**	**322 887**

(a) Includes Euro 8 798 thousand of restructuring provisions and Euro 14 420 thousand of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations.

The changes in the caption Provisions for guarantees are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**3 249**	**14 098**	**76 587**	**93 934**
Increases due to changes in credit risk	267	2 073	11 295	13 635
Decreases due to changes in credit risk	(1 286)	(11 160)	(9 721)	(22 167)
Other movements	44	1 824	(1 973)	(105)
Balance as at 30 June 2020	**2 274**	**6 835**	**76 188**	**85 297**
Increases due to changes in credit risk	819	18 429	12 014	31 262
Decreases due to changes in credit risk	659	(1 670)	(6 279)	(7 290)
Utilization during the period	-	-	(2 188)	(2 188)
Other movements [(a)]	(2 436)	475	(12 957)	(14 918)
Balance as at 31 December 2020	**1 316**	**24 069**	**66 778**	**92 163**
Increases due to changes in credit risk	728	792	2 537	4 057
Decreases due to changes in credit risk	(596)	(16 995)	(7 525)	(25 116)
Other movements	117	57	(136)	38
Balance as at 30 June 2021	**1 565**	**7 923**	**61 654**	**71 142**

(a) Includes Euro 14 420 thousand of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations (Euro 2 360 thousand on stage 1 and Euro 12 060 thousand on stage 3).

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**1 984**	**1 168**	**-**	**3 152**
Increases due to changes in credit risk	3 696	1 727	-	5 423
Decreases due to changes in credit risk	(3 523)	(677)	(17)	(4 217)
Other movements	34	(50)	17	1
Balance as at 30 June 2020	**2 191**	**2 168**	**-**	**4 359**
Increases due to changes in credit risk	2 921	3 845	-	6 766
Decreases due to changes in credit risk	(352)	(928)	(16)	(1 296)
Other movements	1 059	(1 081)	16	(6)
Balance as at 31 December 2020	**5 819**	**4 004**	**-**	**9 823**
Increases due to changes in credit risk	1 360	3 794	35	5 189
Decreases due to changes in credit risk	(865)	(1 858)	(17)	(2 740)
Other movements	428	(444)	20	4
Balance as at 31 June 2021	**6 742**	**5 496**	**38**	**12 276**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Group's sale and restructuring process. During the financial year of 2020, a provision of Euro 127.4 million was set up, and there was also a reversal of the provisions set up in 2016 and 2017 in the amount of Euro 3.4 million. As at 30 June 2021, the balance sheet restructuring provisions amount to Euro 84.2 million.

Other provisions amounting to Euro 154.3 million (31 December 2020: Euro 174.2 million) are intended to cover certain identified contingencies arising from the Group's activity, the most relevant being:

- Contingencies associated with ongoing tax processes, for which the Group maintains provisions of Euro 26.0 million (31 December 2020: Euro 29.2 million);
- Contingencies associated with legal proceedings in the amount of Euro 8.8 million (31 December 2020: Euro 11.1 million);
- Contingencies associated with sales processes in the amount of Euro 39.3 million (31 December 2020: Euro 41.1 million);
- Contingencies relating to the undivided part of the Pension Plan of the Executive Committee, in the amount of Euro 19.2 million (31 December 2020: Euro 19.2 million), transferred from the Liabilities net of the value of the assets of the Pension Fund (see Note 16);
- The remaining amount of Euro 61.0 million (31 December 2020: Euro 73.6 million) is intended to cover losses arising from the normal activity of the Group, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

NOTE 33 – OTHER LIABILITIES

As at 30 June 2021 and 31 December 2020, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Public sector	37 879	34 658
Creditors for supply of goods	45 954	58 793
Other creditors	96 096	64 412
Non-controlling interests of Open Investment Funds (see Note 35)	90 293	90 206
Career bonuses (see Note 16)	7 803	7 591
Retirement pensions and health-care benefits (see Note 16)	75 474	27 052
Other accrued expenses	73 396	75 495
Deferred income	3 591	2 175
Foreign exchange transactions pending settlement	28	-
Other transactions pending settlement	93 155	57 380
	523 669	**417 762**

NOTE 34 – SHARE CAPITAL

Ordinary shares

In 2017 and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised. Thus, as at 30 June 2021 and 31 December 2020, the share capital of the Bank amounts to Euro 5 900 000 000, represented by 9 799 999 997 registered shares, with no nominal value, fully subscribed and realised by the following shareholders:

	% Share Capital	
	30.06.2021	31.12.2020
Nani Holdings, SGPS, SA	75.00%	75.00%
Resolution Fund [1]	25.00%	25.00%
	100.00%	**100.00%**

[1] Given the commitments assumed by the Portuguese Republic and the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

As mentioned in Note 28, NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that grant the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015 and 2020 will confer a shareholding of up to approximately 16.63% of the share capital of NOVO BANCO, which will only dilute, in accordance to the sale contract, the Resolution Fund stake.

Regarding the financial years from 2015 to 2017, the tax authorities have already confirmed the tax credit and, consequently, the final number of conversion rights that were attributed to the Portuguese State represent an aggregate shareholding of 5.69%. of the share capital. Such conversion rights shall be exercised and converted in accordance with the procedure and timings established in the legal regime. The Issuer has agreed with the shareholders that a clarification from the Portuguese State shall be requested in respect of the procedure regarding the conversion of the conversion rights. Subject to this clarification, conversion of the conversion rights in relation to the 2015-2017 financial years shall occur until 31 December 2021.

NOTE 35 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES AND MINORITY INTERESTS (NON-CONTROLLING INTERESTS)

As at 30 June 2021 and 31 December 2020, the accumulated other comprehensive income, retained earnings and other reserves of the Group present the following detail:

(in thousands of Euros)

	30.06.2021	31.12.2020
Other accumulated comprehensive income	**(964 669)**	**(823 420)**
Retained earnings	**(8 577 074)**	**(7 202 828)**
Other reserves	**6 711 831**	**6 570 154**
Originating reserve	1 848 691	1 976 173
Special reserve	856 043	728 561
Other reserves and Retained earnings	4 007 097	3 865 420
	(2 829 912)	**(1 456 094)**

Other accumulated comprehensive income

The changes in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income						
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Other variations of other comprehensive income	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2019	**5 547**	**(1 669)**	**(7 785)**	**(85 891)**	**(13 376)**	**(599 137)**	**(702 311)**
Actuarial deviations	-	-	-	-	-	(85 993)	(85 993)
Fair value changes, net of taxes	-	-	-	(41 118)	-	-	(41 118)
Foreign exchange differences	-	-	-	-	(1 398)	-	(1 398)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	15 500	-	-	-	-	15 500
Impairment reserves of securities at fair value through other comprehensive income	(888)	-	-	-	-	-	(888)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(10 473)	-	-	-	(10 473)
Other comprehensive income of associated companies	-	-	-	(247)	-	-	(247)
Balance as at 30 June 2020	**4 659**	**13 831**	**(18 258)**	**(127 256)**	**(14 774)**	**(685 130)**	**(826 928)**
Actuarial deviations	-	-	-	-	-	(38 338)	(38 338)
Fair value changes, net of taxes	-	-	-	53 847	-	-	53 847
Foreign exchange differences	-	-	-	-	(120)	-	(120)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	(4 617)	-	-	-	-	(4 617)
Impairment reserves of securities at fair value through other comprehensive income	(964)	-	-	-	-	-	(964)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(4 499)	-	-	-	(4 499)
Other comprehensive income of associated companies	-	-	-	(1 801)	-	-	(1 801)
Balance as at 31 December 2020	**3 695**	**9 214**	**(22 757)**	**(75 210)**	**(14 894)**	**(723 468)**	**(823 420)**
Actuarial deviations	-	-	-	-	-	(41 468)	(41 468)
Fair value changes, net of taxes	-	-	-	(79 967)	-	-	(79 967)
Foreign exchange differences	-	-	-	-	304	-	304
Impairment reserves of securities at fair value through other comprehensive income	(220)	-	-	-	-	-	(220)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(19 157)	-	-	-	(19 157)
Other comprehensive income of associated companies	-	-	-	(741)	-	-	(741)
Balance as at 30 June 2021	**3 475**	**9 214**	**(41 914)**	**(155 918)**	**(14 590)**	**(764 936)**	**(964 669)**

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	30.06.2021			31.12.2020		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the period	**28 437**	**(103 647)**	**(75 210)**	**13 057**	**(98 948)**	**(85 891)**
Changes in fair value	(120 504)	-	(120 504)	95 596	-	95 596
Foreign exchange differences	346	-	346	(4 280)	-	(4 280)
Alienations in the exercise	(27)	-	(27)	(69 652)	-	(69 652)
Impairment in the exercise	(867)	-	(867)	(6 284)	-	(6 284)
Deferred taxes recognized in the exercise in reserves	-	40 344	40 344	-	(4 699)	(4 699)
Balance at the end of the period	**(92 615)**	**(63 303)**	**(155 918)**	**28 437**	**(103 647)**	**(75 210)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Amortised cost of financial assets at fair value through other comprehensive income	7 809 739	7 879 863
Market value of financial assets at fair value through other comprehensive income	7 717 445	7 907 587
Unrealised gains / (losses) recognized in fair value reserve	(92 294)	27 724
Fair value reserves by the equity method	176	917
Fair value reserves of discontinued activities	818	1 193
Non-controlling Interests	(1 315)	(1 397)
Total fair value reserve	(92 615)	28 437
Deferred Taxes	(63 303)	(103 647)
Fair value reserve attributable to shareholders of the Bank	**(155 918)**	**(75 210)**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 34, the special reserve was created as a result of the adhesion of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the net losses recorded from 2015 until 2020 and with reference to the eligible deferred tax assets at the end of each year, the special reserve was set up for the same amount of the tax credit calculated, increased by 10%, as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
2016 (net loss of 2015)	168 911	168 911
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	140 332	150 044
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 015	122 014
2021 (net loss of 2020)	137 193	-
	856 043	**728 561**

Other reserves and retained earnings

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3 890 million (see Note 35 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 30 June 2021 these assets had a net value of Euro 2.0 billion, mainly as a result of f losses recorded as well as payments and recoveries (31 December 2020: net value of Euro 2.1 billion).

As a result of the losses recorded by NOVO BANCO on 31 December 2019, 2018 and 2017, the conditions determining the payment by Resolution Fund of Euro 1 035 016 thousand, Euro 1 149 295 thousand and Euro 791 695 thousand were meet and the payments occurred in May 2020, 2019 and 2018, respectively. In the financial year of 2020, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 598 312 thousand relating to the Contingent Capital Agreement. The amount is accounted for under Other reserves and it results at each Balance Sheet date of the incurred losses and of the regulatory ratios in force at the moment of its determination. In June 2021, regarding the year 2020, the amount of Euro 317 013 thousand was paid. The difference results from divergences between NOVO BANCO and the Resolution Fund regarding (i) the provision for discontinued operations in Spain, (ii) valuation of participation units and (iii) interest rate risk hedge accounting policy, leading to a limitation on immediate access to this amount, which despite being recorded as receivables, the Bank deducted at 30 June 2021 the amount of Euro 277 442 thousand from the calculation of regulatory capital. NOVO BANCO considers the amount of Euro 277 442 thousand as due under the Contingent Capitalization Mechanism and the legal and contractual mechanisms at its disposal are being triggered in order to ensure their receipt (see Note 36). Additionally, it was also deducted the amount of variable remuneration to the Executive Board of Directors related to the year-end of 2019 and 2020 (Euro 3 857 thousand).

Non-controlling interests

The caption Non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	30.06.2021			31.12.2020		
	Balance sheet	**Income statement**	**% Non-controlling interests**	**Balance sheet**	**Income statement**	**% Non-controlling interests**
NB Património [a)]	-	1 462	43.71%	-	(7 759)	44.17%
NB Açores	19 517	949	42.47%	18 451	1 134	42.47%
Amoreiras	9 046	(52)	4.76%	9 099	(123)	4.76%
Other	2 447	320		4 496	(3 326)	
	31 010	**2 679**		**32 046**	**(10 074)**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 33)

NOTE 36 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 June 2021 and 31 December 2020 are the following:

(in thousands of Euros)

	30.06.2021	**31.12.2020**
Contingent liabilities		
Guarantees and standby letters	2 621 673	2 826 190
Financial assets pledged as collateral	13 983 323	14 101 034
Open documentary credits	475 158	410 292
	17 080 154	**17 337 516**
Commitments		
Revocable commitments	6 006 510	6 389 435
Irrevocable commitments	578 923	631 500
	6 585 433	**7 020 935**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

As at 30 June 2021, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.1 billion (31 December 2020: Euro 13.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 9.2 million (31 December 2020: Euro 9.4 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 69.1 million (31 December 2020: Euro 70.8 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 683.8 million (31 December 2020: Euro 769.7 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 103.8 million (31 December 2020: Euro 107.0 million.

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Deposit and custody of securities and other items	33 830 333	35 469 555
Amounts received for subsequent collection	227 856	233 699
Securitized loans under management (servicing)	660 409	697 905
Other responsibilities related with banking services	1 912 011	1 519 011
	36 630 609	**37 920 170**

Pursuant to the resolution measure applied to BES by resolution of Banco de Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Banco de Portugal of 11 August 2014, the "excluded liabilities" of transfer to NOVO BANCO include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On December 29, 2015, Banco de Portugal adopted a new resolution on "Clarification and retransmission of responsibilities and contingencies defined as liabilities excluded in subparagraphs (v) to (vii) of paragraph 2 (b) of Annex 2 to the Resolution of Banco de Portugal of 3 August 2014 (8 pm), as amended by the Resolution of Banco de Portugal of 11 August 2014 (5 pm) ". Under the terms of this resolution, Banco de Portugal came:

(i) Clarify the treatment as liabilities excluded from BES's contingent and unknown liabilities (including litigious liabilities related to pending litigation and liabilities or contingencies resulting from fraud or the violation of regulatory, criminal or administrative offenses or provisions), regardless of their nature (tax, Labour, civil or other) and whether or not they are registered in BES's accounts, under the terms of sub-paragraph (v) of paragraph (b) of paragraph 1 of Exhibit 2 of the Resolution of 3 August; and

(ii) Clarify that the following BES liabilities have not been transferred from BES to NOVO BANCO:

a. All credits related to preferred shares issued by vehicle companies established by BES and sold by BES;
b. All credits, indemnities and expenses related to real estate assets that have been transferred to NOVO BANCO;
c. All indemnities related to non-compliance with contracts (purchase and sale of real estate and other assets) signed and executed before 8:00 pm on August 3, 2014;
d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A;
e. All credits and indemnities related to the alleged cancellation of certain loan agreement clauses in which BES was the lender;
f. All indemnities and credits resulting from the cancellation of operations carried out by BES as a provider of financial and investment services;
g. Any responsibility that is the subject of any of the processes described in Appendix I of said resolution.

(iii) To the extent that, despite the clarifications made above, it turns out that any liabilities of BES that, under the terms of any of those paragraphs and the Resolution of August 3, were effectively transferred to NOVO BANCO legal liabilities, these liabilities will be retransmitted from NOVO BANCO to BES, with effect from 8:00 pm on August 3, 2014.

In the preparation of its consolidated and separate financial statements for 30 June 2021 (as well as in the previous financial statements), NOVO BANCO incorporated the determinations resulting from the resolution measure, as amended, with regard to the perimeter of transfer of assets, liabilities, off-balance sheet items and assets under BES management, as well as the decisions of Banco de Portugal of 29 December 2015, in particular, regarding the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities and clarifications relating to the liabilities contained in paragraph (ii) above, including the lawsuits listed in that resolution.

Additionally, also by resolution of Banco de Portugal of 29 December 2015, it was decided that the Resolution Fund is responsible for neutralizing, at the level of NOVO BANCO, the effects of decisions that are legally binding, outside the will of NOVO BANCO and for the which it has not contributed and that, simultaneously, translate into the materialization of responsibilities and contingencies that, according to the transfer perimeter to NOVO BANCO, as defined by Banco de Portugal, should remain within the sphere of BES or give rise to the establishment compensation in the context of the execution of annulments of decisions adopted by Banco de Portugal.

Considering that the creation of the Bank results from the application of a resolution measure to BES, which had significant impacts on the equity of third parties, and without prejudice to the decisions of Banco de Portugal of December 29, 2015, there are still relevant litigation risks , although mitigated, namely, regarding the various litigations related to the loan made by Oak Finance to BES, the commercialization by BES of debt instruments and those related to the issue of senior bonds relayed to BES, as well as the risk of non-recognition and / or application of the various decisions of Banco de Portugal by Portuguese or foreign courts (as in the case of courts in Spain) in disputes related to the perimeter of assets, liabilities, off-balance sheet items and assets under BES management transferred to NOVO BANCO . These disputes include the two lawsuits brought at the end of January 2016, before the Supreme Court of Justice of Venezuela, by the Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and NOVO BANCO , relating million to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of US $ 37 million and US $ 335 million, respectively, and in which reimbursement of the amount invested is requested, plus interest, indemnity for the inflation value and costs (in the global value estimated by the respective authors of US $ 96 million and US $ 871 million, respectively). These main actions and the respective precautionary foreclosure procedures are still pending before the Supreme Court of Justice of Venezuela.

In the preparation of NOVO BANCO's consolidated and separate financial statements of 30 June 2021 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Bank of Portugal, in particular the decisions of December 29, 2015. In this context, these financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet items and assets under management and liabilities transferred from BES to NOVO BANCO, as determined by Bank of Portugal and with reference to the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Bank of Portugal, dated 29 December 2015, concerning the neutralisation, at the level of NOVO BANCO, of the effects of unfavourable decisions that are legally binding, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Relevant disputes
For the purposes of contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy of setting up provisions with the resolution measure and subsequent decisions of Banco de Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of GRUPO NOVO BANCO are, at the present date, insusceptible to determine or quantify:

(i) Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

(ii) Lawsuit filed by NOVO BANCO to challenge the resolution in favor of the insolvent estate of the acts of incorporation and subsequent execution of the pledge on the shares of Companhia de Seguros Tranquilidade, SA, declared by the insolvency administrator of Partran, SGPS, SA, considering that there are no grounds for the resolution of the aforementioned acts, as well as for the return of the amounts received as a price (Euro 25 million corresponding to the initial price and the respective positive adjustments) for the sale of the shares of Companhia de Seguros Tranquilidade , SA. NOVO BANCO has judicially challenged the resolution act, running the process attached to the insolvency process of Partran, SGPS, SA;

(iii) Lawsuits brought after the execution of the contract for the purchase and sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on March 31, 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which NOVO BANCO is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the CCA is requested;

(iv) NOVO BANCO was notified of an order from the Central Court of Criminal Investigation that determines the provision of a bond by NB in the amount of approximately Euro 51 million due to an alleged breach of a bank seizure order, having used the respective means of reaction to oppose the application of the aforementioned asset guarantee measure due to the absence of a legal basis.

Regarding the 2020 financial year, the amount requested by NOVO BANCO from the Resolution Fund under the Contingent Capitalization Mechanism was not fully paid due to divergences on some issues, namely, the provision for discontinued operations in Spain, the valuation of participation units and the interest rate risk hedge accounting policy in the total amount of Euro 277.4 million, divergences that must be settled in arbitration with the International Chamber of Commerce, in accordance with the contractual terms. Without prejudice to the fact that these amounts are recorded as receivables, NOVO BANCO is triggering the legal and contractual mechanisms at its disposal to ensure the receipt of these amounts.

Resolution Fund

The Resolution Fund is a public legal person with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the RGICSF and its regulations and whose mission is provide financial support to the resolution measures applied by Banco de Portugal, as the national resolution authority, and to perform all other functions conferred by law in the scope of the execution of such measures.

The Bank, like most financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Banco de Portugal based essentially on the amount of its liabilities. As at 30 June 2021, the Group's periodic contribution amounted to Euro 15 150 thousand (31 December 2020: Euro 12 743 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Banco de Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to NOVO BANCO, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of NOVO BANCO's share capital, the Resolution Fund made available Euro 4 900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3 900 million) originated from a loan granted by the Portuguese State.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, SA (Santander Totta), for Euro 150 million, also within the framework of the application of a resolution measure. In the context of this resolution measure, Banif's assets identified as problematic were transferred to an asset management vehicle, created for this purpose - Oitante, S.A.. This operation involved public support estimated at Euro 2 255 million, which aimed at covering future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1 766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant , as well as with the risk of an eventual insufficiency of resources to ensure the fulfillment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the financing conditions granted by the Portuguese State and by the banks participating in the Resolution Fund, in order to preserve financial stability. through the promotion of conditions that provide predictability and stability to the contributory effort for the Resolution Fund. To this end, an amendment to the financing contracts to the Resolution Fund was formalized, which introduced a set of changes on the repayment plans, the remuneration rates and other terms and conditions associated with these loans in order to adjust them. the Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to be charged, to the banks participating in the Resolution Fund, special contributions or any other type of extraordinary contribution.

According to the statement of the Resolution Fund of March 21, 2017, issued following an earlier statement of September 28, 2016 and the statement of the Ministry of Finance issued on the same date, the revision of the conditions of financing granted by the State Portuguese and participating banks aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of its liabilities is ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

On March 31, 2017, Banco de Portugal announced that it had selected the Lone Star Fund for the purchase of NOVO BANCO, which was completed on October 18, 2017, through the injection, by the new shareholder, of Euro 750 million, which was followed by a new a capital contribution of Euro 250 million, made on December 21, 2017. The Lone Star Fund now holds 75% of NOVO BANCO's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions materializing, related to: (i) the performance of a restricted set of assets of NOVO BANCO and (ii) the evolution of the Bank's capitalization levels. Any payments to be made under this contingent mechanism are subject to an absolute ceiling of EUR 3 890 million;
- An indemnity mechanism to NOVO BANCO, if certain conditions are met, it will be sentenced to pay any liability, by a final judicial decision that does not recognize or is contrary to the resolution measure applied by Banco de Portugal, or to the perimeter NOVO BANCO's assets and liabilities.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, in view of the renegotiation of the conditions for loans granted to the Resolution Fund by the Portuguese State and a banking union, and to public notices issued by the Resolution Fund and the Office of the Minister of Finance. Finances that state that this possibility will not be used, these financial statements reflect the expectation of the Executive Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF , as well as the contingent capitalization mechanism and the indemnity mechanism referred to in the preceding paragraphs.

Any changes regarding this matter and the application of these mechanisms may have relevant implications for the Group's financial statements.

NOTE 37 – ASSETS UNDER MANAGEMENT (DISINTERMEDIATION)

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 30 June 2021 and 31 December 2020, the value of the assets under management by the Group companies are analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Investment funds	1 226 018	1 128 238
Real estate investment funds	74 682	74 654
Pension funds	2 633 191	2 463 098
Discretionary management	721 468	710 054
	4 655 359	**4 376 044**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 38 – RELATED PARTIES TRANSACTIONS

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of NOVO BANCO); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of NOVO BANCO; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which NOVO BANCO Group has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of NOVO BANCO (joint ventures).

The Group Balance Sheet balances with related parties as at 30 June 2021 and 31 December 2020, as well as the respective profit and losses, can be summarized as follows:

(in thousands of Euros)

	30.06.2021					31.12.2020				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholders										
NANI HOLDINGS	-	153	-	166	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	377 712	-	-	-	15 150	598 312	-	-	-	12 743
Associated companies										
LINEAS	63 179	4 233	-	1 442	-	64 933	6 505	-	2 871	-
LOCARENT	115 153	1 338	-	511	1 667	115 832	633	-	1 081	3 806
GNB SEGUROS (*)	-	-	-	-	-	-	-	-	-	-
ESEGUR	2 425	607	915	-	-	2 955	1 650	915	-	-
UNICRE	33 934	57	-	118	-	22 597	49	-	289	-
MULTIPESSOAL	2 008	35	273	-	-	2 030	31	273	31	-
BANCO DELLE TRE VENEZIE	-	218	-	-	-	-	94	-		
EDENRED	3	87 628	62	1 577	13	2	81 821	62	1 967	37
ENKROTT	-	-	-	-	-	-	-	-	15	
PNBC	-	-	-	-	-	-	-	-	-	276
	594 414	**94 269**	**1 250**	**3 814**	**16 830**	**806 661**	**90 936**	**1 250**	**6 586**	**16 862**
Other related entities										
HUDSON ADVISORS PORTUGAL	-	-	-	-	1 102	-	-	-	-	4 685
NACIONAL CONTA LDA	318	29	-	-	-	295	52	-	-	-
INFRAMOURA	105	18	-	-	-	114	16	-	-	-
ESMALGLASS	-	107	2	-	-	-	107	2	-	-
MARINA VILAMOURA	-	1	-	-	-	-	1	-	-	-
Other	**423**	**155**	**2**	**-**	**1 102**	**409**	**176**	**2**	**-**	**4 685**

(*) sold in 2020

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the first half of the year 2021 and the financial year of 2020.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and NOVO BANCO, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted, or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to Bank deposits taken.

The guarantees related to associated companies included in the table above refer essentially to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 6.50% (the rates correspond to the rates applied according to the original currency of the asset).

As at 30 June 2021, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate family members amounted to Euro 331 thousand; and (ii) the members of the General and Supervisory Board and their direct family members had no credit liabilities.

As at 31 December 2020, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate family members amounted to Euro 324 thousand; and (ii) the members of the General and Supervisory Board and their direct family members had no credit liabilities.

NOTE 39 – SECURITISATION OF ASSETS

As at 30 June 2021 and 31 December 2020 the outstanding securitization transactions carried out by the Group were as follows:

(in thousands of Euros)

Issue	Start Date	Original amount	Current amount		Asset securitized
			30.06.2021	31.12.2020	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	264 662	280 051	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	395 747	417 854	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	377 541	396 083	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	959 722	1 003 303	Mortgage loans (general scheme)

In accordance with the consolidation rules established in IFRS 10, Lusitano Mortgages No. 6 plc and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousands of Euros)

	30.06.2021	31.12.2020
Cash and other demand deposits	118 601	122 769
Loans and advances to customers (net of impairment)	1 327 879	1 390 316
Debt securities issued [(a)]	36 362	39 377

[(a)] See Note 31

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual.

The main characteristics of these operations, as at 30 June 2021 and 31 December 2020, can be analyzed as follows:

(in thousands of Euros)

30.06.2021														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	*Initial rating of the bonds*				*Current rating of the bonds*			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	202 385	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	13 397	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	A-	-
	Class C	19 200	11 281	-	-	December 2048	A+	A1	A+	-	BB	Ba2	BBB-	-
	Class D	24 000	14 102	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa2	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	293 874	-	-	December 2059	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	26 600	24 054	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	AA	-
	Class C	22 400	20 256	-	-	December 2059	A	A1	A	-	B	B1	BBB	-
	Class D	28 000	25 320	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 530	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	208 211	173 349	166 880	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	59 939	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 903	March 2060	A	A3	A	-	B	Ba3	A-	-
	Class D	17 600	17 600	17 600	12 106	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	B	-
	Class E	31 900	31 900	31 900	8 497	March 2060	BB	-	BB	-	CC	NR	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	482 749	482 749	449 776	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 097	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	115 820	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2020														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	*Initial rating of the bonds*				*Current rating of the bonds*			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	214 891	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	14 224	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BB+	-
	Class C	19 200	11 978	-	-	December 2048	A+	A1	A+	-	BB	Ba3	B+	-
	Class D	24 000	14 973	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	311 465	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	A	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	B	B3	BBB	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	235 906	188 337	180 754	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	52 775	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 562	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	8 458	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	528 003	528 003	488 778	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 146	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	116 051	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

NOTE 40 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

In accordance with the methodology for valuing assets and liabilities at fair value, they are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)
This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favour of a specific price.

This category includes, amongst others, the following financial instruments:
(i) Derivatives traded on an organized market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with observable market quotes;
(vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)
In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:
(i) Bonds without observable market valuations valued using observable market inputs; and
(ii) Derivatives (OTC) over-the-counter valued using observable market inputs; and
(iii) Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)
This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:
(i) Debt securities valued using non-observable market inputs;
(ii) Unquoted shares;
(iii) Closed real estate funds;
(iv) Hedge funds;
(v) Private equities;
(vi) Restructuring funds; and
(vii) Over the counter (OTC) derivatives with prices provided by third parties.

The valuation models used by type of instrument are as follows:

<u>Money market operations and loans and advances to customers</u>: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

<u>Commercial paper</u>: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

<u>Debt instruments (bonds) with liquidity</u>: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

<u>Debt instruments (bonds) with reduced liquidity</u>: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analyzed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

In the specific case of the Restructuring Funds (“Assessed Assets”), their assessment was carried out by an independent external international entity (“Appraiser”), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the “Underlying Assets”); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of NOVO BANCO's investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1 000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

Regarding information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under development			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.

Notes:
1. *All assumptions presented above were calculated based on the averages of the values considered by the external appraisers per appraised property.*
2. *The average presented was calculated on the weighted average per property in the sum of the value of the underlying assets per category presented.*
3. *Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or project are incorporated in Real Estate under Development along with their respective property.*
4. *€/m2 considers the gross construction area*

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Bank trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

Investment properties: its fair value is determined based on periodic evaluations carried out by independent entities specialized in this type of service, however, given the subjectivity of some assumptions used in the assessments, the Group carries out internal analysis on the assumptions used, which may imply additional adjustments to fair value, supported by additional internal or external valuations (see accounting policy in Note 2.23). The market value of properties for which a promissory purchase and sale agreement has been entered into corresponds to the value of that contract.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct prices.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
30 June 2021				
Financial assets held for trading	**78 286**	**293 849**	**-**	**372 135**
Securities held for trading	78 286	-	-	78 286
Bonds issued by public entities	*78 286*	-	-	*78 286*
Derivatives held for trading	-	293 849	-	293 849
Exchange rate contracts	-	*38 672*	-	*38 672*
Interest rate contracts	-	*242 590*	-	*242 590*
Others	-	*12 587*	-	*12 587*
Financial assets mandatorily at fair value through profit or loss	**254 107**	**33 844**	**635 347**	**923 298**
Bonds issued by other entities	*81 541*	*50*	*2 378*	*83 969*
Shares	*172 433*	-	*274 428*	*446 861*
Other variable income securities	*133*	*33 794*	*358 541*	*392 468*
Financial assets at fair value through other comprehensive income	**7 663 742**	**10 725**	**42 978**	**7 717 445**
Bonds issued by public entities	*6 273 229*	-	-	*6 273 229*
Bonds issued by other entities	*1 380 711*	-	-	*1 380 711*
Shares	*9 802*	*10 725*	*42 978*	*63 505*
Derivatives - Hedge Accounting	**-**	**14 756**	**-**	**14 756**
Interest rate contracts	-	*14 756*	-	*14 756*
Investment properties	**-**	**-**	**591 162**	**591 162**
Assets at fair value	**7 996 135**	**353 174**	**1 269 487**	**9 618 796**
Financial liabilities held for trading	**-**	**416 395**	**2 128**	**418 523**
Derivatives held for trading	-	416 395	2 128	418 523
Exchange rate contracts	-	*36 558*	-	*36 558*
Interest rate contracts	-	*372 997*	*2 128*	*375 125*
Credit	-	*8*	-	*8*
Other	-	*6 832*	-	*6 832*
Derivatives - Hedge Accounting	**-**	**52 349**	**-**	**52 349**
Interest rate contracts	-	*52 349*	-	*52 349*
Liabilities at fair value	**-**	**468 744**	**2 128**	**470 872**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2020				
Financial assets held for trading	**267 016**	**388 257**	**-**	**655 273**
Securities held for trading	267 016	-	-	267 016
Bonds issued by public entities	*267 016*	-	-	*267 016*
Derivatives held for trading	-	388 257	-	388 257
Exchange rate contracts	-	*57 205*	-	*57 205*
Interest rate contracts	-	*319 662*	-	*319 662*
Others	-	*11 390*	-	*11 390*
Financial assets mandatorily at fair value through profit or loss	**214 882**	**36 849**	**709 231**	**960 962**
Bonds issued by other entities	*82 203*	*50*	*77 931*	*160 184*
Shares	*132 525*	-	*273 579*	*406 104*
Other variable income securities	*154*	*36 799*	*357 721*	*394 674*
Financial assets at fair value through other comprehensive income	**7 854 337**	**10 028**	**43 222**	**7 907 587**
Bonds issued by public entities	*6 490 076*	-	-	*6 490 076*
Bonds issued by other entities	*1 352 759*	-	-	*1 352 759*
Shares	*11 502*	*10 028*	*43 222*	*64 752*
Derivatives - Hedge Accounting	**-**	**12 972**	**-**	**12 972**
Interest rate contracts	-	*12 972*	-	*12 972*
Investment properties	**-**	**-**	**592 605**	**592 605**
Assets at fair value	**8 336 235**	**448 106**	**1 345 058**	**10 129 399**
Financial liabilities held for trading	**-**	**552 633**	**2 158**	**554 791**
Derivatives held for trading	-	552 633	2 158	554 791
Exchange rate contracts	-	*45 493*	-	*45 493*
Interest rate contracts	-	*501 585*	*2 158*	*503 743*
Credit default contracts	-	*16*	-	*16*
Other	-	*5 539*	-	*5 539*
Derivatives - Hedge Accounting	**-**	**72 543**	**-**	**72 543**
Interest rate contracts	-	*72 543*	-	*72 543*
Liabilities at fair value	**-**	**625 176**	**2 158**	**627 334**

The changes occurred in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the first half of 2021 and the financial year 2020, may be analyzed as follows:

(in thousands of Euros)

	30.06.2021							
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	**Total assets**	Financial liabilities held for trading	**Total liabilities**
	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2020	**-**	**-**	**709 231**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**
Acquisitions	-	-	5 575	545	2 434	8 554	24 117	24 117
Maturity	-	-	(2 676)	-	-	(2 676)	-	-
Liquidation	-	-	(76 837)	(719)	-	(77 556)	(24 117)	(24 117)
Sales	-	-	-	-	(4 483)	(4 483)	-	-
Changes in value	-	-	54	(70)	622	606	(30)	(30)
Other movements	-	-	-	-	(16)	(16)	-	-
Balance as at 30 June 2021	**-**	**-**	**635 347**	**42 978**	**591 162**	**1 269 487**	**2 128**	**2 128**

(in thousands of Euros)

	31.12.2020							
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading	Total liabilities
	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2019	**191**	**74 093**	**1 142 664**	**37 179**	**700 744**	**1 954 871**	**1 837**	**1 837**
Acquisitions	-	-	8 479	5 125	11 966	25 570	-	-
Maturity	-	-	(41 302)	-	-	(41 302)	-	-
Liquidation	-	(80 489)	(1 583)	(22 913)	-	(104 985)	-	-
Transfers in	-	-	-	16 326	-	16 326	-	-
Transfers out	-	-	(27 541)	(2 685)	-	(30 226)	-	-
Sales	-	-	-	-	(67 581)	(67 581)	-	-
Changes in value	(191)	6 396	(371 486)	10 190	(101 828)	(456 919)	321	321
Other movements	-	-	-	-	49 304	49 304	-	-
Balance as at 31 December 2020	**-**	**-**	**709 231**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**

Potential gains and losses on financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves, in accordance with the respective asset accounting policy. The amounts calculated in the six-month periods ended 30 June 2021, 31 December 2020 and 30 June 2020 were as follows:

(in thousands of Euros)

	Six month period ended on								
	30.06.2021			31.12.2020			30.06.2020		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	30	30	-	24 437	24 437	-	(832)	(832)
Derivatives - Hedge accounting	-	(24 117)	(24 117)	-	(79 911)	(79 911)	-	11 189	11 189
Financial assets mandatorily at fair value through profit or loss	-	12 798	12 798	-	(64 062)	(64 062)	-	(295 580)	(295 580)
Financial assets at fair value through other comprehensive income	9 925	-	9 925	7 079	-	7 079	3 826	-	3 826
Investment properties	-	622	622	-	(66 827)	(66 827)	-	(37 483)	(37 483)
	9 925	**(10 667)**	**(742)**	**7 079**	**(186 684)**	**(179 605)**	**3 826**	**(322 706)**	**(318 880)**

The following table presents, for assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	30.06.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**635.3**		**(2.4)**		**10.8**
Bonds issued by other issuers	*Discounted Cash Flow Model*	*Specific Impairment*	2.4	-50%	(2.4)	+50%	10.8
Shares	*Valuing adjusted management company*	*(b)*	274.4		-		-
Other variable income securities			358.5		-		-
	Valuing adjusted management company	*(b)*	*225.2*		-		-
	Valuation of the management company	*(c)*	*133.3*		-		-
Financial assets at fair value through other comprehensive income			**43.0**		**(2.9)**		**0.1**
Shares			43.0		(2.9)		0.1
	Discounted cash flows	*Renewable Energy Rates*	*16.2*		*(2.9)*		*0.1*
	Others	*(a)*	*26.8*		-		-
Total			**678.3**		**(5.3)**		**10.9**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2020						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**709.2**		**(22.2)**		**12.2**
Bonds issued by other issuers	*Discounted cash flow model*	*Specific Impairment*	77.9	-50%	(22.2)	+50%	12.2
Shares	*Valuing adjusted management*	*(b)*	273.6		-		-
Other variable income securities			357.7		-		-
	Valuing adjusted management company	*(b)*	*225.3*		-		-
	Valuation of the management company	*(c)*	*132.5*		-		-
Financial assets at fair value through other comprehensive income			**43.2**		**(2.9)**		**0.1**
Shares			43.2		(2.9)		0.1
	Discounted cash flow model	*Renewable energy Rates*	*16.2*		*(2.9)*		*0.1*
	Other	*(a)*	*27.0*		-		-
Total			**752.5**		**(25.1)**		**12.3**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 30 June 2021 and 31 December 2020, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	30.06.2021			31.12.2020		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.5750	0.0865	0.1000	-0.5780	0.0776	0.1000
1 month	-0.5690	0.1005	0.0900	-0.5540	0.1439	0.0900
3 months	-0.5420	0.1458	0.1450	-0.5450	0.2384	0.0900
6 months	-0.5150	0.1595	0.1950	-0.5260	0.2576	0.1450
9 months	-0.4990	0.2026	0.1950	-0.5125	0.2995	0.1950
1 year	-0.4830	0.2463	0.1445	-0.4990	0.3419	-0.0125
3 years	-0.3950	0.5500	0.5088	-0.5080	0.2370	0.0913
5 years	-0.2600	0.9350	0.7020	-0.4575	0.4275	0.1926
7 years	-0.1090	1.1815	0.8262	-0.3845	0.6478	0.2799
10 years	0.1000	1.4020	0.9618	-0.2650	0.9170	0.3966
15 years	0.3590	1.6020	1.0780	-0.0720	1.1835	0.5200
20 years	0.4740	1.6940	1.1114	0.0090	1.3033	0.5730
25 years	0.4940	1.7150	1.1099	0.0090	1.3680	0.5805
30 years	0.4740	1.7296	1.0935	-0.0250	1.3998	0.5741

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
30 June 2021						
CDX USD Main	**36**	9.96	26.45	47.74	67.58	88.13
iTraxx Eur Main	**35**	0.00	26.86	46.80	65.12	86.16
iTraxx Eur Senior Financial	**35**	0.00	0.00	54.55	0.00	85.86
31 December 2020						
CDX USD Main	**35**	18.95	30.35	49.98	70.70	90.52
iTraxx Eur Main	**34**	0.00	27.66	47.95	66.24	86.37
iTraxx Eur Senior Financial	**34**	0.00	0.00	59.06	0.00	89.30

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	30.06.2021			31.12.2020		
	EUR	USD	GBP	EUR	USD	GBP
1 year	13.10	86.23	131.07	15.39	118.44	-
3 years	24.18	78.27	89.29	21.33	91.12	-
5 years	36.50	63.54	89.19	28.38	84.06	-
7 years	44.87	55.53	85.14	34.60	65.41	-
10 years	51.79	50.52	79.12	41.18	62.77	-
15 years	55.33	-	-	46.54	-	-

Foreign exchange rates and volatility
Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	30.06.2021	31.12.2020	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1884	1.2271	5.62	5.68	5.71	5.75	6.11
EUR/GBP	0.8581	0.8990	4.80	5.06	5.35	5.58	5.93
EUR/CHF	1.0980	1.0802	3.66	4.05	4.33	4.55	4.94
EUR/NOK	10.1717	10.4703	6.85	7.43	7.73	7.89	8.05
EUR/PLN	4.5201	4.5597	5.40	5.20	5.14	5.13	5.10
EUR/RUB	86.7725	91.4671	7.51	8.07	8.71	9.29	9.58
USD/BRL [a)]	4.9689	5.1940	15.97	15.68	15.83	15.90	15.97
USD/TRY [b)]	8.6848	7.4265	15.83	17.56	18.84	19.88	20.39

a) Calculated based on EUR / USD and EUR / BRL exchange rates.

b) Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes
The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	30.06.2021	31.12.2020	% Change	1 month	3 months	
DJ Euro Stoxx 50	4 064	3 553	14.40%	10.39	13.20	14.13
PSI 20	5 035	4 898	2.79%	11.95	14.79	-
IBEX 35	8 821	8 074	9.26%	12.18	14.20	-
FTSE 100	7 037	6 461	8.93%	9.36	12.21	13.20
DAX	15 531	13 719	13.21%	11.50	13.95	14.75
S&P 500	4 298	3 756	14.41%	8.40	13.60	11.16
BOVESPA	126 802	119 017	6.54%	11.78	18.31	20.27

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

		Fair Value			
	Assets / Liabilities at amortised cost	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
30 June 2021					
Cash, cash balances at central bank and other demand deposits	4 897 885	-	4 897 885	-	4 897 885
Financial assets at amortised cost					
Debt securities	2 399 431	968 065	350 407	1 280 821	2 599 293
Loans and advances to banks	86 900	-	86 900	-	86 900
Loans and advances to customers	23 470 436	-	-	23 718 791	23 718 791
Financial assets	**30 854 652**	**968 065**	**5 335 192**	**24 999 612**	**31 302 869**
Financial liabilities measured at amortised cost					
Deposits from banks	10 518 880	-	10 545 814	-	10 545 814
Due to customers	27 199 223	-	-	27 199 223	27 199 223
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 035 532	1 276 192	1 534	80 231	1 357 957
Other financial liabilities	441 208		-	441 208	441 208
Financial liabilities	**39 194 843**	**1 276 192**	**10 547 348**	**27 720 662**	**39 544 202**

(in thousands of Euros)

	Assets / Liabilities at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2020					
Cash, cash balances at central bank and other demand deposits	2 695 459	-	2 695 459	-	2 695 459
Financial assets at amortised cost					
Debt securities	2 229 947	846 176	378 588	1 203 883	2 428 647
Loans and advances to banks	113 795	-	113 795	-	113 795
Loans and advances to customers	23 554 304	-	-	23 784 698	23 784 698
Financial assets	**28 593 505**	**846 176**	**3 187 842**	**24 988 581**	**29 022 599**
Financial liabilities measured at amortised cost					
Deposits from banks	10 102 896	-	10 143 505	-	10 143 505
Due to customers	26 322 060	-	-	26 322 060	26 322 060
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 017 928	1 146 753	1 800	82 898	1 231 451
Other financial liabilities	365 883		-	365 883	365 883
Financial liabilities	**37 808 767**	**1 146 753**	**10 145 305**	**26 770 841**	**38 062 899**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.
Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost
The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers
The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions
The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt
The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities
These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 41 – ASSETS TRANSFERS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational and management conditions to the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds which, through concentration, aggregation, mergers and integrated management, could achieve the required synergies to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and which, in turn, now hold almost all the share capital of certain subsidiaries (subsidiaries of those parent companies) to acquire certain real estate Bank loans.

Several assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all the financial assets assigned under these operations were derecognized from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor Banks, appointed on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through Bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent entities and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:

- equity instruments, representing the capital of parent companies in which the cash flow that will enable the company to be recovered come from a wide range of assets provided by the various Banks. These securities are recognized in the assets portfolio mandatorily at fair value through profit or loss being valued to market, with valuation released regularly by the mentioned companies whose accounts are audited at the end of each year;
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred

The instruments subscribed by NOVO BANCO Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the NOVO BANCO Group, in accordance with IFRS 9 3.2.7, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has no control either, it proceeded, in accordance with IFRS 9 3.2.6c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amounts of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
Up to 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 970	(23 000)	161 970
Up to 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
Up to 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
Up to 31 December 2015								
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855
Up to 31 December 2016								
Fundo Aquarius	710	602	(108)	600	-	600	-	600
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453
Up to 31 December 2017								
Fundo Aquarius	555	470	(86)	624	-	624	-	624
FLIT SICAV	3 261	3 298	37	-	-	-	-	-
Up to 31 December 2018								
Fundo Aquarius	839	644	(194)	644	-	644	-	644
FLIT SICAV	-	-	-	3 348	-	3 348	-	3 348
Fundo Vallis Construction Sector	-	-	-	(1)	-	(1)	-	(1)
Up to 31 December 2019								
Fundo Aquarius	2 323	1 821	(503)	1 821	-	1 821	-	1 821
Up to 31 December 2020								
Fundo Aquarius	4 948	4 948	-	3 971	-	3 971	-	3 971
	1 372 236	**1 368 017**	**(4 219)**	**1 302 512**	**119 516**	**1 422 028**	**(106 333)**	**1 315 695**

As at 30 June 2021, the Group's total exposure to securities associated with the assignment operations amounted to Euro 499.6 million (31 December 2020: Euro 498.8 million). With the adoption of IFRS 9, these securities were transferred from the fair value through other comprehensive income portfolio to the mandatory fair value through profit or loss portfolio, so that their balance sheet value shown below already corresponds to their respective fair value, with no place to the impairment record. The detail is as follows:

(in thousands of Euros)

	30.06.2021						31.12.2020					
	Securities		Shareholder loans or supplementary capital contributions			Unrealised Subscribed Capital	Securities		Shareholder loans or supplementary capital contributions			Unrealised Subscribed Capital
	Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount		Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount	
Fundo Recuperação Turismo, FCR	261 170	86 316	34 824	(34 824)	-	13 282	260 683	86 316	34 824	(34 824)	-	13 769
FLIT SICAV	282 172	157 942	14 900	(14 900)	-	12 967	281 191	157 084	14 900	(14 900)	-	13 826
Discovery Portugal Real Estate Fund	258 440	116 479	-	-	-	5 232	258 440	116 479	-	-	-	5 232
Fundo Recuperação, FCR	206 805	45 130	-	-	-	18 286	206 805	44 873	-	-	-	18 543
Fundo Reestruturação Empresarial	80 719	18 178	-	-	-	5 680	117 051	22 436	-	-	-	6 113
Fundo Aquarius	164 556	75 602	-	-	-	15 548	160 586	71 631	-	-	-	19 519
	1 253 862	**499 647**	**49 724**	**(49 724)**	**-**	**70 995**	**1 284 756**	**498 819**	**49 724**	**(49 724)**	**-**	**77 002**

The Group also maintains an indirect exposure to the financial assets assigned, within the scope of a minority interest in the pool of all assets assigned by other financial institutions, through the shares of the subscribed parent companies. However, there was an operation with the company FLITPTREL VIII in which, due to the fact that the acquiring company substantially holds assets assigned by the Group and considering the holding of junior securities, the variability test resulted in a substantial exposure to all risks and benefits. In this circumstance, the operation, in the initial amount of Euro 60 million, remained recognized in the balance sheet under the heading of loans to customers.

NOTE 42 – RELEVANT TRANSACTIONS OCCURRED IN THE FIRS HALF OF 2021 AND IN FINANCIAL YEARS OF 2020

First half of 2021

Sale of a non-performing loan portfolio (called Project Wilkinson)

On 5 March 2021, NOVO BANCO signed a purchase and sale agreement for a portfolio of non-performing loans and related assets (Project Wilkinson), with a net book value of Euro 62.3 million (gross value of Euro 210.4 million), with Burlington Loan Management, a company owned by affiliated companies and advised by Davidson Kempner European Partners, LLP. The impact of this operation on net income for the year 2021 resulted in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on Income Statement	30.06.2021
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	-1 363
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-3 175
Impact on Net Income	**-4 538**

Financial year 2020

Sale of a portfolio of non-performing loans (called Project Carter)

On 23 December 2020, NOVO BANCO entered into a purchase and sale agreement for a portfolio of non-performing loans (non-performing loans) and related assets (together, the Carter Project), with a net book value of Euro 37.0 million (gross amount of Euro 82.8 million), to a company owned by affiliated companies and advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The impact of this operation on the net income for the year 2020 was reflected in a gain of Euro 2.9 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2020
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	3 337
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-405
Impact on Net Income	**2 932**

NOTE 43 – NPL DISCLOSURES

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non Performing Exposures) ratio greater than 5% must publish a set of information regarding NPE, restructured loans and foreclosed assets, according to a standard format, which we present below (we emphasize that this information is prepared from a prudential perspective, whose consolidation perimeter differs from the consolidation perimeter of the interim condensed financial statements presented):

Credit quality of forborne exposure

(in thousands of Euros)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which defaulted	Of which subject to impairment				
Loans and advances	749 131	1 131 411	1 131 411	1 131 411	-88 846	-675 434	748 389	356 783
Central banks	0	0	0	0	0	0	0	0
General governments	5 824	52	52	52	-540	-41	4 746	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	2 427	130 841	130 841	130 841	-16	-50 921	73 038	71 491
Non-financial corporations	625 828	832 828	832 828	832 828	-86 392	-493 438	530 186	251 833
Households	115 051	167 689	167 689	167 689	-1 898	-131 034	140 419	33 459
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	3 617	1 772	1 772	1 772	0	0	0	0
Total	**752 748**	**1 133 182**	**1 133 182**	**1 133 182**	**-88 846**	**-675 434**	**748 389**	**356 783**

Credit quality of performing and non-performing exposures by past due days

(in thousands of Euros)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due < =30 days	Past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <=90 days	Past due > 90 days <=180 days	Past due > 180 days <=1 year	Past due > 1 year <= 2 years	Past due > 2 years >=5 years	Past due > 5 years >=7 years	Past due > 7 years	Of which defaulted
Cash in Central Banks	**4 748 956**	**4 748 956**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 075 541**	**23 001 557**	**73 984**	**2 224 483**	**1 370 051**	**31 320**	**48 607**	**233 020**	**272 232**	**130 684**	**138 570**	**2 224 483**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**393 829**	393 738	91	**1 747**	82	1 250	0	0	414	0	0	1 747
Credit institutions	**54 989**	54 989	0	**288 468**	288 468	0	0	0	0	0	0	288 468
Other financial corporations	**340 750**	340 692	59	**142 550**	81 591	1	184	72	44 999	5 136	10 568	142 550
Non-financial corporations	**11 455 180**	11 448 764	6 416	**1 366 691**	721 243	16 280	27 560	192 165	191 482	110 659	107 302	1 366 691
Of which SMEs	***6 635 228***	*6 629 896*	*5 333*	***907 184***	*539 245*	*15 812*	*15 407*	*86 406*	*78 327*	*69 889*	*102 098*	*907 184*
Households	**10 830 792**	10 763 374	67 418	**425 028**	278 668	13 790	20 864	40 782	35 337	14 889	20 699	425 028
Debt securities	**10 214 577**	**10 214 577**	**0**	**141 915**	**2 378**	**0**	**15 178**	**0**	**41 884**	**82 475**	**0**	**141 915**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**6 676 123**	6 676 123	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**669 315**	669 315	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**668 694**	668 694	0	**22 770**	0	0	0	0	22 770	0	0	22 770
Non-financial corporations	**2 200 445**	2 200 445	0	**119 145**	2 378	0	15 178	0	19 114	82 475	0	119 145
Off-balance-sheet exposures	**9 329 791**			**355 132**								**355 132**
Central banks	0			0								0
General governments	35 049			0								0
Credit institutions	515 776			2 812								2 812
Other financial corporations	58 700			7 583								7 583
Non-financial corporations	7 671 010			342 417								342 417
Households	1 049 257			2 320								2 320
Total	**42 619 909**	**33 216 134**	**73 984**	**2 721 530**	**1 372 429**	**31 320**	**63 785**	**233 020**	**314 116**	**213 159**	**138 570**	**2 721 530**

Performing and non-performing exposures and related provisions

(in thousands of Euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Cash in Central Banks	**4 748 956**	**4 748 956**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 075 541**	**18 910 438**	**4 165 102**	**2 224 483**	**0**	**2 224 483**	**-406 031**	**-69 497**	**-336 534**	**-1 340 571**	**0**	**-1 340 571**	**-602 269**	**13 347 066**	**630 634**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	393 829	371 589	22 240	1 747	0	1 747	-1 791	-521	-1 271	-1 675	0	-1 675	0	36 825	56
Credit institutions	54 989	54 724	265	288 468	0	288 468	-855	-844	-10	-257 404	0	-257 404	0	0	0
Other financial corporations	340 750	278 814	61 936	142 550	0	142 550	-9 868	-2 648	-7 220	-58 442	0	-58 442	-164 902	139 092	73 010
Non-financial corporations	11 455 180	8 323 235	3 131 945	1 366 691	0	1 366 691	-349 390	-51 638	-297 752	-810 792	0	-810 792	-435 641	3 224 979	367 951
Of which SMEs	6 635 228	4 936 049	1 699 179	907 184	0	907 184	-146 166	-35 037	-111 129	-489 638	0	-489 638	-49 617	2 357 389	264 817
Households	10 830 792	9 882 075	948 716	425 028	0	425 028	-44 127	-13 846	-30 281	-212 258	0	-212 258	-1 726	9 946 170	189 616
Debt securities	**10 214 577**	**9 871 884**	**342 693**	**141 915**	**0**	**141 915**	**-111 430**	**-8 900**	**-102 530**	**-107 722**	**0**	**-107 722**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	6 676 123	6 676 123	0	0	0	0	-3 397	-3 397	0	0	0	0	0	0	0
Credit institutions	669 315	669 315	0	0	0	0	-157	-157	0	0	0	0	0	0	0
Other financial corporations	668 694	665 654	3 040	22 770	0	22 770	-1 326	-890	-436	0	0	0	0	0	0
Non-financial corporations	2 200 445	1 860 792	339 653	119 145	0	119 145	-106 550	-4 456	-102 094	-107 722	0	-107 722	0	0	0
Off-balance-sheet exposures	**9 329 791**	**8 138 543**	**1 191 248**	**355 132**	**0**	**355 132**	**21 833**	**8 425**	**13 408**	**61 596**	**0**	**61 596**		**160 559**	**14 442**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	35 049	24 632	10 417	0	0	0	20	18	2	0	0	0		4 435	0
Credit institutions	515 776	508 017	7 758	2 812	0	2 812	114	23	91	1	0	1		2 122	1 848
Other financial corporations	58 700	54 398	4 301	7 583	0	7 583	106	47	59	1 853	0	1 853		9 077	0
Non-financial corporations	7 671 010	6 517 907	1 153 103	342 417	0	342 417	17 727	4 638	13 090	59 570	0	59 570		129 649	12 534
Households	1 049 257	1 033 589	15 668	2 320	0	2 320	3 867	3 700	167	171	0	171		15 276	61
Total	**42 619 909**	**36 920 866**	**5 699 043**	**2 721 530**	**0**	**2 721 530**	**-495 627**	**-69 971**	**-425 656**	**-1 386 698**	**0**	**-1 386 698**	**-602 269**	**13 507 625**	**645 076**

Quality of non-productive exhibitions by geography

(in thousands of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**0**	**0**
Other than PP&E	**573 891**	**-271 986**
Residential immovable property	137 105	-37 159
Commercial Immovable property	338 253	-211 660
Movable property (auto, shipping, etc.)	3 218	-2 182
Equity and debt instruments	67 922	-9 963
Other	27 394	-11 022
Total	**573 891**	**-271 986**

NOTE 44 - DISCLOSURES ABOUT EXPOSURES RESULTING FROM MEASURES RELATED TO THE COVID-19 PANDEMIC

Following the recommendations of the European Banking Authority, and in accordance with Instruction No. 19/2020 on reporting and disclosing information on exposures subject to measures applied in response to the Covid-19 crisis in accordance with EBA guidelines (EBA/GL/2020/07), below are presented the following details regarding default and loans granted under the new guarantee plans public, which are fully applicable to the consolidation perimeters of Nani Holdings, SGPS, S.A. and LSF Nani Investments S.à.r.l:

Information on loans and advances subject to legislative and non-legislative moratoria

(in thousands of Euros)

	Gross carrying amount									Accumulated impairment, accumulated negative changes in fair value resulting from credit risk									Gross carrying amount
		Productive				Non-productive					Productive				Non-productive				
			Of which: in moratorium of capital and interest	Of which: exposures subject to restructuring measures	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: in moratorium of capital and interest	Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days			Of which: in moratorium of capital and interest	Of which: exposures subject to restructuring measures	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: in moratorium of capital and interest	Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days	Entries to non-productive exhibitions
Loans and advances subject to a moratorium	6 166 086	5 573 947	2 722 631	403 527	2 099 276	592 139	338 783	341 881	543 426	-439 865	-199 276	-84 828	-66 726	-184 224	-240 590	-124 338	-155 169	-218 682	23 063
of which: private	1 499 635	1 425 249	879 679	27 641	279 239	74 386	53 308	9 207	65 796	-15 523	-6 752	-4 455	-470	-5 722	-8 771	-5 940	-1 565	-7 739	5 788
of which: secured by residential properties	*1 459 817*	*1 388 022*	*857 028*	*27 140*	*268 530*	*71 796*	*52 468*	*7 733*	*63 333*	*-13 620*	*-5 910*	*-3 841*	*-451*	*-4 950*	*-7 710*	*-5 667*	*-926*	*-6 723*	*5 635*
of which: non-financial corporations	4 647 443	4 129 742	1 832 524	375 755	1 812 454	517 700	285 423	332 622	477 578	-423 602	-191 824	-80 339	-66 255	-177 905	-231 778	-118 356	-153 563	-210 902	17 274
of which: small and medium-sized enterprises	*3 156 627*	*2 741 138*	*1 335 237*	*171 394*	*1 062 178*	*415 490*	*239 848*	*275 116*	*412 361*	*-265 969*	*-87 408*	*-46 252*	*-15 893*	*-76 396*	*-178 561*	*-93 242*	*-122 652*	*-176 669*	*10 010*
of which: secured by commercial real estate	*1 321 010*	*1 097 881*	*402 846*	*132 305*	*550 021*	*223 129*	*107 116*	*156 268*	*184 733*	*-155 201*	*-54 225*	*-29 134*	*-13 122*	*-49 615*	*-100 976*	*-50 482*	*-71 953*	*-81 005*	*1 521*

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

(in thousands of Euros)

	Number of debtors	Gross carrying amount								
			Of which: legislative moratoriums	Of which: subject to extension of moratorium	Of which: expired	Residual deadline for default				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances that have been offered a moratorium	42 312	7 478 562								
Loans and advances subject to a moratorium (applied)	42 312	7 478 562	6 138 456	5 559 673	1 312 476	363	6 165 724	0	0	0
of which: households		2 320 471	1 595 858	1 499 811	820 835	356	1 499 279	0	0	0
of which: secured by residential properties		*2 106 599*	*1 553 720*	*1 459 817*	*646 781*	*0*	*1 459 817*	*0*	*0*	*0*
of which: non-financial corporations		5 136 529	4 521 057	4 040 874	489 086	7	4 647 436	0	0	0
of which: small and medium-sized enterprises		*3 521 122*	*3 009 070*	*2 653 477*	*364 495*	*7*	*3 156 621*	*0*	*0*	*0*
of which: secured by commercial real estate		*1 538 628*	*1 538 628*	*1 321 010*	*217 618*	*0*	*1 321 010*	*0*	*0*	*0*

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to the COVID-19 crisis

(in thousands of Euros)

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value resulting from credit risk							Maximum amount of guarantee that can be considered	Gross carrying amount	Entries for new financing
		Productive			Non-productive				Productive			Non-productive					
			Of which: reestructured	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: reestructured	Of which: Reduced probability of payment that are not past due or past due for <= 90 days			Of which: reestructured	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: reestructured	Of which: Reduced probability of payment that are not past due or past due for <= 90 days	Public guarantees received	Entries to non-productive exhibitions	
New loans and advances subject to public guarantee systems	1 249 732	1 243 798	30	200 577	5 933	0	5 425	-7 178	-5 658	0	-3 800	-1 520	0	-1 403	1 030 469	5 933	0
of which: households	0	0			0			0	0			0				0	
of which: secured by residential properties	*0*	*0*			*0*			*0*	*0*			*0*				*0*	
of which: non-financial corporations	1 247 643	1 241 710	30	200 577	5 933	0	5 425	-7 175	-5 655	0	-3 800	-1 520	0	-1 403	1 028 748	5 933	0
of which: small and medium-sized enterprises	1 039 568	1 035 139			4 429			-4 825	-3 823			-1 002				4 429	
of which: secured by commercial real estate	0	0			0			0	0			0				0	

NOTE 45 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss based on insurance contract services provided over the coverage period;
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense;
- A loss-recovery component of the asset for the remaining coverage of a group of reinsurance contracts held is determined and recorded in profit or loss when an entity recognises a recovery of a loss on initial recognition of an onerous group of underlying issued contracts as well as for subsequent measurement of the recovery of those losses;
- Entities should present separately in the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held;
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

In June 2020, the IASB issued amendments to IFRS 17. These amendments included changing the effective date to 2023.

In June 2021, the IASB tentatively decided to propose a narrow scope amendment to IFRS 17 to permit a classification overlay for financial assets in the comparative period if certain conditions are met. This was in response to concerns regarding accounting mismatches that could arise between financial assets and insurance contracts in comparative information when IFRS 17 and IFRS 9 are first applied.

The IASB will begin the balloting process to publish an Exposure Draft (ED) with an intention to publish it by the end of July 2021. Once the ED is published, there will be a 60-day comment period.

No material impacts are expected on the Group's interim condensed financial statements.

Reform of interest rate reference indices - Phase 2 - changes to IFRS 9, IAS 39 and IFRS 7
On 27 August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred.

Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognised. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss.

The practical expedient is also required for entities applying IFRS 4 that are using the exemption from IFRS 9 (and, therefore, apply IAS 39 Financial Instruments: Recognition and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships
The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 and IAS 39 to measure and recognise hedge ineffectiveness.

Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR. The cash flow hedge reserve is released to profit or loss in the same period or periods in which the hedged cash flows based on the RFR affect profit or loss.

For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero. This relief applies when the exception to the retrospective assessment ends.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, they will be transferred to sub-groups of instruments that reference RFRs as the hedged risk.

As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform. The phase two reliefs cease to apply once all changes have been made to financial instruments and hedging relationships, as required by IBOR reform.

Separately identifiable risk components
The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

Additional disclosures
IFRS 7 Financial Instruments: Disclosures includes the following:
• How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform;
• Disaggregated by each significant IBOR benchmark, quantitative information about financial instruments that have yet to transition to RFRs;
• If IBOR reform has given rise to changes in the entity’s risk management strategy, a description of these changes.

The amendments are mandatory for annual periods beginning on or after 1 January 2021, with earlier application permitted. Hedging relationships must be reinstated if the hedging relationship was discontinued solely due to changes required by IBOR reform and it would not have been discontinued if the phase two amendments had been applied at that time. While application is retrospective, an entity is not required to restate prior periods.

Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16
In March 2021, the IASB amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Lessees will apply the amendment retrospectively, recognising the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which they first apply the amendment. In the reporting period in which a lessee first applies the 2021 amendment, the lessee will not be required to disclose the information required by paragraph 28(f) of IAS 8.
In accordance with paragraph 2 of IFRS 16, a lessee is required to apply the relief consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient before or after the amendment.

No material impacts are expected on the Group's interim condensed financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards (March 2018).

No material impacts are expected on the Group's interim condensed financial statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied prospectively.

No material impacts are expected on the Group's interim condensed financial statements.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a ‘directly related cost approach’. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

No material impacts are expected on the Group's interim condensed financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

No material impacts are expected on the Group's interim condensed financial statements.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:
• What is meant by a right to defer settlement;
• That a right to defer must exist at the end of the reporting period;
• That classification is unaffected by the likelihood that an entity will exercise its deferral right;
• That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

Right to defer settlement
The IASB decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period
The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations
IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for
issuance.

Meaning of the term 'settlement'
The IASB added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The IASB concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception. In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion
option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

In June 2021, the IASB tentatively decided to propose several amendments to the clarifications made in January 2020. In particular, the IASB decided to propose that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current. Additional presentation and disclosure requirements would be applicable in such circumstances.

Furthermore, the IASB tentatively decided to defer the effective date to 1 January 2024 (from 1 January 2023).

No material impacts are expected on the Group's interim condensed financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by:
• Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and

• Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Replacement of the term ‘significant’ with ‘material’
In the absence of a definition of the term ‘significant’ in IFRS, the IASB decided to replace it with ‘material’ in the context of disclosing accounting policy information. ‘Material’ is a defined term in IFRS and is widely understood by the users of financial statements, according to the IASB.

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them.

Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

Disclosure of standardised information
Although standardised information is less useful to users than entity-specific accounting policy information, the IASB agreed that, in some circumstances, standardised accounting policy information may be needed for users to understand other material information in the financial statements. In those situations, standardised accounting policy information is material, and should be disclosed.

The amendments to the PS also provide examples of situations when generic or standardised information summarising or duplicating the requirements of IFRS may be considered material accounting policy information.

The amendments are effective for annual periods beginning on or after 1 January 2023 and earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed.

Since the amendments to the PS provide non-mandatory guidance on the application of the definition of material to accounting policy information, the IASB concluded that transition requirements and an effective date for these amendments were not necessary.

No material impacts are expected on the Group's interim condensed financial statements.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of ‘accounting estimates’.

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the IASB.

The amendments apply to changes in accounting policies and changes in accounting estimates that occur on annual periods beginning on or after 1 January 2023. Earlier application is permitted.

No material impacts are expected on the Group's interim condensed financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

Determining the tax base of assets and liabilities
The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Changes to the initial recognition exception
Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the IASB expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are effective for annual periods beginning on or after 1 January 2023.

No material impacts are expected on the Group's interim condensed financial statements.

Improvement to IFRS - 2018-2020 cycle (issued in May 2020)

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

No material impacts are expected on the Group's interim condensed financial statements.

IFRS 9 - Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

No material impacts are expected on the Group's interim condensed financial statements.

IFRS 16 - Leases
The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

No material impacts are expected on the Group's interim condensed financial statements.

IAS 41 - Agriculture
The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

No material impacts are expected on the Group's interim condensed financial statements.

NOTE 46 – SUBSEQUENT EVENTS

- On July 9, NOVO BANCO announced a voluntary repurchase offer of "Tender Offer and Solicitation Memorandum" issued by NOVO BANCO, S.A. Luxembourg and NB Finance. The early participation term has expired on the 28th of July. In this offer, zero coupon bonds were accepted, corresponding to a repurchase value of Euro 161 million, equivalent to a book value of Euro 88 million. More information is available at: www.bourse.lu/notices;

- On July 13, NOVO BANCO issued a senior preferred debt in the amount of Euro 300 million, with a maturity of 3 years and an option for early repayment by the Bank at the end of 2 years. The bonds have an issue price of 100% and an annual interest rate of 3.5% in the first 2 years, and 3-month Euribor plus margin in the following year. The issue was placed exclusively with institutional investors and settlement took place on July 23, 2021. This inaugural senior issue is part of the financing plan defined to meet the Minimum Requirements for own funds and Eligible Liabilities ("MREL") and will improve NOVO BANCO's financing profile.

INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF NOVO BANCO

FIRST HALF OF 2021

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE INCOME STATEMENT
FOR THE THREE AND SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2021	30.06.2020 *	30.06.2021	30.06.2020 *
Interest Income	4	186 964	180 256	375 148	362 382
Interest Expenses	4	(40 503)	(48 364)	(81 246)	(98 133)
Net Interest Income		**146 461**	**131 892**	**293 902**	**264 249**
Dividend income	5	11 764	367	12 063	8 681
Fee and comission income	6	74 428	67 438	139 998	138 563
Fee and comission expenses	6	(9 579)	(10 166)	(20 132)	(21 173)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	(2 391)	80 004	9 224	83 257
Gains or losses on financial assets and liabilities held for trading	8	(15 501)	(28 892)	18 909	(72 536)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	27 762	(331 531)	20 854	(381 251)
Gains or losses from hedge accounting	10	1 738	(6 120)	8 820	(11 421)
Exchange differences	11	17 172	(1 693)	13 553	(15 036)
Gains or losses on derecognition of non-financial assets	12	488	1 906	2 010	1 355
Other operating income	13	13 682	16 550	27 998	30 217
Other operating expenses	13	(12 403)	(4 657)	(49 065)	(38 500)
Operating Income		**253 621**	**(84 902)**	**478 134**	**(13 595)**
Administrative expenses		(86 490)	(90 611)	(174 129)	(183 759)
Staff expenses	14	*(54 318)*	*(54 837)*	*(108 560)*	*(111 301)*
Other administrative expenses	16	*(32 172)*	*(35 774)*	*(65 569)*	*(72 458)*
Contributions to resolution funds and deposit guarantee schemes	17	(40 172)	(34 729)	(40 172)	(34 766)
Depreciation	24, 25	(8 167)	(8 517)	(16 282)	(16 977)
Provisions or reversal of provisions	30	18 778	(52 785)	32 396	(45 164)
Commitments and guarantees given		*17 410*	*4 267*	*18 622*	*6 411*
Other provisions		*1 368*	*(57 052)*	*13 774*	*(51 575)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	21	(44 265)	(140 332)	(100 339)	(282 383)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	23	-	5 230	-	5 230
Impairment or reversal of impairment on non-financial assets	27, 28	(3 036)	(3 228)	(12 382)	(5 716)
Profit or loss before tax from continuing operations		**90 269**	**(409 874)**	**167 226**	**(577 130)**
Tax expense or income related to profit or loss from continuing operations	26	(14 949)	(3 058)	(17 371)	(2 518)
Current tax		(727)	4 775	(814)	4 827
Deferred tax		(14 222)	(7 833)	(16 557)	(7 345)
Profit or loss after tax from continuing operations		**75 320**	**(412 932)**	**149 855**	**(579 648)**
Profit or loss before tax from discontinued operations	28	(2 525)	(3 452)	(1 319)	(3 603)
Profit or loss for the period		**72 795**	**(416 384)**	**148 536**	**(583 251)**
Basic earnings per share (in Euros)	18	0,01	(0,04)	0,02	(0,06)
Diluted earnings per share (in Euros)	18	0,01	(0,04)	0,02	(0,06)
Basic earnings per share of continuing activities (in Euros)	18	0,01	(0,04)	0,02	(0,06)
Diluted earnings per share of continuing activities (in Euros)	18	0,01	(0,04)	0,02	(0,06)

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

The accompanying explanatory notes are an integral part of these interim condensed separate financial statements

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2021	30.06.2020	30.06.2021	30.06.2020
Net profit / (loss) for the period		72 795	(416 384)	148 536	(583 251)
Other comprehensive income / (loss)					
Items that will not be reclassified to results		***(45 798)***	***(81 355)***	***(45 684)***	***(82 850)***
Actuarial gains / (losses) on defined benefit plans	a)	(41 687)	(86 120)	(41 687)	(86 120)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(4 111)	1 732	(3 997)	(12 230)
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	-	3 033	-	15 500
Items that may be reclassified to results		***(16 767)***	***41 293***	***(93 323)***	***(44 229)***
Financial assets at fair value through other comprehensive income	a)	(16 767)	41 293	(93 323)	(44 229)
Total comprehensive income / (loss) for the period		**10 230**	**(456 446)**	**9 529**	**(710 330)**

a) See Statement of Changes in Equity

The accompanying explanatory notes are an integral part of these interim condensed separate financial statements

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE BALANCE SHEET
AS AT 30 JUNE 2021 AND 31 DECEMBER 2020

(in thousands of Euros)

	Notes	30.06.2021	31.12.2020
ASSETS			
Cash, cash balances at central banks and other demand deposits	19	4 716 188	2 524 868
Financial assets held for trading	20	372 070	655 327
Financial assets mandatorily at fair value through profit or loss	21	2 399 166	2 445 605
Financial assets at fair value through other comprehensive income	21	7 628 131	7 813 584
Financial assets at amortised cost	21	24 876 889	24 804 483
Securities		3 006 172	2 873 753
Loans and advances to banks		221 226	245 472
Loans and advances to customers		21 649 491	21 685 258
Derivatives – Hedge accounting	22	15 269	13 606
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	38 055	60 976
Investments in subsidiaries, joint ventures and associates	23	185 597	189 924
Tangible assets		199 332	188 968
Tangible fixed assets	24	199 332	188 968
Intangible assets	25	53 404	48 331
Tax assets	26	669 983	771 854
Current Tax Assets		-	-
Deferred Tax Assets		669 983	771 854
Other assets	27	2 952 341	2 956 010
Non-current assets and disposal groups classified as held for sale	28	1 451 467	1 568 912
TOTAL ASSETS		**45 557 892**	**44 042 448**
LIABILITIES			
Financial liabilities held for trading	20	418 227	554 343
Financial liabilities measured at amortised cost	29	39 310 182	37 895 984
Deposits from banks		11 301 576	10 778 468
(of which, Repurchase Agreement)		*1 956 414*	*1 625 724*
Due to customers		26 574 276	25 778 507
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		995 653	974 996
Other financial liabilities		438 677	364 013
Derivatives – Hedge accounting	22	52 349	72 543
Provisions	30	368 356	438 572
Tax liabilities	26	5 581	5 536
Current Tax liabilities		5 581	5 536
Other liabilities	31	410 501	314 611
Liabilities included in disposal groups classified as held for sale	28	2 133 666	2 007 770
TOTAL LIABILITIES		**42 698 862**	**41 289 359**
EQUITY			
Capital	32	5 900 000	5 900 000
Accumulated other comprehensive income	33	(888 266)	(749 259)
Retained earnings	33	(8 577 074)	(7 202 828)
Other reserves	33	6 275 834	6 179 422
Profit or loss attributable to Shareholders of the parent		148 536	(1 374 246)
TOTAL EQUITY		**2 859 030**	**2 753 089**
TOTAL LIABILITIES AND EQUITY		**45 557 892**	**44 042 448**

The accompanying explanatory notes are an integral part of these interim condensed separate financial statements

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	Share Capital	Accumulated Other Comprehensive Income	Retained earnings	Other reserves	Net profit / (loss) for the period	Total Equity
Balance as at 31 December 2019		**5 900 000**	**(632 033)**	**(6 115 245)**	**5 580 864**	**(1 087 584)**	**3 646 002**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 087 583)**	**173 765**	**1 087 584**	**173 766**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 087 584)*	-	*1 087 584*	-
Reserve of Contingent Capital Agreement		-	-	-	*173 766*	-	*173 766*
Other movements		-	-	*1*	*(1)*	-	-
Total comprehensive income for the period		**-**	**(127 079)**	**-**	**-**	**(583 251)**	**(710 330)**
Changes in fair value, net of tax		-	*(45 099)*	-	-	-	*(45 099)*
Remeasurement of defined benefit plans, net of tax		-	*(86 120)*	-	-	-	*(86 120)*
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	*15 500*	-	-	-	*15 500*
Reserves of impairment of securities at fair value through OCI		-	*(887)*	-	-	-	*(887)*
Reserves of sales of securities at fair value through OCI		-	*(10 473)*	-	-	-	*(10 473)*
Net profit / (loss) for the period		-	-	-	-	*(583 251)*	*(583 251)*
Balance as at 30 June 2020		**5 900 000**	**(759 112)**	**(7 202 828)**	**5 754 629**	**(583 251)**	**3 109 438**
Other Increase / (Decrease) in Equity		**-**	**-**	**-**	**424 793**	**-**	**424 793**
Reserve of Contingent Capital Agreement		-	-	-	*422 549*	-	*422 549*
Other movements		-	-	-	*2 244*	-	*2 244*
Total comprehensive income for the period		**-**	**9 853**	**-**	**-**	**(790 995)**	**(781 142)**
Changes in fair value, net of tax		-	*57 383*	-	-	-	*57 383*
Remeasurement of defined benefit plans, net of tax		-	*(36 079)*	-	-	-	*(36 079)*
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	*(4 617)*	-	-	-	*(4 617)*
Reserves of impairment of securities at fair value through OCI		-	*(951)*	-	-	-	*(951)*
Reserves of sales of securities at fair value through OCI		-	*(5 883)*	-	-	-	*(5 883)*
Net profit / (loss) for the period		-	-	-	-	*(790 995)*	*(790 995)*
Balance as at 31 December 2020		**5 900 000**	**(749 259)**	**(7 202 828)**	**6 179 422**	**(1 374 246)**	**2 753 089**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 246)**	**96 412**	**1 374 246**	**96 412**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 374 246)*	-	*1 374 246*	-
Reserve of Contingent Capital Agreement	33	-	-	-	*96 413*	-	*96 413*
Other movements		-	-	-	*(1)*	-	*(1)*
Total comprehensive income for the period		**-**	**(139 007)**	**-**	**-**	**148 536**	**9 529**
Changes in fair value, net of tax	33	-	*(89 228)*	-	-	-	*(89 228)*
Remeasurement of defined benefit plans, net of tax	15	-	*(41 687)*	-	-	-	*(41 687)*
Reserves of impairment of securities at fair value through OCI	33	-	*(228)*	-	-	-	*(228)*
Reserves of sales of securities at fair value through OCI	33	-	*(7 864)*	-	-	-	*(7 864)*
Net profit / (loss) for the period		-	-	-	-	*148 536*	*148 536*
Balance as at 30 June 2021		**5 900 000**	**(888 266)**	**(8 577 074)**	**6 275 834**	**148 536**	**2 859 030**

The accompanying explanatory notes are an integral part of these interim condensed separate financial statements

NOVO BANCO, S.A.

INTERIM CASH FLOW STATEMENT
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2021 AND 2020

(in thousands of Euros)

	Notes	30.06.2021	30.06.2020
Cash flows from operatins activities			
Interest received		347 254	384 892
Interest paid		(73 395)	(76 239)
Fees and commissions received		139 998	145 489
Fees and commissions paid		(20 132)	(23 080)
Recoveries on loans previously written off		15 508	15 012
Contributions to the pension fund		-	(95 076)
Cash contributions to resolution funds and deposit guarantee schemes		(40 172)	(34 766)
Cash payments to employees and suppliers		(133 887)	(207 589)
		235 174	**108 643**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		115 801	230 954
Financial assets mandatorily at fair value through profit or loss		73 414	(403 619)
Financial assets designated at fair value through profit or loss		181 920	(32 267)
Financial assets at fair value through other comprehensive income		57 779	800 517
Financial assets at amortised cost		(268 722)	(1 217 301)
Securities		*(127 871)*	*(534 486)*
Loans and advances to banks		*(82 227)*	*20 697*
Loans and advances to customers		*(58 624)*	*(703 512)*
Financial liabilities at amortised cost		1 200 686	19 747
Deposits from banks		*405 383*	*(483 362)*
Due to customers		*795 303*	*503 109*
Derivatives - Hedge accounting		1 821	1 629
Other operating assets and liabilities		330 290	562 336
Net cash from operating activities before corporate income tax		**1 928 163**	**70 640**
Corporate income taxes paid		(36 030)	(21 869)
Net cash from operating activities		**1 892 133**	**48 771**
Cash flows from investing activities			
Dividends received		12 063	8 681
Acquisition of tangible fixed assets		(25 420)	(5 484)
Sale of tangible fixed assets		2 136	1 871
Acquisition of intangible assets		(7 995)	(11 197)
Net cash from investing activities		**(19 216)**	**(6 129)**
Cash flows from financing activities			
Contingent Capital Agreement		317 013	1 035 016
Reimbursement of bonds and other debt securities		(291)	(300)
Net cash from financing activities		**316 722**	**1 034 716**
Net changes in cash and cash equivalents		**2 189 639**	**1 077 358**
Cash and cash equivalents at the beginning of the period		**2 261 646**	**1 406 347**
Net changes in cash and cash equivalents		2 189 639	1 077 358
Cash and cash equivalents at the end of the period		**4 451 285**	**2 483 705**
Cash and cash equivalents include:			
Cash	19	139 350	130 223
Deposits with Central Banks	19	4 494 747	2 526 605
(of which, Restricted balances)		(264 903)	(286 947)
Deposits with banks	19	82 091	113 824
Total		**4 451 285**	**2 483 705**

The accompanying explanatory notes are an integral part of these interim condensed separate financial statements

NOVO BANCO

Notes to the interim condensed separate financial statements as at 30 June 2021
(Amounts expressed in thousands of Euro, except when otherwise indicated)

NOTE 1 – ACTIVITY

NOVO BANCO, S.A. is the main entity of the financial Group NOVO BANCO focused on the banking activity, having been incorporated on the 3rd of August 2014 per deliberation of the Board of Directors of Bank of Portugal (the Central Bank of Portugal) dated 3rd of August 2014 (8 p.m.), under No. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF))[1], approved by Decree-Law No. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to NOVO BANCO, S.A. (NOVO BANCO or the Bank).

As a result of the resolution measure applied, Fundo de Resolução ("Resolution Fund") became the sole owner of the share capital of NOVO BANCO, in the amount of Euro 4 900 million, which acquired the status of a transition bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of NOVO BANCO. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively. Thus, as at 30 June 2021 and 31 December 2020, the share capital of NOVO BANCO amounted to Euro 5 900 million, represented by 9 799 999 997 nominative shares, with no nominal value.

Within the sale process, a Contingent Capital Agreement was created with the sale process, which in case its capital ratios decrease below the regulatory requirements defined for NOVO BANCO, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of Euro 3 890 million.

With the conclusion of the sale process, NOVO BANCO ceased to be considered a transition Bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of NOVO BANCO are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon. LSF Nani Investments S.à.r.l., headquartered in Luxembourg, is the parent company of the Group.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

NOVO BANCO has a retail network of 330 branches in Portugal and abroad (31 December 2020: 340 branches), branches in Spain and Luxembourg, in addition to 4 representation offices in Switzerland (31 December 2020: 4 representation offices).

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Basis of presentation

In accordance with Regulation (EC) No. 1606/2002 of 19 July 2002 of the European Council and the Parliament and Notices 5/2015 of the Bank of Portugal, the interim condensed separate financial statements from NOVO BANCO, S.A. (NOVO BANCO) were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 1 January 2021.

The IFRS comprise accounting standards issued by International Accounting Standards Board (IASB) as well as interpretations issued by the International Reporting Interpretations Committee (IFRIC), and by their predecessor bodies Standing Interpretations Committee ("SIC").

The interim condensed separate financial statements of NOVO BANCO are presented as at 30 June 2021. These interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Consequently, these financial statements do not include all the information required by IFRS, and therefore they should be read together with the financial statements for the year ended on 31 December 2020. The most relevant changes to the accounting policies are described in the following section.

[1] References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

The accounting standards and interpretations recently issued, but which have not yet entered into force and which the Bank has not yet applied in the preparation of its financial statements, can also be analyzed in Note 40.

The interim condensed separate financial statements are expressed in thousands of euros, rounded to the nearest thousand. These were prepared on the assumption of continuity of operations from the accounting records and following the principle of historical cost, with the exception of assets and liabilities recorded at their fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in their component being hedged.

Changes in accounting policies
The preparation of the financial statements in accordance with IFRS requires the Bank to make judgments and estimates and use assumptions that affect the application of accounting policies and the amounts of income, costs, assets and liabilities. Changes in such assumptions or differences in relation to reality may have an impact on current estimates and judgments. The areas that involve a higher level of judgment or complexity or where significant assumptions and estimates are used in the preparation of the financial statements are analyzed in Note 3.

The interim condensed separate financial statements and the Management Report of June 30, 2021 were approved at a meeting of the Executive Board of Directors on 25 August of 2021.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognized in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as financial assets at fair value through other comprehensive income, which are recorded in equity reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognized in other comprehensive income.

2.3. Derivative financial instruments and hedge accounting

Classification
The Bank classifies its derivatives portfolio into (i) hedging derivatives and (ii) trading derivatives, which include, in addition to the trading book, other derivatives contracted for the purpose of hedging certain assets and liabilities designated at fair value through profit or loss but not classified as hedging (fair value option).

Recognition and measurement
Derivative financial instruments are initially recognized at their fair value on the date the derivative contract is entered into (*trade date*). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognized directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organized markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 27 and 31) and comprise the minimum collateral mandatory for open positions.

The fair value of the remaining derivative financial instruments corresponds to their market value, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting
- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

(i) Hedging instruments and hedged items are eligible for the hedge relationship;
(ii) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;
(iii) There is an economic relationship between the hedged item and the hedging instrument;
(iv) The effect of credit risk does not dominate the changes in value that result from this economic relationship;

(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

For the cases in which the Bank uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Bank carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged item in the portion attributed to the hedged risk. Any ineffectiveness found is recognized in the income statement when it occurs in gains or losses of hedge accounting.

The use of derivatives is framed in the Bank's risk management strategy and objectives.

- Fair value hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognized in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Bank may adjust the hedging operation in order to meet the eligibility (rebalancing) criteria.

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument is amortised via the income statement over the period to its maturity, using the effective interest rate method.

- Cash Flow Hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognized in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognized in the income statement.

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

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of reference interest rates, which led to the transition from EONIA (Euro OverNight Index Average) to € STR (Euro Short Term Rate), in the course of 2020, the Bank changed the discount curve of its positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the implementation principle of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Bank did not record any relevant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships (hedged and hedged items) were subject to the same change.

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 2.4.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract;
b) a separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and
c) the hybrid contract is not measured at fair value and changes in fair value are recognized in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

These embedded derivatives are measured at fair value with the changes in fair value being recognized in the income statement.

2.4. Other financial assets: Securities, Loans and advances to banks and Loans and advances to customer

The Bank initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding;
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognized in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets were acquired with the objective of being traded in the short term, they are classified as held for trading.

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

Deposits and loans and advances to banks and loans and advances to customers are recorded on the date the amount of the transaction is advanced to the counterparty. Acquisitions and disposals of securities are recognized on the trade date, that is, on the date on which the Bank undertakes to acquire or dispose of the asset.

Financial assets at amortised cost or accounted at fair value through other comprehensive income
In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

(i) The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI - *solely payments of principal and interest*) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

(ii) The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Bank determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Bank's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Bank determines whether it is part of an existing business model or if it reflects a new business model. The Bank reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IFRS 16 – Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment assessment.

Financial assets at fair value through other comprehensive income are initially recorded at fair value and subsequently measured at fair value with changes in the fair value recognized in reserves (other comprehensive income) until derecognition, when cumulative potential gains and losses recognized in reserves are reclassified to the caption Gains and losses on financial assets and liabilities designated at fair value through profit or loss. In the specific case of equity instruments, the cumulative gains/ (losses) previously recognized in equity is not reclassified to profit or losses being reclassified between equity accounts. However, dividends received from these equity instruments are recognized in profit or loss.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest calculated at the effective interest rate are recognized in profit or loss.

Financial assets at fair value through profit or loss
Financial assets recorded at fair value through profit or loss present the following characteristics:
- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or,
- it is designated at fair value through profit or loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement.

Reclassifications

If the Bank changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

Impairment
The Bank records impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

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

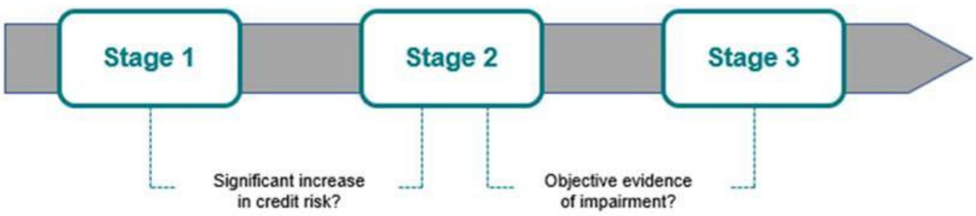
Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

Staging

The impairment calculation approach distinguishes between the 12 months' expected credit losses - Stage 1 - and the lifetime expected credit losses. To determine expected lifetime losses, the approach considers the projection of contractual cash flows - Stage 2 - or the present value of the expected recoveries - Stage 3. Thus, the model of impairment calculation by Stage is summarized as follows:

- expected credit loss resulting from a potential loss event occurring within the next 12 months after the calculation date (Stage 1); or
- expected credit loss, resulting from all potential loss events expected over the lifetime, applied to the projection of contractual cash flows (Stage 2); or
- expected credit loss resulting from the difference between the amount outstanding and the present value of the cash flows estimated to be recovered from the exposure[2] (Stage 3).

Therefore, for the determination of impairment, the classification by Stage for all exposures according to their level of credit risk, as summarized in the figure below, is made beforehand:



- Stage 3

The process of assigning Stage to an exposure starts by checking if the Stage 3 criteria applies. If the exposure is classified as Default - according to the current internal definition[3] - this exposure is classified as Stage 3. Thus, the classification of exposures in Stage 3 is based on the occurrence of a default event, with objective evidence of loss occurring at the time from which a significant change occurs in the creditor-debtor relationship, being the creditor exposed to a monetary loss. Considering the measure of specific triggers of Default or the Stage 3 determination indicators, the result will be the determination of Default and Stage 3 accordingly, taking as a starting point the default setting.

- Stage 2

  Exposures are classified as Stage 2 whenever there is a significant increase in credit risk, since initial recognition. If there is no objective evidence of loss associated with the exposure, criteria are analyzed to determine whether exposure has significantly increased its credit risk.

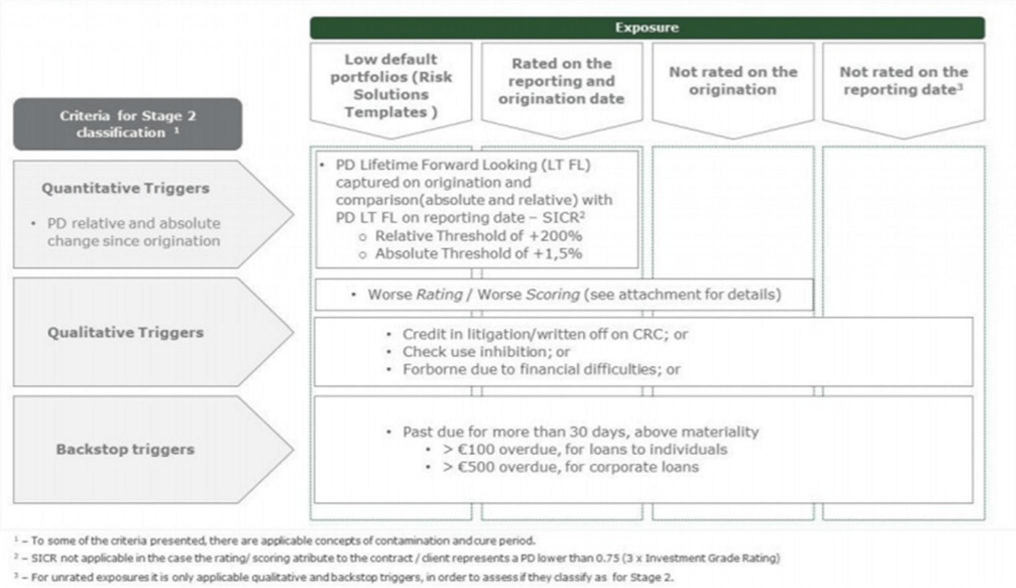
  The significant increase in credit risk is assessed through qualitative and quantitative evidence. Once it is verified that - at least - one of these triggers is active, the exposure is classified in Stage 2.

  The table below describes the criteria and respective applicable thresholds:

[2] Parameters used to determine recoveries vary, mainly depending on the risk profile / nature of the exposure.

[3] The internal definition of Default is aligned with article 178 of CRD IV, providing criteria of material past due for more than 90 days and for unlikely to pay.

Stage 2



As explained in the IFRS 9 regulation, the assessment of a significant increase in credit risk involves - also - comparing the current level of risk of an exposure against the level of risk existing in origination.

The Bank assigns an internal credit risk grade to the exposure / borrower, depending on its quality and associated with the probability of default. In assessing whether the exposure credit risk has increased significantly since initial recognition, the Bank compares, at the reporting date, the lifetime probability of default with the probability of default at origination of the exposure. Depending on whether the observed variation falls above a defined threshold - relative and / or absolute - the exposure is classified in Stage 2.

In addition to this event, the Bank considers other events, that if verified imply the classification in Stage 2 - e.g.: material default for more than 30 days, risk events in the financial system, internal credit risk grade above a certain threshold, among others.

- Stage 1

The classification of exposures in Stage 1 depends on:

(i) absence of active events that qualify for Stage 3 and Stage 2, which were mentioned and described above; or

(ii) the framing of these exposures under the low-credit risk exemption. These exposures, if not in Stage 3, are automatically classified in Stage 1.

The outlined vision is based not only on the requirement in IFRS 9, but also on the approach defined for capital calculation, where for these exposures a 0% risk weight is considered. Thus, entities that are not classified as default and fully comply with the conditions mentioned above are classified as low credit risk, being assigned stage 1. Each month the list of entities in these conditions is reviewed, whose majority is composed of Portuguese public debt, public debt in the Euro zone, American public debt and / or equivalent.

Segmentation

For purposes of the collective assessment of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Bank's credit risk management process. For each of these homogeneous risk groups, risk factors are estimated and then applied for impairment assessment purposes.

For the purpose of determining collective impairment, operations are allocated to risk sub-segments in accordance with the following definitions in the table below:

<table>
<tr><td rowspan="2">1st Segmentation</td><td colspan="2">Client Type</td></tr>
<tr><td>Corporate</td><td>Individuals</td></tr>
<tr><td rowspan="2">2nd Segmentation</td><td>Risk Segment</td><td>Product type</td></tr>
<tr><td>Large companies
Real Estate
Medium Companies
Small Companies
Start-Ups
Financial Institutions
Sovereign</td><td>Mortgage
Consumer loans
Credit cards
Other Individuals</td></tr>
<tr><td>3rd Segmentation</td><td>Rating notation</td><td>Scoring notation</td></tr>
<tr><td rowspan="2">4th Segmentation</td><td colspan="2">Collaterals – LTV</td></tr>
<tr><td>Typically, Corporate segments consider the value of collateral for segmentation purposes</td><td>The mortgage segment considers the value of the financed asset for the purposes of segmentation</td></tr>
</table>

Scenarios

As required by IFRS 9, the Banks's impairment assessment reflects different expectations of macroeconomic developments, i.e., it incorporates multiple scenarios. In order to incorporate the effects of future macroeconomic behavior on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios consider the following principles:
- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Bank (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Bank uses in internal and / or regulatory planning exercises;
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

Write-offs

Write-off is defined as the derecognition of a financial asset from the Bank's balance sheet, which should only occur when cumulatively:

- the maturity of the total amount of the credit to be written off (total or partial) has been required, that is, the credit must be fully recognized (total or partial) as overdue credit. Exemptions from this requirement are, for example, (i) debt restructuring / forgiveness carried out under extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial / extra-judicial decision and (ii) situations where the contract has not expired in its entirety, but the Bank believes that it is facing a scenario of total or partial loss;
- all the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered);
- the credit recovery expectations are very low or almost nil. It is necessary to ensure that the amount to be written off is fully impaired and the impairment was booked at least in the month prior to the write-off.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries at other operating income.

Derecognition

Financial assets are derecognized from the balance sheet when (i) the Bank contractual rights relating to the respective cash flows have expired, (ii) the Bank has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Bank having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognized in other equity is not reclassified to profit or loss, being transferred between equity items.

In the specific case of loans to customers, at the time of sale, the difference between the sale value and the book value must be 100% provisioned, and at the time of the sale, the credit sold will be derecognized against the funds / assets received. and consequent use of impairment on the balance sheet.

Scenarios in impairment models

The exercise of constructing the central and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and the exercise of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of the Expenditure components, arriving at GDP through the identity GDP = Consumption + Investment + Exports – Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than a single forecast (the risk of errors and biases associated with specific methods and variables is minimized).

Forecasts for prices (consumption and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if these are available. In a base scenario, interest rate projections are based on market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered adequate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (expansion and contraction cycles), the reference of the EBA recommendations for extreme adverse scenarios, the stylized facts of the economic cycles, with respect to the components of the expenditure, prices, unemployment, etc. and estimates.

In that sense, when reviewing/updating the scenarios, the respective execution probabilities are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for further consideration in the scope of the Impairment calculation. The final impairment calculated will result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: central, less favorable and more favorable.

The main central scenario predicts a trend recovery in the form of a “swoosh”. After the sharp drop-in activity in the 1st and 2nd quarters of 2020, there was an initially rapid recovery with the first deconfinement, followed by a recovery that was tending to be more gradual. The recovery in this scenario leaves economic activity at a level below the pre-Covid level for a relatively prolonged period, until 2022. Thus, some loss of productive potential of the economy is assumed.

This scenario assumes negative impacts from a second and third Covid-19 waves in the 4th quarter of 2020 and between the 1st and 2nd quarters of 2021, in line with scenarios projected for the pandemic. These waves restrict economic activity, but in a progressively less pronounced way than in the first wave. Still, relatively moderate quarterly GDP declines are admitted in the 4th quarter of 2020 and the 2nd quarter of 2021. This scenario assumes the gradual distribution of anti-Covid-19 vaccines throughout 2021 and 2022, allowing for a more visible normalization of economic activity from the 3rd quarter of 2021.

The central scenario, which is assigned a probability of 60%, indicates to an annual GDP drop of around 8.3% in 2020, followed by an annual growth of around 5.2% in 2021, which benefits from a favorable base effect. The following years assume a gradual evolution towards trend/potential growth, with annual growths of 3.4% in 2022 and 2% in 2023. The available information on the initial economic impacts of the Covid-19 crisis was used to build the scenario. In the baseline scenario, the increase in unemployment is strongly mitigated by income and employment protection measures, which are assumed to be prolonged until 2021. Housing prices avoid a fall, due to stabilization measures, such as moratoria and credit guarantees. The gradual withdrawal of these measures causes, however, a strong deceleration of these prices in 2021. The base scenario is marked by disinflationary pressures and the maintenance of strong monetary stimuli.

The less favorable scenario, with a probability of 30%, forecasts more severe impacts on the economy of a second and third wave of Covid-19, which force intermittent lockdowns, leading to stronger quarterly GDP contractions in the 4th quarter of 2020 and the 2nd quarter of 2021. The recovery of activity occurs more slowly than in the base scenario, which translates into more persistent negative economic effects and a severe loss of productive capacity. Activity is still significantly below pre-Covid levels in 2023, which translates into a significant rise in unemployment and a more depressed evolution of prices. GDP declines 9.6% in 2020 and grows 0.9% in 2021, which is explained, in this case, by a favorable base effect. GDP grows 2.8% in 2022, still benefiting from a favorable base effect, assuming in 2023 a movement towards trend/potential growth. The normalization of activity with the introduction of vaccines is assumed in a more time-consuming and gradual way.

The most favorable scenario, with a probability of 10%, predicts a “V” shaped recovery. The second wave of the pandemic has a less pronounced and shorter impact on economic activity and no third wave is assumed to be absent. This allows for faster normalization of activity and faster growth recovery. Above all, this allows for the recovery of pre-Covid activity levels as early as 2021, which translates into a gentler evolution of unemployment. Without a significant or persistent loss of capacity, prices have more visible growth. In this scenario, a rise in market interest is assumed, although at historically low levels.

4 macroeconomic models are used for the corporate segments (excluding real estate), real estate companies, mortgage loans and other loans to individuals.

The Corporate segment (excluding Real Estate) is particularly sensitive to the GDP growth rate and the unemployment rate. In all scenarios there is a fall in GDP, followed by a recovery in the following years, reaching in 2021 the levels recorded before the pandemic, with the exception of the adverse scenario, in which pre-pandemic levels are not reached within the horizon of 3 years. Unemployment registers a significant increase in the year 2020, followed by a recovery that is not enough to reach the levels of unemployment before the pandemic, with the exception of the favorable scenario which registers in 2022 levels slightly lower than those registered before the pandemic.

The Real Estate Companies segment is particularly sensitive to the evolution of real estate prices and the GDP growth rate. It is the most affected segment in the period in question.

Real estate prices record a significant drop in 2020 in all scenarios, followed by a more or less fast recovery, depending on the scenario in question.

The Mortgage Loan segment is mainly affected by the reduction in GDP and the fall in real estate prices, transversal to all scenarios in the year 2020.

The Other Loans to Individuals segment is substantially affected by the increase in Unemployment and the reduction in GDP, verified in 2020 in any of the scenarios.

Collective analysis adjustments to the automatic model result

After processing the automatic impairment calculation and validated the consistency of the results obtained, all situations that may require an adjustment to the calculated impairment value are evaluated. These adjustments are reflected, whenever possible, directly in the exposures.

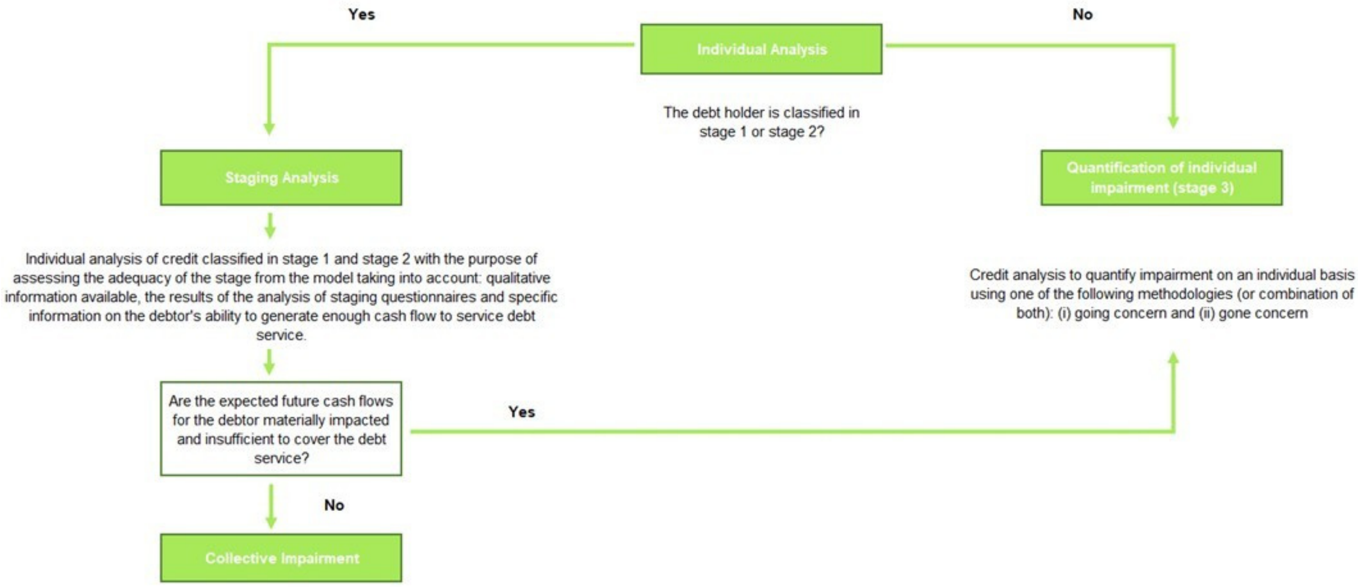
When this is not possible, the calculated impairment value is accounted for without being allocated to specific exposures and, for this purpose, the stage and type of credit to which it refers are associated with this amount. With the prerogative of guaranteeing that all the impairment set up is allocated to specific exposures, these impairment amounts initially set up in the unallocated form will, once the conditions exist for this purpose, be fully distributed among the exposures where their allocation is determined.

In terms of the governance model, both the adjustments to specific exposures and the impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

Individual impairment analysis process

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral.

The structure below is illustrative of the individual credit analysis to be carried out for the purpose of concluding on the classification in terms of staging of debtors.



Selection Criteria

The Bank considers that the Individual Analysis (staging analysis and, when applicable, quantification of individual impairment) should be carried out for the borrowers who:

- Register Stage 3 exposure equal to or greater than Euro 1 million;
- Register Stage 2 exposure equal to or greater than Euro 5 million;
- Register Stage 2 exposure equal to or greater than Euro 1 million and have no rating assigned;
- Register Stage 1 exposure equal to or greater than Euro 5 million and have no rating assigned;
- Register Stage 1 exposure equal or greater than Euro 25 million (individually significant exposure);
- Fit into the Financial Holding risk segment and register exposure equal to or greater than Euro 5 million;
- Fit into the Real Estate risk segment and register exposure equal to or greater than Euro 5 million;
- Are identified by the Committee itself based on another criteria that justify (e.g.; sector of activity);
- In the past, specific impairment has been attributed to them;
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

The identification of the target customers for Individual Analysis will be updated monthly, in order to contemplate any changes that may occur throughout the year. The Committee analysis of the customers identified in the previous paragraph will be carried out in the month in which:

- The client registers, for the first time, one of the selection criteria for Individual Impairment Analysis, mentioned in the previous paragraph;
- Expiry of the Analysis expiration date;
- Its analysis is requested by one of the participants of the Impairment Committee or by another Body.

The Individual Impairment Analysis can be carried out for individual customers, but should whenever possible consider the Economic Group view of the selected customer.

Rules of Operation

The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Units regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral. For the analysis of the impairment quantification on an individual basis, a scenario is established that is expected to recover credit: through the continuity of the client's business or through the execution of the collateral. If this analysis results in no impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model (except for cases with objective evidence of loss / Default, in which the final rate will have to be defined).

The Individual Impairment quantification analysis determines, for each period, the best recovery scenario, aligning the commercial strategies defined for the client, with the different recovery possibilities. When, due to lack of information, it is not possible to identify or update the recovery scenario, the previous rate is maintained, and a new date is set for the client's review.

Internal rating models for Corporates, Institutions and stocks portfolios

Regarding the rating models for corporate portfolios, different approaches are adopted depending on the size and sector of activity of the clients. Specific models are also used, adapted to loan operations of project finance, acquisition finance, object finance, commodity finance and real estate development finance.

Below is a summary table on the types of risk models adopted in the internal assignment of credit ratings:

	Segmentation criteria	Model type	Description
Expert Judgement	Sector, Size, product • Large enterprises • Financial institutions • Municipalities • Institutional • Local and regional administrations • Real estate (Investment/ Promotion) • Acquisition Finance • Project Finance • Object Finance • Commodity Finance	Template	Ratings atributed by teams of analyst, using specific models by sector (templates) and financial and qualitative information.
	Medium enterprises	Semi-automatic	Rating model based in financial, qualitative and behavioral information, validated by analysts.
	Small enterprises	Automatic	Rating model based in financial, qualitative and behavioral information.
Statistical	Start-Up's and individual entrepreneurs	Automatic	Rating model based in qualitative and behavioral information.

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating models are not available are:
- Insurance and Pension Funds;
- Churches, political parties and non-profit associations with a turnover of less than Euro 500 thousand

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and Specialized Loans - namely Project Finance, Object Finance, Commodity Finance and Acquisition Finance - the credit ratings are assigned by the Bank's Rating representation. This structure is made up of 7 multisectoral teams that comprise a team leader and several specialized technical analysts. The attribution of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of "expert-based" rating models (templates) that are based on qualitative and quantitative variables, strongly correlated with the sector or sectors of activity in which the clients under analysis operate. With the exception of assigning a rating to specialized loans, the methodology used by the Rating representation is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company in the respective economic group. The internal credit ratings are validated daily in a Rating Committee composed of members of the Rating Department's Management and the various specialized teams.

For the medium-sized companies segment, statistical rating models are used, which combine financial data with qualitative and behavioral information. However, the publication of credit ratings requires the execution of a previous validation process that is carried out by a technical team of risk analysts, who also take into account behavioral variables. In addition to rating, these teams also monitor the customers' loan portfolio of the Bank through the preparation of risk analysis reports, as provided for in internal regulations, in accordance with the current responsibilities / customer rating binomial, which may include specific recommendations on the credit relationship with a given customer, as well as technical advice on investment support operations, restructuring, or other operations subject to credit risk.

For the business segment, statistical scoring models are also used which have, in addition to financial and qualitative information, the behavioral variables of the companies and the partner(s) in the calculation of credit ratings.

There are also implemented scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and individual entrepreneurs (ENI). These customers together with the small companies, depending on the exposure value, are included in the regulatory retail portfolios.

Finally, for companies in the real estate sector (companies dedicated to the activity of real estate promotion and investment, especially small and medium-sized companies), taking into account their specificities, the respective ratings are assigned by a specialized central team, based on use of specific models that combine the use of quantitative and technical variables (real estate appraisals carried out by specialized offices), as well as qualitative and behavioral variables.

With regard to exposures equated to shares held by the Bank, directly or indirectly through the holding of investment funds, as well as shareholders loans and supplementary capital contributions, all included in the risk class of shares for the purposes of calculating credit risk weighted assets, they are classified in the various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented above. These segmentation criteria determine the type of rating model to be applied to the issuers of the shares (or borrowers of the shareholders loans / supplementary capital contributions) and, therefore, to them.

Relationships between internal and external ratings
The assignment of an internal rating to entities with an external rating is made through the Markets Template available in the Rating Calculation application. The Markets Template gathers the external ratings that were assigned to a specific entity by the rating agencies Standard & Poor's (S&P), Moody's and Fitch.

Specifically, the functionality of providing external ratings from S&P - XpressFeed feeds the application of External Ratings on a daily basis, which allows the external ratings published by these agencies for a given entity to be filled in the Markets Template. The external ratings assigned by Moody's and Fitch are not obtained automatically, having to be entered manually in the Markets Template, after consulting the websites www.moodys.com and www.fitchratings.com.

The internal rating results, in the majority of situations, from the S&P equivalent external rating and, in exceptional situations, from the S&P equivalent external rating plus an internal adjustment, which must always be accompanied by justifying comments prepared by the analyst.

It should be noted that the S&P equivalent external rating is obtained by making a correspondence between the available external ratings and the rating scale of the referred financial rating agencies. The internal ratings produced by the Markets Template and which have had adjustments must be mandatorily approved and validated by the Rating Committee

The table below shows the correspondence between the external ratings S&P, Moody's and Fitch and the equivalent external rating S&P:

S&P	Moody's	Fitch	Equivalent external rating S&P
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	Lower than CCC
CC	Ca	CC	
SD	C	C	
D		RD/D	

Internal scoring models for Individual portfolios
With regard to scoring models for individual portfolios, NB has origination / concession and behavioral scoring models (applied to operations older than 6 months).

These models are automatic, based on statistical models developed with internal information, considering socio-demographic information, loan characteristics, behavioral information and automatic penalties (if there are warning signs). In the case of behavioral models, information on the remaining loans of the contract holders is also considered.

The Bank is authorized by Bank of Portugal to use internal models in the calculation of regulatory capital requirements for the main portfolios of individuals: Mortgage Loans and Individual Loans. In addition, it has origination and behavioral scorings for the Credit Card, Overdraft and Loan Accounts products, which it uses for the purposes of designing and monitoring credit quality, however, not being IRB portfolios.

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

Securities sold under repurchase agreements (repos) at a fixed price or at a price that equals the sale price plus an interest inherent to the term of the transaction are not derecognized from the balance sheet. The corresponding liability is accounted for in amounts payable to other credit institutions or customers, as appropriate. The difference between the sale value and the repurchase value is treated as interest and is deferred over the life of the agreement, using the effective rate method.

Securities purchased with resale agreement (reverse repos) at a fixed price or at a price that equals the purchase price plus an interest inherent to the term of the transaction are not recognized in the balance sheet, the purchase value being recorded as loans to others credit institutions or customers, as appropriate. The difference between the purchase value and the resale value is treated as interest and is deferred over the life of the agreement, using the effective rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 2.4. Securities received under borrowing agreements are not recognized in the balance sheet.

Short sales correspond to securities sold that are not included in the Group's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognized directly in the income statement in Gains or Losses from financial assets and liabilities held for trading.

2.6. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities at fair value through profit or loss when:
- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Bank's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

The structured products issued by the Bank – except for the structured products for which the embedded derivatives were separated, recorded separately and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the above-mentioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Bank establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Bank accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognizes of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognized in the income statement.

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

2.7. Financial and performance guarantees

Financial guarantees
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognized in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognized on initial recognition and (ii) the amount of any financial obligation arising as result of the guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Bank normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Bank, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognized at the contract date is equal to the amount of the commission initially received, which is recognized in the income statement over the period to which it relates. Subsequent periodic fees are recognized in the income statement in the period to which they relate.

Performance guarantees
Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Bank has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

2.8. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, regardless of its legal form, but evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount issued. Amounts paid or received relating to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

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

2.9. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events and must be enforceable in the course of the normal activity of NOVO BANCO, as well as in the event of default, bankruptcy or insolvency of the Bank or the counterparty.

2.10. Foreclosed properties and non-current assets and disposal groups held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are in condition for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell.

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the “Regime Geral das Instituições de Crédito e Sociedades Financeiras” (RGICSF), banks are prevented, unless authorized by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (no. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article nº 114 of RGICSF).

Although the Bank’s objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Bank changed the classification of this real estate properties from Non-current assets held for sale to Other assets, due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. Unrealized losses on these assets, so determined, are recorded in the income statement.

The valuation of these real estate properties is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:
(i) Market Method

The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the zone.

(ii) Income Method
Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

(iii) Cost Method
This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analyzed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Additionally, since these are assets whose level in fair value hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Bank proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value supported by additional internal or external valuations.

2.11. Tangible fixed assets

The Bank's tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with tangible fixed assets are only recognized when it is probable that future economic benefits associated with them will flow to the Bank. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of tangible fixed assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Property for own use	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Transport equipment	4
Other	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires its recoverable amount to be estimated and an impairment loss recognized when the book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the net carrying book value is recognized under the caption Other operating income and expenses.

2.12. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalized, as are additional costs incurred by the Bank to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

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

2.13. Leases

IFRS 16 – Leases

A. Lease Definition
- Determining whether an Agreement Contains a Lease: The Bank assesses whether a contract is or contains a lease based on the lease definition which focuses on controlling the identified asset. In accordance with IFRS 16, a contract is or contains a lease if it has the right to control the use of an identified asset, allowing to obtain substantially all the economic benefits of using it and the right to guide the use of that identified asset for a certain period of time in exchange for retribution.

The Bank has adopted some practical expedients provided for in the standard in applying IFRS 16:
- Applies the exception, mentioned above, of non-recognition of assets under right of use and liabilities for short-term leases (i.e. with a lease term of 12 months or less);
- Apply the exception, mentioned above, of non-recognition of assets under use and liabilities for low value leases (i.e. new value less than Euro 5 thousand);
- For leases in which the entity is a lessee, it was decided not to separate the non-lease components and account for the lease and non-lease components as a single lease component.

The option of not applying this standard to leases of intangible assets was also used.

B. As Lessee
In accordance with IFRS 16, the Bank recognizes leased assets and lease liabilities for some asset classes, i.e., these leases are on the entity's balance sheet. Lease contracts are recorded at the inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of the outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognized in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

As previously mentioned, the Bank has opted not to recognize assets under right of use and liabilities for short-term leases, with a lease term of 12 months or less, and low value asset leases (e.g. IT equipment) with a new value of less than Euro 5 thousand. The Bank recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term in income statement as “Other administrative expenses – rents and rentals”.

The Bank presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property.

The Bank presents the lease liabilities under "Other liabilities" in the statement of financial position.

Significant judgment in determining contract lease term

The Bank has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Bank determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and recognized right-of-use assets.

The Bank has the option, namely in real estate lease agreements, to lease assets for additional periods from 1 month to 20 years. The Bank applies judgment in assessing whether it is reasonably right to exercise the renewal option. That is, it considers all the relevant factors that create an economic incentive for renewal.

Measurement and remeasurement of assets under right of use and lease liabilities

Lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve plus the Bank’s risk spread, applied over the weighted average term of each lease.

The lease liability is initially recorded at the present value of the future cash flows from the lease and is subsequently measured (i) by increasing its carrying amount to reflect interest on it, (ii) by decreasing its carrying amount by to reflect lease payments.

An asset under right of use, initially measured at cost, must take into account the present value of the future cash flows of the lease liability, being subsequently subject to depreciation / amortization according to the lease term of each contract and to tests of impairment.

C. As lessor

In accordance with IFRS 16, lessors will continue to classify leases as financial or operational.

Financial leases

Transactions in which the risks and benefits inherent in the ownership of an asset are substantially transferred to the lessee are classified as finance leases. Financial leasing contracts are recorded in the balance sheet as credits granted for an amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in rents charged to customers is recorded as income while capital amortizations, also included in rents, are deducted from the amount of credit granted to customers. The recognition of interest reflects a constant periodic rate of return on the lessor's remaining net investment.

Operating leases

All lease transactions that do not fall under the definition of finance lease are classified as operating leases. Payments made by the Bank under operating lease agreements, from the perspective of the lessee, are recorded in costs in the periods to which they relate.

2.14. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement (“Acordo Coletivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 15, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured, for most of the Bank companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, S.A., a subsidiary of NOVO BANCO Group.

The pension plans of the Bank are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semi-annually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan’s liabilities.

The Bank determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan’s net assets / liabilities (liabilities net of the fair value of the fund’s assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds’ assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund’s assets and the actual investment returns, are recognized in equity under the caption other comprehensive income.

The Bank recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognized as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Bank assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits
The Bank provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year, recorded on a monthly basis in personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

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

Career bonus
The ACT provides for the payment by the Bank of a career bonus, due at the time immediately prior to the employee's retirement if he retires at the Bank's service, corresponding to 1.5 of his salary at the time of payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The amount of the Bank's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement, in Personnel Expenses.

Employees' variable remuneration and other obligations
The Bank recognizes under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Bank recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events and can make a reliable estimate of the obligation.

- Obligations with holidays, holiday subsidy and Christmas subsidy
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

2.15. Corporate Income tax

NOVO BANCO and its subsidiaries are subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC Code).

The total amount of corporate income tax comprises current tax and deferred tax.

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

Current Taxes
Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction. The tax is recognized in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Current tax is calculated based on taxable income for the period, which differs from accounting income due to adjustments resulting from expenses or income not relevant for tax purposes or which will only be considered in subsequent years.
Deferred taxes

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for: i) goodwill non-deductible for tax purposes; ii) differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit; iii) that do not result from a business combination, and iv) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Bank does not control the timing of the reversal of the timing differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of NOVO BANCO.

Taxable income or tax loss reported by the Bank may be corrected by the Portuguese Tax Authorities within a period of four years, except when any deduction was made or a tax credit was used, in which case this period corresponds to the period during which this right may be exercised (5 or 12 years in the case of tax losses, depending on the financial year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in interpretation of tax legislation, will not have a material effect on the financial statements.

The Bank, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax with regard to the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax, with no material impact on its financial statements resulting from its application.

2.16. Provisions and Contingent liabilities

Provisions are recognized when: (i) the Bank has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Bank to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors, both internal and external.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognized in financial expenses.

Restructuring provisions are recognized when the Bank has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognized when the benefits expected to be derived by the Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

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

2.17. Recognition of interest income and expense

Interest income and expense is recognized in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Bank estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest and similar income includes interest from financial assets for which were recognized impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities at fair value through profit or loss (see Note 2.3).

2.18. Recognition of fees and commissions income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 2.17.

2.19. Recognition of dividend income

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

2.20. Report by Segment

In accordance with the paragraph 4 of IFRS 8 – Operational Segments, the Bank is waived to present the report by segment on an individual basis, since the interim condensed separated financial statements are presented together with the interim condensed consolidated financial statements.

2.21. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted, or the options granted exercised.

2.22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three months from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

2.23. Provision of insurance or reinsurance mediation services

NOVO BANCO is an entity authorized by the Instituto de Seguros de Portugal for the practice of insurance mediation activity in the category of Mediator of Linked Insurance, in accordance with Article 8, a), i), of Decree-Law no. 144/2006, of July 31, developing the activity of insurance intermediation through sale of life and non-life insurance contracts. As remuneration for the rendered services of insurance mediation, the Bank receives commissions that are defined in agreements / protocols established between the Bank and the Insurers.

The commissions received by the services of insurance mediation cover the following modalities:

- commissions that include a fixed and variable component. The fixed component is calculated by applying a predetermined rate on the value of the subscriptions made through the Bank and the variable component is calculated monthly according to pre-established criteria, with the total annual commission equal to the sum of the commissions calculated monthly;
- other variable commissions, which are calculated and paid annually by insurer in the beginning of the following year.

The commissions received by the insurance mediation services are recognized in accordance with the principle of accruals accrual, so that commissions paid at a different time than the period to which they relate are registered as an amount receivable under Other Assets.

NOTE 3 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Bank are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

The Bank and its subsidiaries do not have projects or intentions for actions that could question the continuity of the operations.

The COVID-19 pandemic, despite the government and regulatory response measures adopted, resulted in an additional high level of uncertainty about the Portuguese and European economy and in particular banking activity, with an impact on the judgments and estimates used in the financial statements. However, the internal control policies and standards adopted by the Bank allow us to consider that these judgments and estimates were made independently and appropriately as of 30 June 2021.

The relevant judgments made by management in the application of the Bank's accounting policies and the main sources of uncertainty in the estimates were the same as those described in the last reporting of the Financial Statements.

3.1. Impairment of financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognized impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 2.4 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by NOVO BANCO and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with NOVO BANCO. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Bank monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: the Bank uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

3.2. Fair value of derivative financial instruments and other financial assets and liabilities at fair value

Fair value is based on listed market prices when available; otherwise fair value is determined based on similar recent arm’s length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Bank uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarized in Note 37.

3.3. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 26.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a Bank of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are charged with reviewing the calculation of the tax base made by the Bank during a period of four or twelve years, in the event of reportable tax losses. Thus, it is possible that there are corrections to the tax base, resulting mainly from differences in the interpretation of tax legislation. However, the Bank's Executive Board of Directors believes that there will be no significant corrections to taxes on profits recorded in the financial statements.

3.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 15 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the NOVO BANCO for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

3.5. Provisions and Contingent Liabilities

The recognition of provisions involves a significant degree of complex judgment, namely identifying whether there is a present obligation and estimating the probability and timing, as well as quantifying the outflows that may arise from past events. When events are at an early stage, judgments and estimates can be difficult to quantify due to the high degree of uncertainty involved. The Executive Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognized. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognized provisions may also be sensitive to the assumptions used, which may result in a variety of potential results that require judgment in order to determine a level of provision that is considered appropriate in view of the event in question.

The Bank recognizes provisions intended to cover for losses arising from commercial offers approved during the financial year of 2016 by the Executive Board of Directors of the Bank and following the non-opposition of Bank of Portugal, aimed at retail customers holding non-subordinated bonds of the NOVO BANCO. The amount of the provisions reflects NOVO BANCO’s best estimate as each reporting date. The subjectivity inherent to the determination of the probability and amount of the internal resources required for the payment of the obligations may lead to significant adjustments (i) due to variations in the assumptions used (ii) for the future recognition of provisions previously disclosed as contingent liabilities; and/or (iii) for the future write-off of provisions, when they start to classify as contingent liabilities only. The provisions are detailed in Note 30.

3.6. Foreclosed properties and Non-current assets and disposal groups classified as held for sale

Assets received from credit recovery and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations carried out by independent entities specializing in this type of service, using the market, income or cost methods defined in Note 2.10. The valuation reports are analyzed internally, namely comparing the sales values with the revalued values of the properties in order to maintain the valuation parameters and processes aligned with the market evolution.

The use of alternative methodologies and different assumptions could result in a different level of fair value with an impact on the respective balance sheet amount recognized.

NOTE 4 – NET INTEREST INCOME

The breakdown of this caption as at 30 June 2021 and 2020 is as follows:

(in thousand of Euros)

	Six month period ended on									
	30.06.2021					30.06.2020 *				
	Effective Interest Rate Method			Other		Effective Interest Rate Method			Other	
	From assets/liabilities at amortised cost	From assets/liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets/liabilities at fair value through profit or loss	Total	From assets/liabilities at amortised cost	From assets/liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets/liabilities at fair value through profit or loss	Total
Interest income										
Interest from loans and advances to customers	242 281	6 327	-	-	248 608	249 159	7 493	-	-	256 652
Interest from deposits and loans and advances to banks	7 718	-	36 640	-	44 358	10 091	-	3 836	-	13 927
Interest from securities	32 644	35 893	-	9 972	78 509	27 942	43 601	-	16 173	87 716
Interest from derivatives	-	-	973	2 493	3 466	-	-	483	3 289	3 772
Other interest and similar income	207	-	-	-	207	315	-	-	-	315
	282 850	**42 220**	**37 613**	**12 465**	**375 148**	**287 507**	**51 094**	**4 319**	**19 462**	**362 382**
Interest expenses										
Interest on debt securities	16 404	-	-	-	16 404	16 913	-	-	-	16 913
Interest on amount due to customers	26 006	-	-	-	26 006	37 961	-	-	-	37 961
Interest on deposits from Central Banks and other Banks	4 548	-	3 826	-	8 374	13 685	-	904	-	14 589
Interest on subordinated liabilities	16 943	-	-	-	16 943	17 038	-	-	-	17 038
Interest on derivatives	-	-	3 668	5 990	9 658	-	-	2 802	4 723	7 525
Other interest and similar expenses	3 355	-	506	-	3 861	3 961	-	146	-	4 107
	67 256	**-**	**8 000**	**5 990**	**81 246**	**89 558**	**-**	**3 852**	**4 723**	**98 133**
	215 594	**42 220**	**29 613**	**6 475**	**293 902**	**197 949**	**51 094**	**467**	**14 739**	**264 249**

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

As at 30 June 2021, interest on deposits from Central Banks and other banks includes the amount of Euro 587 thousand from operations with repurchase agreement (30 June 2020: Euro 16 thousand in amounts due to customers and Euro 85 thousand in interest on deposits from Central Banks and other banks).

As at 30 June 2021, interest from loans and advances to customers includes Euro 15 895 thousand from financial leasing operations (30 June 2020: Euro 17 899 thousand).

Interest income and expense items related to derivative interest include, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 2.3 e 2.6.

The measures adopted to reduce the cost of customer deposits justify the decrease in the interest expense related to these liabilities.

NOTE 5 – DIVIDEND INCOME

The breakdown of this caption is as follows:

	(in thousands of Euros)	
	Six month period ended on	
	30.06.2021	30.06.2020 *
Financial assets mandatorily at fair value through profit or loss		
Shares	1 970	1 627
Participation units	2 050	4 769
Financial assets at fair value through other comprehensive income		
Shares	1 062	1 702
Investments in associates and subsidiaries	6 981	583
	12 063	**8 681**

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

In the first half of 2021, dividend income was recorded in the amount of Euro 12 063 thousand (30 June 2020: Euro 8 681 thousand), whose breakdown is as follows:

- Euro 4 020 thousand in financial assets mandatorily recorded at fair value through profit or loss, which include dividends received from Explorer III B in the amount of Euro 2 050 thousand and from Euronext NV in the amount of Euro 1 801 thousand (30 June 2020: Euro 6 396 thousand, which include dividends received from the Soluções Arrendamento fund in the amount of Euro 3 141 thousand, from the Arrendamento Mais fund in the amount of Euro 1 593 thousand and from Euronext in the amount of Euro 1 391 thousand); and
- Euro 1 062 thousand in financial assets recorded at fair value through other comprehensive income, which include dividends received from SIBS SGPS in the amount of Euro 785 thousand and from ESA Energia in the amount of Euro 275 thousand (30 June 2020: Euro 1 072 thousand, which include dividends received from SIBS SGPS in the amount of Euro 887 thousand and from ESA Energia of Euro 609 thousand); and
- Euro 6 981 thousand in investments in associates and subsidiaries, which correspond to dividends received from Unicre in the amount of Euro 6 321 thousand and from Edenred in the amount of Euro 660 thousand (30 June 2020: Euro 583 thousand relating to dividends received from Edenred).

NOTE 6 – FEES AND COMMISSIONS INCOME AND EXPENSES

The breakdown of this caption is as follows:

	(in thousands of Euros)	
	Six month period ended on	
	30.06.2021	30.06.2020 *
Fees and commissions income		
From banking services	99 082	97 204
From guarantees provided	16 768	17 663
From transaction of securities	3 203	2 424
From commitments to third parties	4 013	4 422
From transactions carried out on behalf of third parties - Cross-selling	15 722	15 426
Other fee and commission income	1 210	1 424
	139 998	**138 563**
Fees and commissions expenses		
With banking services rendered by third parties	15 135	15 368
With guarantees received	813	959
With transaction of securities	1 156	1 136
Other fee and commission income	3 028	3 710
	20 132	**21 173**
	119 866	**117 390**

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

NOTE 7 – GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this caption is as follows:

(in thousand of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	14 331	8 595	5 736	92 748	6 529	86 219
Issued by other entities	9 511	323	9 188	737	5 454	(4 717)
	23 842	**8 918**	**14 924**	**93 485**	**11 983**	**81 502**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	142	(142)	-	-	-
Loans	5 221	10 779	(5 558)	1 843	88	1 755
	5 221	**10 921**	**(5 700)**	**1 843**	**88**	**1 755**
	29 063	**19 839**	**9 224**	**95 328**	**12 071**	**83 257**

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

NOTE 8 - GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2 038	11 768	(9 730)	8 462	16 109	(7 647)
Issued by other entities	38	20	18	-	-	-
Financial Derivatives						
Foreign exchange rate contracts	33 717	42 648	(8 931)	61 303	43 180	18 123
Interest rate contracts	252 412	215 937	36 475	297 672	381 575	(83 903)
Equity /Index contracts	20 600	20 004	596	55 003	54 488	515
Credit default contracts	16	18	(2)	12	11	1
Other	637	154	483	407	32	375
	309 458	**290 549**	**18 909**	**422 859**	**495 395**	**(72 536)**

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

In accordance with the accounting policies followed by the Bank, financial instruments are measured, at their initial recognition, at their fair value. The transaction value of the instrument is assumed to correspond to the best estimate of its fair value on the date of its initial recognition. However, in certain circumstances, the initial fair value of a financial instrument, determined on the basis of valuation techniques, may differ from the transaction value, especially by the existence of an intermediary margin, resulting in a day one profit.

The Bank recognizes in profit or loss the gains arising from the day one profit generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, on the date of their initial recognition and subsequently, is determined only by the Bank based on observable market variables and reflects the Bank's access to the wholesale market.

As at 30 June 2021, the gains related essentially to foreign exchange transactions amounted to approximately Euro 773 thousand (30 June 2020: Euro 2 640 thousand).

NOTE 9 - GAINS OR LOSSES ON FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFITS OR LOSS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on non-trading financial assets mandatorily at fair value through or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	21 040	5 505	15 535	3 171	67 223	(64 052)
Shares	17 112	-	17 112	15 095	114 011	(98 916)
Other variable income securities	10 503	22 296	(11 793)	2 578	220 861	(218 283)
	48 655	**27 801**	**20 854**	**20 844**	**402 095**	**(381 251)**
	48 655	**27 801**	**20 854**	**20 844**	**402 095**	**(381 251)**

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

As at 30 June 2020, gains or losses on financial assets mandatorily at fair value through profit or loss - securities - shares and other variable income securities include a loss of Euro -260.6 million, resulting from the completion of an independent valuation to the restructuring funds, and in the second half of 2020 a loss of Euro -39.6 million was additionally recognized. These funds are “level 3” assets in accordance with the fair value hierarchy of IFRS 13 (quotes provided by third parties whose parameters used are not observable in the market). NOVO BANCO requested an independent assessment from an international consulting firm in conjunction with real estate consulting firms. This work resulted in a market value of Euro 557.2 million for the total investment held in these assets as at 30 June 2020 and Euro 498.8 million as at 31 December 2020 (see Note 21), which led to a loss of Euro -260.6 million in the first half of 2020 and Euro -39.6 million in the second half of 2020 (see Note 37).

NOTE 10 – GAINS OR LOSSES FROM HEDGE ACCOUNTING

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Fair value changes of hedging instruments						
Interest rate contracts	62 326	30 584	31 742	24 494	44 472	(19 978)
Fair value changes of hedging item attributable to hedged risk	4 612	27 534	(22 922)	18 763	10 206	8 557
	66 938	**58 118**	**8 820**	**43 257**	**54 678**	**(11 421)**
Compensations for hedging operations interruptions (see Note 13)	1 166	-	1 166	835	-	835
Net amount of compensations	**68 104**	**58 118**	**9 986**	**44 092**	**54 678**	**(10 586)**

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

NOTE 11 – EXCHANGE DIFFERENCES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2021			30.06.2020 *		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange revaluation	673 997	660 444	13 553	511 185	526 221	(15 036)
	673 997	**660 444**	**13 553**	**511 185**	**526 221**	**(15 036)**

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

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 2.2.

NOTE 12 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousads of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Real Estate	894	778
Equipment	(62)	(275)
Others	1 179	852
	2 010	**1 355**

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

NOTE 13 – OTHER OPERATING INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Other operating income		
Gains/(losses) on recoveries of loans	15 508	14 778
Non-recurring advisory services	245	154
Other income	12 245	15 285
	27 998	**30 217**
Other operating expenses		
Direct and indirect taxes	(277)	(804)
Contribution on the bankin sector and solidarity additional (Note 26)	(33 545)	(26 981)
Membership fees and donations	(1 252)	(913)
Charges with Supervisory entities	(927)	(1 289)
Other expenses	(13 064)	(8 513)
	(49 065)	**(38 500)**
Other operating income/(expenses)	**(21 067)**	**(8 283)**

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

As at 30 June 2021, the amount received relating to compensation for discontinuation of hedging operations, included in other income, amounts to Euro 1 166 thousand (30 June 2020: Euro 835 thousand) (see Note 10).

NOTE 14 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020 *
Wages and salaries	83 036	82 547
Remuneration	82 650	82 259
Career bonuses (see Note 15)	386	288
Mandatory social charges	23 626	26 516
Costs with post-employment benefits (see Note 15)	377	203
Other cost	1 521	2 035
	108 560	**111 301**

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

The provisions and costs related to the restructuring process are presented in Note 30.

As at 30 June 2021, the number of employees of the Bank is 4 148 (30 June 2020: 4 420).

NOTE 15 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labour Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the years of service, applied to each year's negotiated salary table for the active workforce.

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (SAMS) managed by the Union. As a result of the signing of the new Collective Labor Agreement (ACT) on July 5, 2016, with publication in Labor Bulletin No. 29 of August 8, 2016, the contributions to SAMS, under the responsibility of the Bank, as of February 1, 2017 started to correspond to a fixed amount (according to Annex VI of the new ACT) for each employee, 14 times in a year. The calculation and recording of the Bank's obligations with health benefits attributable to workers at retirement age are carried out in a similar way to pension liabilities. These benefits are covered by the Pension Fund, which integrates all liabilities with pensions and health benefits.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law No. 1-A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime that considers the number of years of contributions under that regime. The Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees on the behalf of *Caixa de Abono de Família dos Empregados Bancários* (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Bank of Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Bank of Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to NOVO BANCO relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to NOVO BANCO, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to NOVO BANCO. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Bank of Portugal of 11 February 2015, from those that were transferred to NOVO BANCO, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (NOVO BANCO and BES).

On 16 June 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the previous Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the Novo Mercado Pension Fund Bank. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - NOVO BANCO and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of NOVO BANCO or BES until the final decision of the court (limit of article 402), so NOVO BANCO transferred the amount of Euro 19.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to *Fundo de Pensões NB´s* constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 30 June 2021, the amount of Euro 278 thousand was recorded in Staff Expenses related to the defined contribution plan (31 December 2020: Euro 535 thousand).

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

	30.06.2021		31.12.2020	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	1.00%	-1.03%	1.00%	2.41%
Discount rate	1.00%	-	1.00%	-
Pension increase rate	0.25%	0.19%	0.25%	1.34%
Salary increase rate	0.50%	0.87%	0.50%	3.07%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-2 years		TV 88/90-2 years	

The application of IAS 19 translates into the following liabilities and coverage levels reportable as at 30 June 2021 and 31 December 2020:

(in thousands of Euros)

	30.06.2021	**31.12.2020**
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 890 967)**	**(1 892 669)**
Pensioners	(1 337 964)	(1 345 899)
Employees	(553 003)	(546 770)
Coverage		
Fair value of plan assets	**1 815 879**	**1 867 977**
Net assets / (liabilities) in the balance sheet (See Note 31)	**(75 088)**	**(24 692)**
Accumulated actuarial deviations recognized in other comprehensive income	**747 282**	**705 595**

According to the policy defined in Note 2.14 - Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

(in thousands of Euros)

	30.06.2021	**31.12.2020**
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**705 595**	**583 396**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial	-	99 466
- Plan assets return (excluding net interests)	41 687	22 733
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**747 282**	**705 595**

The costs of retirement pensions and health benefits for the six month periods ended on 30 June 2021 and 2020 can be analyzed as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	**30.06.2020**
Current service cost	214	203
Net Interest	1 329	2 261
Early retirements	163	-
Post-employment benefits costs	**1 706**	**2 464**

In the first half of 2021, the value of early retirements was Euro 7.1 million (30 June 2020: Euro 8.6 million), of which Euro 6.9 million are part of the Bank's restructuring process (30 June 2020: Euro 8.6 million) and, as such, were recognized against the use of the restructuring provision (see Note 30).

Career bonuses
As at 30 June 2021, the liabilities assumed by the Bank amount to Euro 7 671 thousand, corresponding to the liabilities for past services of the career bonus, as described in Note 2.14 – Employee benefits (31 December 2020: Euro 7 465 thousand) (see Note 31).

In the first half of 2021 there was a cost of Euro 386 thousand with career bonuses (30 June 2020: Euro 288 thousand) (see Note 14).

NOTE 16 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	**30.06.2020 ***
Rentals	2 724	1 318
Advertising	2 257	3 333
Communication	4 475	4 755
Maintenance and repairs expenses	4 539	4 271
Travelling and representation	708	1 287
Transportation of valuables	2 484	2 253
Insurance	2 666	1 536
IT services	17 676	20 799
Independent work	702	1 150
Temporary work	437	644
Electronic payment systems	5 119	5 153
Legal costs	2 302	2 854
Consultancy and audit fees	7 418	8 352
Water, energy and fuel	1 470	1 737
Consumables	826	848
Other costs	9 766	12 168
	65 569	**72 458**

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

The Other costs item includes, among others, training costs and costs with services provided by the Complementary Groupings of Companies (CGC) in which NOVO BANCO participates.

NOTE 17 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

As at 30 June 2021 and 2020 this caption is analyzed as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	**30.06.2020 ***
Contribution to Single Resolution Fund	25 276	22 201
Contribution to Portuguese Resolution Fund	14 854	12 528
Contribution to Deposit Guarantee Fund	42	37
	40 172	**34 766**

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

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share
The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year / period.

(in thousands of Euros)

	Six month period ended on 30.06.2021	Six month period ended on 30.06.2020
Net consolidated profit / (loss) attributable to shareholder of the Bank	**148 536**	**(583 251)**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**0.02**	**(0.06)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**0.02**	**(0.06)**

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share since there are no dilutive effects.

NOTE 19 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 30 June 2021 and 31 December 2020, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Cash	**139 350**	**142 325**
Demand deposits with Central Banks		
Bank of Portugal	4 491 885	2 289 339
Other Central Banks	2 862	3 458
	4 494 747	**2 292 797**
Deposits in other credit institutions in the country		
Repayable on demand	14 576	13 250
Uncollected checks	48 291	50 994
	62 867	**64 244**
Deposits with Banks abroad		
Repayable on demand	19 224	25 502
	19 224	**25 502**
	4 716 188	**2 524 868**

The caption Demand deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 264.1 million (31 December 2020: Euro 262.2 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 30 June 2021 and 31 December 2020, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 30 June 2021 was included in the observation period running from 16 June to 27 July 2021.

NOTE 20 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 30 June 2021 and 31 December 2020, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Financial assets held for trading		
Securities		
Securities helf for trading		
Bonds and other fixed income securities		
Issued by government and public entities	78 286	267 016
	78 286	**267 016**
Derivatives		
Derivatives held for trading with positive fair value	293 784	388 311
	293 784	**388 311**
	372 070	**655 327**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	418 227	554 343
	418 227	**554 343**

Securities held for trading

In accordance with the accounting policy described in Note 2.4, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of securities held for trading by fair value hierarchy is presented in Note 37.

Derivatives

As at 30 June 2021 and 31 December 2020, Derivatives are analyzed as follows:

(in thousands of Euros)

	30.06.2021			31.12.2020		
	Notional	Fair value		Notional	Fair value	
		Asset	Liability		Asset	Liability
Derivatives held for trading						
Foreign Exchange rate contracts	1 863 736	38 622	36 538	1 778 559	57 273	45 450
Interest rate contracts	5 983 683	242 591	375 093	6 847 988	319 662	503 577
Equity / Index contracts	574 417	12 571	6 588	692 892	11 376	5 300
Credit default contracts	2 249	-	8	2 399	-	16
		293 784	**418 227**		**388 311**	**554 343**

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 2.3 and 2.6, and which the Bank has not designated for hedge accounting.

The Bank calculates the Credit Valuation Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a recovery rate, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, are applied to the exposure determined, an expected loss and a recovery rate.

In the first half of 2021, the Bank recognized a loss of Euro 471 thousand related to the CVA of derivative instruments (first half of 2020: gain of Euro 605 thousand).

The Bank chooses not to register the Debt Valuation Adjustment (DVA), that represents the market value of Bank own credit risk of a specific negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.

Credit Support Annex (CSA)
NOVO BANCO has several contracts negotiated with counterparties with which it trades derivatives on the Over-the-counter market. The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

NOTE 21 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTISED COST

As at 31 June 2021 and 31 December 2020, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2021					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 399 166	-	7 628 131	3 006 172	(1 193)	13 032 276
Loans and advances to Banks	-	-	-	221 226	-	221 226
Loans and advances to customers	-	-	-	21 649 491	39 248	21 688 739
	2 399 166	**-**	**7 628 131**	**24 876 889**	**38 055**	**34 942 241**

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

(in thousands of Euros)

	31.12.2020					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 445 605	-	7 813 584	2 873 753	1 129	13 134 071
Loans and advances to Banks	-	-	-	245 472	-	245 472
Loans and advances to customers	-	-	-	21 685 258	59 847	21 745 105
	2 445 605	**-**	**7 813 584**	**24 804 483**	**60 976**	**35 124 648**

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

Securities

As at 30 June 2021 and 31 December 2020, the detail of securities portfolio is as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	578 331	647 082
Shares	444 242	403 752
Other securities with variable income	1 376 593	1 394 771
	2 399 166	**2 445 605**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	6 194 638	6 406 465
From other issuers	1 380 711	1 352 759
Shares	52 782	54 360
	7 628 131	**7 813 584**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	394 034	415 192
From other issuers	2 828 670	2 661 021
Impairment	(216 532)	(202 460)
	3 006 172	**2 873 753**
Value adjustments for hedging operations for interest rate risk*	(1 193)	1 129
	13 032 276	**13 134 071**

* See Note 22

The securities mandatorily accounted at fair value through profit or loss include the participation units held by the Bank in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 2.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

At the end of 2020, NOVO BANCO completed the independent assessment of the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and NOVO BANCO requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 557.2 million for the total investment held in these assets on 30 June 2020 and Euro 498.8 million on 31 December 2020, which led to a loss of Euro -260.6 million and Euro -39.6 million in the first and second half of 2020, respectively, recorded under the caption Gains or losses on financial assets mandatorily accounted for at fair value through profit or loss (see Note 9). This assessment included the establishment of assumptions for the valuation of the assets held by the funds, a discount at the fund level based on similar parameters in quoted funds and an assessment of the fund's potential evolution (see Note 37).

As at 30 June 2021 and 31 December 2020, the breakdown of securities at fair value through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [(1)]	Fair value reserve		Balance sheet	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**5 946 001**	**248 818**	**(181)**	**6 194 638**	**(2 790)**
Residents	2 601 998	104 045	-	2 706 043	(1 381)
Non residents	3 344 003	144 773	(181)	3 488 595	(1 409)
From other issuers	**1 341 769**	**42 823**	**(3 881)**	**1 380 711**	**(642)**
Residents	29 600	88	(2 334)	27 354	(3)
Non residents	1 312 169	42 735	(1 547)	1 353 357	(639)
Shares	**399 403**	**12 473**	**(359 094)**	**52 782**	**-**
Residents	331 747	11 339	(297 702)	45 384	-
Non residents	67 656	1 134	(61 392)	7 398	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**
Residents	3	-	(3)	-	-
Balance as at 30 June 2021	**7 687 176**	**304 114**	**(363 159)**	**7 628 131**	**(3 432)**

(1) Acquisition cost referring to shares and other equity instruments and amortised cost for debt securities.

(in thousands of Euros)

	Cost [(1)]	Fair value reserve		Balance sheet	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 050 592**	**356 115**	**(242)**	**6 406 465**	**(3 095)**
Residents	2 571 260	125 602	-	2 696 862	(1 405)
Non residents	3 479 332	230 513	(242)	3 709 603	(1 690)
From other issuers	**1 286 344**	**68 749**	**(2 334)**	**1 352 759**	**(565)**
Residents	29 605	107	(2 334)	27 378	(3)
Non residents	1 256 739	68 642	-	1 325 381	(562)
Shares	**407 319**	**12 548**	**(365 507)**	**54 360**	**-**
Residents	331 888	11 330	(296 014)	47 204	-
Non residents	75 431	1 218	(69 493)	7 156	-
Other securities with variable income	**2**	**-**	**(2)**	**-**	**-**
Residents	2	-	(2)	-	-
Balance as at 31 December 2020	**7 744 257**	**437 412**	**(368 085)**	**7 813 584**	**(3 660)**

(1) Acquisition cost referring to shares and other equity instruments and amortised cost for debt securities.

The changes in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**5 505**	**-**	**-**	**5 505**
Increases due to changes in credit risk changes	1 273	38	-	1 311
Decreases due to changes in credit risk changes	(1 999)	-	-	(1 999)
Utilization during the period	(181)	-	-	(181)
Other movements	(24)	6	-	(18)
Balance as at 30 June 2020	**4 574**	**44**	**-**	**4 618**
Increases due to changes in credit risk changes	2 207	-	-	2 207
Decreases due to changes in credit risk changes	(3 023)	-	-	(3 023)
Utilization during the period	(51)	(44)	-	(95)
Other movements	(47)	-	-	(47)
Balance as at 31 December 2020	**3 660**	**-**	**-**	**3 660**
Increases due to changes in credit risk changes	417	-	-	417
Decreases due to changes in credit risk changes	(495)	-	-	(495)
Utilization during the period	(163)	-	-	(163)
Other movements	13	-	-	13
Balance as at 30 June 2021	**3 432**	**-**	**-**	**3 432**

During the first half of 2021, the Bank sold Euro 495.2 million of financial instruments classified at fair value through other comprehensive income (31 December 2020: Euro 1 295.0 million), with a gain of Euro 14.9 million (31 December 2020: gain of Euro 80.2 million), recorded in the income statement, from the sale of debt instruments, and a loss of Euro 7.9 million that were transferred from revaluation reserves to reserves associated with sales (31 December 2020: loss of Euro 16.4 million).

Changes in impairment losses on amortised cost securities are as follows:

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**3 758**	**53 974**	**102 422**	**160 154**
Increases due to changes in credit risk changes	5 637	327 602	23	333 262
Decreases due to changes in credit risk changes	(5 050)	(323 579)	(2 785)	(331 414)
Utilization during the period	-	(1)	-	(1)
Other movements	(13)	-	-	(13)
Balance as at 30 June 2020	**4 332**	**57 996**	**99 660**	**161 988**
Increases due to changes in credit risk changes	5 619	389 359	10 510	405 488
Decreases due to changes in credit risk changes	(5 044)	(359 416)	(509)	(364 969)
Utilization during the period	(36)	(1)	-	(37)
Other movements	309	(318)	(1)	(10)
Balance as at 31 December 2020	**5 180**	**87 620**	**109 660**	**202 460**
Increases due to changes in credit risk changes	5 427	539 628	16 392	561 447
Decreases due to changes in credit risk changes	(4 404)	(524 630)	(16 691)	(545 725)
Utilization during the period	(12)	-	(1 640)	(1 652)
Other movements	89	(88)	1	2
Balance as at 30 June 2021	**6 280**	**102 530**	**107 722**	**216 532**

In accordance with the accounting policy mentioned on Note 2.4, the Bank regularly evaluates if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 3.1.

Impairments for securities reinforced during the 2020 financial year include Euro 29.0 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic.

The detail of the securities portfolio by fair value hierarchy is presented in Note 37.

The portfolio securities pledged by the Bank are analyzed in Note 34.

Loans and advances to Banks

As at 30 June 2021 and 31 December 2020, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Loans and advances to Banks in Portugal		
Very short-term placements	9 929	4 075
Deposits	136 178	136 440
Loans	38 775	30 429
Other loans and advances	3	4
	184 885	**170 948**
Loans and advances to Banks abroad		
Deposits	6 085	10 532
Other loans and advances	288 620	279 419
	294 705	**289 951**
Overdue loans	**-**	**34 726**
	479 590	**495 625**
Impairment losses	**(258 364)**	**(250 153)**
	221 226	**245 472**

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

Changes in impairment losses on loans and advances to banks are presented as follows:

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**367**	**76 341**	**426**	**75 744**
Increases due to changes in credit risk changes	255	1 847	-	2 102
Decreases due to changes in credit risk changes	(161)	(1 359)	(11)	(1 531)
Other movements	(1)	248	12	259
Balance as at 30 June 2020	**460**	**77 077**	**427**	**77 964**
Increases due to changes in credit risk changes	301	615	317 540	318 456
Decreases due to changes in credit risk changes	(316)	(606)	(128 509)	(129 431)
Other movements	-	(77 084)	60 248	(16 836)
Balance as at 31 December 2020	**445**	**2**	**249 706**	**250 153**
Increases due to changes in credit risk changes	327	11	309	647
Decreases due to changes in credit risk changes	(247)	(1)	-	(248)
Other movements	1	-	7 811	7 812
Balance as at 30 June 2021	**526**	**12**	**257 826**	**258 364**

The reinforcement of impairment for investments in credit institutions verified in 2020 results from the deterioration of the credit risk of international exposures analyzed on an individual basis, whose situation of partial default at the end of 2020 (meanwhile regularized during the month of January 2021), between other signs of impairment, led to the transfer of it to stage 3 and to the constitution of additional impairments of Euro 189.6 million, with the total impairment recorded on 31 December 2020 for this exposure being Euro 249.3 million.

Loans and advances to customers

As at 30 June 2021 and 31 December 2020, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Domestic loans and advances		
Corporate		
Current account loans	1 060 107	1 109 729
Loans	8 827 519	8 876 278
Discount bills	79 428	80 430
Factoring	556 941	575 682
Overdrafts	23 436	7 105
Financial lease	1 307 827	1 421 765
Other loans and advances	23 008	20 974
Individuals		
Residential Mortgage loans	7 334 405	7 368 861
Consumer credit and other loans	1 028 003	1 007 365
	20 240 674	**20 468 189**
Foreign loans and advances		
Corporate		
Current account loans	988 317	851 791
Loans	99 464	146 986
Discount bills	3	4
Factoring	43 398	51 483
Overdrafts	7 754	8 321
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	980 353	949 211
Consumer credit and other loans	179 995	180 022
	2 299 285	**2 187 819**
Overdue loans and advances and interests		
Under 90 days	2 902	13 457
Over 90 days	568 106	602 796
	571 008	**616 253**
	23 110 967	**23 272 261**
Impairment losses	**(1 461 476)**	**(1 587 003)**
	21 649 491	**21 685 258**
Fair value adjustments of intest rate hedges *		
Corporate		
Loans	4 643	6 774
Individuals		
Residential Mortgage loans	34 605	53 073
	39 248	**59 847**
	21 688 739	**21 745 105**

* See Note 22

In the first half of 2021, NOVO BANCO carried out a sale of non-performing loans (called “Wilkinson”) and the impact of this operation on the balance sheet resulted in a reduction in net loans and advances to customers of Euro 62.3 million (Euro 210.4 million in gross value and Euro 148.1 million in impairment), and the impact in the income statement was a loss of Euro 4.5 million (see Note 39).

During the year of 2020, NOVO BANCO carried out a sale of non-performing loans (called “Carter”) and the impact of this operation on the balance sheet resulted in a reduction in net loans and advances to customers of Euro 34.1 million (Euro 79.1 million in gross value and Euro 45.0 million in impairment), and the impact in the income statement was a gain of Euro 2.3 million (see Note 39).

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

As at 30 June 2021, the caption Loans and advances to customers include Euro 6 074.4 million of mortgage loans related to the issuance of covered bonds (31 December 2019: Euro 6 104.8 million) (see Note 29).

As at 30 June 2021, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 22 675 thousand (31 December 2019: Euro 24 765 thousand).

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**53 065**	**136 972**	**1 651 446**	**1 841 483**
Financial assets derecognised	(2)	-	(153 828)	(153 830)
Increases due to changes in credit risk changes	9 846	122 254	194 780	326 880
Decreases due to changes in credit risk changes	(13 740)	(13 558)	(10 470)	(37 768)
Utilization during the period	(15)	(83)	(112 046)	(112 144)
Other movements	13 420	(2 169)	(5 923)	5 328
Balance as at 30 June 2020	**62 574**	**243 416**	**1 563 959**	**1 869 949**
Financial assets derecognised	-	-	(140 177)	(140 177)
Increases due to changes in credit risk changes	28 323	214 182	222 234	464 739
Decreases due to changes in credit risk changes	(100 462)	(83 719)	(49 154)	(233 335)
Utilization during the period	(1)	(30)	(326 846)	(326 877)
Other movements [(a)]	69 693	(67 405)	(49 584)	(47 296)
Balance as at 31 December 2020	**60 127**	**306 444**	**1 220 432**	**1 587 003**
Financial assets derecognised	(52)	(2 896)	(155 870)	(158 818)
Increases due to changes in credit risk changes	6 542	66 569	63 673	136 784
Decreases due to changes in credit risk changes	(23 597)	(17 208)	(11 683)	(52 488)
Utilization during the period	-	(113)	(52 268)	(52 381)
Other movements	24 284	(20 122)	(2 786)	1 376
Balance as at 30 June 2021	**67 304**	**332 674**	**1 061 498**	**1 461 476**

(a) Includes Euro 58 046 thousand of impairment of credits of the Spanish Branch transferred to discontinued operations (Euro 22 427 thousand in stage 1 and Euro 35 619 thousand in stage 3).

Impairments for credit risk reinforced during the first half of 2021 include Euro 35.2 million, reflecting the update of information in IFRS 9 models, anticipating losses related to Covid-19 pandemic (first half of 2020: Euro 138.3 million, second half of 2020: Euro 80.5 million).

Main events in the first half of 2021

The most relevant events during the first half of 2021 and with an impact on credit risk management policies and procedures were:

1) Incorporation in the accounts for the first half of the additional impact expected due to the Covid-19 pandemic

In relation to the first half of 2021, the relevant change in terms of credit risk management occurred in the determination of impairments. Due to the extension of the 3rd wave of the Covid pandemic and subsequent slower economic recovery in 2021, NOVO BANCO understood that the effects arising from this situation would have additional impacts than what the IFRS 9 impairment model could capture with the IFRS 9 risk parameters into force. These additional impacts would be more likely to be felt in companies with economic activity in sectors critically affected by the pandemic and in the universe of individuals who resorted to the moratorium.

For this purpose, an additional amount of collective impairment was recorded to cover potential additional losses that could not be captured from the existing information and incorporated into the impairment model.

This additional amount accounted for the indicated purpose was calculated through simulations of alternative conditions on the portfolio position in force. Since an additional amount of impairments not allocated to specific exposures was recorded, this amount was calculated following the rules and procedures of the model in force, incorporating alternative conditions to those existing. In this way, the Bank performed a post-model adjustment to the impairment value based on simulations that changed, just for their purpose, the risk and stage levels of some portfolios.

Below is a clarification of the alternative conditions that were introduced in these simulations and that supported the constitution of additional impairments to face the Covid-19 pandemic, not directly allocated to specific exposures:
1. projection of internal rating deterioration in exposures of Covid sectors, that is, in companies whose sector of economic activity is most affected by the Covid-19 pandemic;
2. significant deterioration of credit risk on exposures of individuals based on specific qualitative evidence or manifestation of intention to request debt restructuring;
3. projection of migration to stage 2 of part of the portfolio of loans to individuals - mortgage and consumer credit - whose default ended during the second quarter of 2021.

1. Projection of internal rating deterioration in company exposures
Although NOVO BANCO carried out an exhaustive and transversal review of the risk ratings in the portfolio of companies, the understanding regarding the economic situation and the possible consequences of the pandemic in the activity of the most affected sectors led NOVO BANCO to consider the registration of additional impairment amounts to address the Covid-19 pandemic;

For this purpose, companies whose economic activity is characterized as the Covid sector were considered, as they are sectors critically affected by the pandemic. Regarding companies in these sectors of activity critically affected by the pandemic, the impact arising from a simulation that considered the degradation of 1 level of internal rating in Medium Enterprises and ½ level of internal rating for the remaining segments of companies was recorded as impairments. This simulation resulted in an impact of around Euro 21 million.

2. Significant deterioration of credit risk from exposures to individuals
For this purpose, a simulation of a significant deterioration in the rating of mortgage and consumer credit contracts classified in stage 1 and customers with a moratorium, for which qualitative signs of deterioration in credit risk were identified. To this universe was added a number of customers with a moratorium who, following proactive contacts by NOVO BANCO, indicated that they would ask NOVO BANCO to restructure their debt in the short term.
Thus, the impact resulting from this simulation combined the deterioration of the risk level of the contracts covered with their transition to stage 2 – and the consequent calculation of impairments until the contract's residual maturity.
Since the attribution of a moratorium is not a criterion for classification in stage 2, this factor was introduced in the simulation, as defaults do not allow, at this stage, an assertive assessment of the effective level of risk of borrowers and/or their ability to fully comply with its obligations, under the contracted conditions, upon expiration of the deadline of the moratoriums. Likewise, for the purposes of this simulation, the high probability of these credits being restructured at the end of the moratoriums was also considered.
This simulation resulted in an impact of around Euro 1.8 million.

3. Loans to individuals – mortgage and consumer credit – whose moratorium ended in the second quarter of 2021
For this purpose, a simulation was considered that reflected the expectation that a relevant part of this universe will request help from the Bank - for example, extension of grace period - which implies its classification in stage 2 and/or that its risk level does not improve. Since this impact may not be verifiable during the period immediately after the end of the moratoriums, an additional adjustment to the impairment calculated by the model was estimated. This adjustment was verified in two ways:

a) stage 1 to stage 2 migration of a part of this universe.
b) not allow it to lessen the impairment coverage of the universe that persisted in the same stage (1 or 2).

This simulation resulted in an impact of Euro 4.4 million.

2) Maintenance of risk mitigation initiatives in the current context
The Covid-19 pandemic event significantly impacted the normal development of economic activity, both due to limitations in the exercise and in the pattern of consumption and investment, as well as significant restrictions in the way of operating in almost all sectors and agents of the economy, as a result of movement restrictions, increasing demands for social distancing, as well as the gradual deterioration of the confidence indices of individuals and corporate.

This context changed the debtors' risk profile and their perspective of future evolution, which is why the Group has timely adopted a series of articulated initiatives to ensure an adequate management of credit risk:

- Quarterly review of risk appetite rules - on a quarterly basis, the risk appetite rules applicable to the different customer segments for the following quarter began to be evaluated, discussed and decided by the Executive Board of Directors. This review has led to different policy adaptations, initially focusing the Bank's credit activity on its customer base and placing greater restrictions on the risk to be assumed by new customers, and at the same time created levels of risk appetite differentiation based on the impacts of the pandemic:
    - (i) In individual customers, the cut-off points for the admission of mortgage loans and consumer credit were revised for both new and existing customers;
    - (ii) In corporate segment customers, maintenance of different risk appetite levels for each of the three define clusters. The first called “Covid sectors” is composed of the activities directly most affected by the pandemic and mobility restrictions and for this it defined a very limited risk appetite. The second cluster “Macro affected sectors” is composed of the economic activity sectors that are impacted by a macroeconomic deterioration due to changes in consumption and investment patterns, having defined a limited risk appetite for the worst rating levels. The third cluster “Other sectors” is composed of companies from other sectors of activities less impacted by the Covid-19 pandemic, or that are assessed as more resilient to that impact.

These risk appetite rules continue to be monitored and reviewed on a permanent basis, in order to ensure that at all times the Group maintains updated policies that are appropriate to the context and risk profile of each client:

- Monitoring of the credit contracting profile under the new risk appetite rules - to ensure sufficient knowledge about new production within or outside risk appetite, weekly and monthly management information was created for periodic sharing with the different bodies Bank's management.

- Periodic monitoring of rating review activity and rating migration flows - to allow timely knowledge and identification of rating upgrade or downgrade movements in each segment of corporate, new weekly and monthly management information was created with matrices of rating pre- and post-Covid migration for sharing with management bodies, which allow for the identification of individual cases that have been reassessed by the Rating Department, as well as changes justified by changes in the sector “Industry Anchors”.

- Review of portfolio limits: internal risk appetite measurement and monitoring instrument, which has been widely used by the Bank in recent years, as well as its metrics have been updated in the new post-Covid context. The definition of annual objectives and the monthly monitoring of the most relevant business lines allow the definition of mandates in the company segments for the worst rating levels, for the weight of exposures without an assigned rating, and for default exposures. In the case of private portfolios, these metrics are not defined based on the portfolio, but on the new contract, and are divided between the worst rating levels, the highest debt repayment ratios and the highest LTV bands. In the new context of revised risk appetite rules, this monitoring process has proven to be up-to-date and useful and continues to be shared periodically with the Bank's management bodies.

- Monitoring of legal moratorium regimes and monitoring the end of private moratorium regimes:
  Preparation of information that characterizes the evolution of the risk of this component of the portfolio, which has been permanently monitored by the Bank's management bodies.

In addition to this global monitoring of the portfolio, NOVO BANCO developed different initiatives in order to monitor the profile of customers who adhered to this regime, and their standard of compliance and solvency, in order to identify in advance those who have not capacity to comply with future debt service after the end of the moratorium period, they may need other forms of support or restructuring, preventing their entry into default, notably:

(i) Creation of a 2nd wave of company evaluation questionnaires - NOVO BANCO created a new questionnaire for evaluating companies with a significant set of questions that will allow them to collect information on the impact that the pandemic has had to date on these debtors, on the level of impact estimated by them in the full year 2020, as well as an estimate of impact on the activity in 2021. Since it was implemented, the information in this questionnaire is now integrated into the recurring credit risk admission and follow-up process, so that all new decisions and policies marked are already informed with these data. Additionally, using the results obtained with this questionnaire, and after relying on the responses collected, NOVO BANCO has information that allows it to individualize the impacts of the pandemic at the level of each debtor, and simulate the effects on a change in the rating level and on an eventual migration of the Stage in which it is integrated;

(ii) Indicators of financial deterioration of individuals - for individual customers, in addition to the current procedures for the prevention of default (PARI) and the management of default (PERSI), NOVO BANCO explored new sources of behavioral and transactional information for its customers, that allow it to identify internal or external signs of financial degradation. This set of enriched information will allow its customer base to be segmented by different levels of propensity to enter into default, and to implement a screening action and different support strategies adapted to the situation of each customer, preventing early entry in delinquency in view of the end date of the moratorium.

With priority for debtors under moratorium regime, for whom the Group failed to observe data of compliance of debt service, but in which it is crucial to avoid the “cliff effect” that could originate with the end of the moratoriums through an identification and offering support in advance to those who are in financial difficulties, a wide range of variables from the behavioral scoring models, the Default model, the PARI regime, transactional data and different sources of internal and external information were analyzed.

The exercise carried out based on analytical support and a multidisciplinary expert judgment, allowed to choose the variables understood as the most predictive for the situation of financial difficulty and to define the materiality triggers that will better identify those debtors.

The choice of these indicators allowed the Bank to segment its portfolio of individuals into homogeneous groups of customers with a similar probability of future entry into default, in order to prioritize its performance: with immediate priority for the group of debtors who already exhibit financial difficulties, with a secondary priority for those who have a high propensity to default, and with low priority for those who do not register warning signs or have indicators of resilience.

In order to reinforce the set of operational measures to deal with the impacts of the pandemic on credit risk management, NOVO BANCO will continue to develop different initiatives to ensure correct identification and early offer of support to debtors who may be experiencing difficulties at the end of the moratorium period.

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

At 30 June 2021 and 31 December 2020, the fair value of the hedging derivatives is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Hedging derivatives		
Assets	15 269	13 606
Liabilities	(52 349)	(72 543)
	(37 080)	**(58 937)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 21)	(1 193)	1 129
Loans and advances to customers (see Note 21)	39 248	59 847
	38 055	**60 976**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting.

The Bank calculates the Credit Valuation Adjustment (CVA) for derivatives according to the methodology described in Note 20 – Financial assets and liabilities held for trading.

As at 30 June 2021, the ineffective portion of the fair value hedging operations resulted in a loss of Euro 0.5 million that was recognized in the income statement (31 December 2020: gain of Euro 4.1 million). The Bank periodically evaluates the effectiveness of the hedges.

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Bank proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Bank did not record any relevant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships (hedged and hedged items) were subject to the same change.

NOTE 23 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Investments in subsidiaries, joint ventures and associate companies are presented as follows:

(in thousands of Euros)

	30.06.2021				31.12.2020			
	No. Shares	Direct shareholding %	Nominal amount (Euros)	Participation cost	No. Shares	Direct shareholding %	Nominal amount (Euros)	Participation cost
NB AÇORES	2 144 404	57.53%	5.00	10 308	2 144 404	57.53%	5.00	10 308
NB FINANCE	100 000	100.00%	1.00	1 700	100 000	100.00%	1.00	1 700
BEST	62 999 700	100.00%	1.00	100 418	62 999 700	100.00%	1.00	100 418
ES TECH VENTURES	71 500 000	100.00%	1.00	71 500	71 500 000	100.00%	1.00	71 500
GNB GA	2 350 000	100.00%	5.00	86 722	2 350 000	100.00%	5.00	86 722
GNB CONCESSÕES	942 306	98.97%	5.00	20 602	942 306	98.97%	5.00	20 602
E.S. REPRESENTAÇÕES	49 995	99.99%	0.16	7	49 995	99.99%	0.16	8
LOCARENT	525 000	50.00%	5.00	2 967	525 000	50.00%	5.00	2 967
NB ÁFRICA	13 300 000	100.00%	5.00	66 500	13 300 000	100.00%	5.00	66 500
UNICRE	350 029	17.50%	5.00	11 497	350 029	17.50%	5.00	11 497
IJAR LEASING ALGERIE	-	-	-	-	122 499	18.85%	61.94	12 361
EDENRED PORTUGAL	101 477 601	50.00%	0.01	4 984	101 477 601	50.00%	0.01	4 984
				377 205				**389 567**
Impairment losses				(191 608)				(199 643)
				185 597				**189 924**

During the first half of 2021, the associate Ijar Leasing was transferred to non-current assets held for sale as it is in active sale process with the objective of its sale in the short term (see Note 28).

During the year of 2020, the subsidiaries Herdade do Pinheirinho I and Herdade do Pinheirinho II were sold. Novo Banco Servicios e Novo Vanguarda were transferred to non-current assets and disposal groups classified as held for sale (see Note 28).

The changes in impairment losses for investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousand of Euros)

	The six month period ended on		
	30.06.2021	31.12.2020	30.06.2020
Balance at the beginning of the period	**199 643**	**154 471**	**182 184**
Charges	-	48 388	-
Utilizations	-	-	(22 480)
Reversals	-	(1 873)	(5 230)
Foreign exchange differences **(a)**	(8 035)	(1 343)	(3)
Balance at the end of the period	**191 608**	**199 643**	**154 471**

(a) In the first half of 2021, includes Euro 8.035 thousand of impairment for Ijar Leasing transferred to discontinued operations (see Note 28).

NOTE 24 – TANGIBLE FIXED ASSETS

This caption as at 30 June 2021 and 31 December 2020 is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Real estate properties		
For own use	229 721	220 386
Improvements in leasehold properties	129 344	132 844
Assets under right-of-use	67 817	69 375
	426 882	**422 605**
Equipment		
Computer equipment	98 347	101 230
Fixtures	52 332	54 828
Furniture	49 054	48 803
Security equipment	22 921	23 697
Office equipment	7 641	7 488
Transport equipment	562	562
Assets under right-of-use	8 619	8 889
Other	155	160
	239 631	**245 657**
Work in progress		
Real estate properties	1 727	1
Others	372	1 417
	2 099	**1 418**
	668 612	**669 680**
Accumulated impairment	(13 875)	(13 385)
Accumulated depreciation	(455 405)	(467 327)
	199 332	**188 968**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2019	**416 366**	**266 910**	**87**	**683 363**
Acquisitions	897	4 221	366	5 484
Disposals / write-offs	(2 132)	(4 625)	-	(6 757)
Transfers **(a)**	91	-	(91)	-
Foreign exchange differences and other	-	793	-	793
Balance as at 30 June 2020	**415 222**	**267 299**	**362**	**682 883**
Acquisitions	26 295	10 538	1 080	37 913
Disposals / write-offs	(8 063)	(4 884)	-	(12 947)
Transfers **(a)**	(1 756)	(153)	(24)	(1 933)
Foreign exchange differences and other	(9 093)	(27 143)	-	(36 236)
Balance as at 31 December 2020	**422 605**	**245 657**	**1 418**	**669 680**
Acquisitions	18 606	4 732	2 082	25 420
Disposals / write-offs	(16 421)	(10 854)	-	(27 275)
Transfers **(b)**	2 091	95	(1 402)	784
Other movements	1	1	1	3
Balance as at 30 June 2021	**426 882**	**239 631**	**2 099**	**668 612**
Depreciation				
Balance as at 31 December 2019	**241 382**	**236 619**	**-**	**478 001**
Depreciation	11 247	5 887	-	17 134
Disposals / write-offs	(595)	(4 566)	-	(5 161)
Foreign exchange differences and other	1 954	7	-	1 961
Balance as at 30 June 2020	**253 988**	**237 947**	**-**	**491 935**
Acquisitions	9 721	5 578	-	15 299
Disposals / write-offs	(7 792)	(4 542)	-	(12 334)
Transfers **(a)**	(903)	(143)	-	(1 046)
Foreign exchange differences and other	(2 270)	(24 257)	-	(26 527)
Balance as at 31 December 2020	**252 744**	**214 583**	**-**	**467 327**
Acquisitions	7 480	5 880	-	13 360
Disposals / write-offs	(14 856)	(10 767)	-	(25 623)
Transfers **(b)**	(281)	-	-	(281)
Foreign exchange differences and other	547	75	-	622
Balance as at 30 June 2021	**245 634**	**209 771**	**-**	**455 405**
Impairment				
Balance as at 31 December 2019	**10 609**	**-**	**-**	**10 609**
Balance as at 30 June 2020	**10 609**	**-**	**-**	**10 609**
Impairment loss	2 776	-	-	2 776
Balance as at 31 December 2020	**13 385**	**-**	**-**	**13 385**
Impairment loss	3 403	-	-	3 403
Reversal of impairment losses	(3 874)	-	-	(3 874)
Transfers	961	-	-	961
Balance as at 30 June 2021	**13 875**	**-**	**-**	**13 875**
Net balance as at 30 June 2021	**167 373**	**29 860**	**2 099**	**199 332**
Net balance as at 31 December 2020	**156 476**	**31 074**	**1 418**	**188 968**
Net balance as at 30 June 2020	**150 625**	**29 352**	**362**	**180 339**

(a) Includes Euro 1 951 thousand of fixed assets (real estate and equipment) and Euro 1 064 thousand of accumulated amortization related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

(b) Includes Euro 717 thousand of fixed assets (real estate and equipment) and Euro 281 thousand of accumulated amortization related to discontinued branches which were transferred by the net amount to the appropriate balance sheet items.

NOTE 25 – INTANGIBLE ASSETS

This caption as at 30 June 2021 and 31 December 2020 is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Internally developed		
Software - Automatic data processing system	65 373	65 373
Acquired from third parties		
Software - Automatic data processing system	346 449	346 389
	411 822	**411 762**
Work in progress	**29 355**	**21 420**
	441 177	**433 182**
Accumulated amortization	(387 773)	(384 851)
	53 404	**48 331**

The caption Intangible assets developed internally includes costs incurred by the Bank units specialized in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.12).

The changes in this caption were as follows:

(in thousands of Euros)

	Software	Work in progress	Total
Acquisition cost			
Balance as at 31 December 2019	**429 332**	**17 446**	**446 778**
Acquisitions:			
Acquired from third parties	1 662	9 535	11 197
Balance as at 30 June 2020	**430 994**	**26 981**	**457 975**
Acquisitions:			
Acquired from third parties	711	14 599	15 310
Disposals / write-offs	(20)	-	(20)
Transfers	20 161	(20 161)	-
Foreign exchange differences and other **(a)**	(40 084)	1	(40 083)
Balance as at 31 December 2020	**411 762**	**21 420**	**433 182**
Acquisitions:			
Acquired from third parties	60	7 935	7 995
Balance as at 30 June 2021	**411 822**	**29 355**	**441 177**
Amortizations			
Balance as at 31 December 2019	**420 735**	**-**	**420 735**
Amortization for the period	1 253	-	1 253
Balance as at 30 June 2020	**421 988**	**-**	**421 988**
Amortization for the period	1 347	-	1 347
Disposals / write-offs	(20)	-	(20)
Foreign exchange differences and other **(b)**	(38 464)	-	(38 464)
Balance as at 31 December 2020	**384 851**	**-**	**384 851**
Amortization for the period	2 922	-	2 922
Balance as at 30 June 2021	**387 773**	**-**	**387 773**
Net Balance as at 30 June 2021	**24 049**	**29 355**	**53 404**
Net Balance as at 31 December 2020	**26 911**	**21 420**	**48 331**
Net Balance as at 30 June 2020	**9 006**	**26 981**	**35 987**

(a) Includes Euro 40.083 thousand related to the Spanish branch transferred to discontinued operations during 2020.
(b) Includes Euro 38.463 thousand related to the Spanish branch that were transferred to discontinued operations during 2020.

NOTE 26 – INCOME TAXES

NOVO BANCO is subject to taxation in accordance with the Corporate Income Tax (IRC) Code. As a result, deferred taxes are recorded depending on the temporary differences between accounting and tax income relevant for IRC purposes, whenever such temporary differences are to be reverted in the future.

The income taxes correspond to the value determined of taxable income (if applicable) of the period, using the overall Corporate Income Tax (IRC) at the general rate of 21% and autonomous taxations.

Corporate income taxes (current or deferred) are recognized in the income statement for the year, except when the underlying transactions or items to which they are related have been reflected under other equity captions (e.g. revaluation of financial assets at fair value through other comprehensive income). In these situations, the corresponding tax is also charged to equity, not affecting the net profit / (loss) for the year.

Deferred taxes are calculated based on the anticipated tax rates to be effective at the date of reversal of temporary differences, which correspond to rates approved or substantially approved at the balance sheet date.

Thus, at 30 June 2021 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime.

Thus, at 30 June 2021, the Bank continued to apply Regulatory Decree No. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework arising from Notice No. 3/95 of Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation, as well as changes introduced by the State Budget Law for 2021 which are under analysis. However, Management believes that, in the context of the separate financial statements, there will be no additional charges of significant value.

In 30 June 2021 and 31 December 2020, NOVO BANCO recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met.

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the notional amount of derivative financial instruments. The Bank Levy is not eligible as a tax cost, and the respective regime has been extended. As at 30 June 2021, NOVO BANCO recognized Banking Levy charges as a cost in the amount of Euro 28 333 thousand (31 December 2019: Euro 26 891 thousand). The cost recognized as at 30 June 2021 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures foreseen in the Economic and Social Stabilization Program (PEES) and following art. 18 of Law No. 27 -A / 2020, of 24 July, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated in Balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates. A transitional regime was established for the financial year 2020 and 2021, the settlement of which was carried out in accordance with the following rules:

- The reserve base is calculated by reference to the half-yearly average of the final balances of each month, which correspond in the accounts for the first half of 2020, in the case of the solidarity surcharge due in 2020, and in the accounts for the second half of 2020 , in the case of the solidarity surcharge due in 2021, published in compliance with the obligation established in Bank of Portugal Notice No. 1/2019;

- Settlement is carried out by the taxable person through the declaration to be sent until 15 December 2020 and 2021, respectively, with payment due on the same dates.

The Solidarity Additional on the Banking Sector is not eligible as a tax cost. As at 30 June 2021, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5 212 thousand (31 December 2020: Euro 5 212 thousand). The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

Tax assets and liabilities recognized in the balance sheet as at 30 June 2021 and 31 December 2020 can be analyzed as follows:

(in thousands of Euros)

	30.06.2021		31.12.2020	
	Asset	**Liability**	**Asset**	**Liability**
Current tax	**-**	**5 581**	**-**	**5 536**
Corporate tax recoverable	-	5 462	-	5 462
Other	-	119	-	74
Deferred tax	**669 983**	**-**	**771 854**	**-**
	669 983	**5 581**	**771 854**	**5 536**

The deferred tax assets and liabilities recognized in the balance sheet as at 30 June 2021 and 31 December 2020 are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Financial instruments	66 795	64 012	(95 406)	(136 845)	(28 611)	(72 833)
Impairment losses on loans and advances to customers	655 018	788 341	-	-	655 018	788 341
Other tangible assets	-	-	(8 116)	(8 203)	(8 116)	(8 203)
Provisions	28 693	38 975	-	-	28 693	38 975
Pensions	28 610	31 185	-	-	28 610	31 185
Branches temporary differences	-	-	(5 611)	(5 611)	(5 611)	(5 611)
Deferred tax asset / (liability	**779 116**	**922 513**	**(109 133)**	**(150 659)**	**669 983**	**771 854**
Asset / liability set-off for deferred tax purposes	(109 133)	(150 659)	109 133	150 659	-	-
Net Deferred tax asset / (liability)	**669 983**	**771 854**	**-**	**-**	**669 983**	**771 854**

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available allowing for the utilization of the deductible temporary differences. The Bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverable deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2020, this exercise was made based on the latest business plan ("MTP") for the period 2021-2023, submitted to the European Central Bank in the end of February 2021.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2023, it is assumed, thereafter an increase in pre-tax results at a rate of 2.63% from 2023;
- Financial results moderate growth (average of 4%), with the expected cost of debt issuing to meet MREL requirements offset by the development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous years;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favourable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes; and
- Credit impairment charges in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

In addition, during the financial year 2020, the Bank became aware of the position of the tax authority with regard to adjustments resulting from the application of fair value to units in real estate investment funds and venture capital. These adjustments resulting from the application of the fair value model to units of real estate investment funds and venture capital funds do not contribute to the formation of the taxable profit of the tax period in which they are recognized in the accounting, having only tax relevance at the moment of the respective realization, namely in the onerous transfer of the units of participation or liquidation of the funds. The Bank is investigating the impacts related to temporary differences resulting from this understanding.

Special Regime applicable to Deferred Tax Assets

During 2014, NOVO BANCO adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of 19 August, limited the temporal application of the above mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1 January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Deferred tax assets recorded by NOVO BANCO and considered eligible the special regime at 30 June 2021 and 31 December 2020, are as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Credit Impairment	267 091	400 414
	267 091	**400 414**

Following the determination of a negative net income for the years between 2015 and 2010, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018	2017	2016	2015
Tax Credit	124 721	110 922	161 974	127 575	99 474	153 555

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 27 – OTHER ASSETS

As at 30 June 2021 and 31 December 2020, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Collateral deposits placed	672 913	806 215
Derivative products	*535 657*	*655 952*
Collateral CLEARNET and VISA	*33 092*	*33 092*
Collateral deposits relating to reinsurance operations	*104 117*	*117 127*
Other collateral deposits	*46*	*45*
Recoverable government subsidies on mortgage loans	8 337	6 527
Public sector	939 860	683 882
Contingent Capital Agreement	377 712	598 312
Other debtors	530 319	553 668
Income receivable	90 422	61 212
Deferred costs	50 633	51 569
Precious metals, numismatics, medal collection and other liquid assets	9 660	9 677
Real estate properties [a)]	482 754	500 917
Equipment [a)]	3 218	3 488
Stock exchange transactions pending settlement	65 607	60 917
Other assets	147 113	54 689
	3 378 548	**3 391 073**
Impairment losses		
Real estate properties [a)]	(258 127)	(267 438)
Equipment [a)]	(2 182)	(2 285)
Other debtors - Shareholder loans, supplementary capital contributions	(109 538)	(109 538)
Other	(56 360)	(55 802)
	(426 207)	**(435 063)**
	2 952 341	**2 956 010**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Other debtors includes, amongst others:

- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2020: Euro 111.6 million, entirely provisioned);
- Euro 62.5 million receivable in relation to the sale operation of non-performing loans (NATA II Project) (31 December 2020: Euro 67 million);
- Euro 1.0 million receivable in relation to the sale operation of real estate assets in 2019 (denominated “Sertorius Project”) (31 December 2020: Euro 21.8 million);
- Euro 9.4 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated “Carter Project”) (31 December 2020: Euro 27.4 million) (See Note 39); and
- Euro 37.3 million receivable in relation to the sale operation of non-performing loans in 2021 (denominated “Wilkinson Project”) (see Note 39).

As at 30 June 2021, the caption Deferred costs includes the amount of Euro 38 808 thousand (31 December 2020: Euro 40 800 thousand) related to the difference between the nominal amount of the loans and advances granted to Bank employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Bank has the objective of immediate sale.

The Bank implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Bank regularly requests the Bank of Portugal’s authorization, under article 114 of RGICSF, to extend the period the Bank has to hold foreclosed assets.

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organized markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

Stock exchange transactions pending settlement refer to transactions of securities, recorded at the trade date and pending settlement, in accordance with the accounting policy described in Note 2.4.

During the first half of 2021, an impairment amount of EUR 1.7 million was booked for real estate assets (30 June 2020: EUR 6.1 million). Given the uncertainty associated with the estimated value of these assets, NOVO BANCO considers the impacts of the current context of the Covid-19 pandemic as the assets are subject to revaluation.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	31.12.2020	30.06.2020
Balance at the beginning of the period	**435 063**	**430 552**	**480 046**
Allocation for the period	4 766	42 210	11 378
Utilisation during the period	(10 749)	(9 388)	(55 366)
Write-back for the period	(1 913)	(5 921)	(5 506)
Foreign exchange differences and other	(960)	(22 390)	-
Balance at the end of the period	**426 207**	**435 063**	**430 552**

NOTE 28 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

This caption as at 30 June 2021 and 31 December 2020 is analyzed as follows:

(in thousands of Euros)

	30.06.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Non-current assets held for sale				
Banco Well Link (former NB Ásia)	1 946	-	1 883	-
Banco Delle Tre Venezie	8 926	-	8 926	-
ESEGUR	9 634	-	9 634	-
Novo Banco - Surcursal de Espanha	1 613 619	2 133 666	1 725 555	2 007 770
Ijar Leasing Algerie	12 463	-	-	-
Others	2 150	-	2 150	-
	1 648 738	**2 133 666**	**1 748 148**	**2 007 770**
Impairment losses				
Banco Delle Tre Venezie	(6 626)	-	(6 626)	-
ESEGUR	(4 460)	-	(4 460)	-
Novo Banco - Surcursal de Espanha	(176 000)	-	(166 000)	-
Ijar Leasing Algerie	(8 035)	-	-	-
Others	(2 150)	-	(2 150)	-
	(197 271)	**-**	**(179 236)**	**-**
	1 451 467	**2 133 666**	**1 568 912**	**2 007 770**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

The movement of the non-current assets held for sale is as follow:

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	31.12.2020	30.06.2020
Balance at the beginning of the period	**1 748 148**	**28 006**	**30 049**
Transfers	12 463	1 724 086	-
Sales	-	(5 987)	-
Other movement	(111 873)	2 043	(2 043)
Balance at the end of the period	**1 648 738**	**1 748 148**	**28 006**

The impairment movement for non-current assets held for sale is as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2021	31.12.2020	30.06.2020
Balance at the beginning of the period	**179 236**	**8 776**	**8 776**
Allocation / reversals for the period	10 000	170 460	-
Transfers	8 035	-	-
Balance at the end of the period	**197 271**	**179 236**	**8 776**

The results of discontinued operations as at 30 June 2021 and 2020 is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2021	30.06.2020*
Results of discontinued operations		
Novo Banco - Spanish Branch	(1 319)	(3 603)
	(1 319)	**(3 603)**

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

In the first half of 2021, the associate Ijar Leasing was transferred to non-current assets held for sale as it is in active sale process with the objective of its sale in the short term. In the 2020 fiscal year, GNB – Companhia de Seguros, S.A. was sold and the Spanish branch was also transferred to the non-current assets and disposal groups classified as held for sale.

Spanish Branch

Following the accounting policy followed by the Bank, and in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, during the financial year 2020 the Bank transferred its activity in Spain to the caption of Non-current assets and disposal groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs of implementing the sale strategy, of the operation of blocks, carried out by an independent external entity, took into account the valuation references received from potential interested in partial sales of this activity, the estimated cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of Euro 176.0 million. On April 2, 2021, NOVO BANCO entered into a sale agreement for a set of assets and liabilities of Spanish Branch, being the impact of this transaction within the previously recorded impairment value. The transaction is expected to be completed in the last quarter of 2021.

NOTE 29 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 30 June 2021 and 31 December 2020 is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Deposits from Banks	11 301 576	10 778 468
Due to customers	26 574 276	25 778 507
Debt securities issued, subordinated liabilities and liabilities associated to transferred assets	995 653	974 996
Other financial liabilities	438 677	364 013
	39 310 182	**37 895 984**

Deposits from Banks

The balance of Deposits from Banks is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Deposit from Central Banks		
From the European System of Central Banks		
Deposits	146 514	29 030
Other funds	7 004 000	7 004 000
	7 150 514	**7 033 030**
Deposits from other credit institutions		
Domestic		
Deposits	1 004 346	889 876
Other funds	20 417	4 792
	1 024 763	**894 668**
Foreign		
Deposits	565 134	624 873
Loans	596 937	596 534
Operations with repurchase agreements	1 956 414	1 625 724
Other funds	7 814	3 639
	3 126 299	**2 850 770**
	4 151 062	**3 745 438**
	11 301 576	**10 778 468**

As at 30 June 2021, the caption Other funds from the European System of Central Banks includes Euro 7 004 million covered by Bank financial assets pledged as collateral, as part of the third series of longer-term refinancing operations of the European Central Bank (TLTRO III) (31 December 2020: Euro 7 004 million). The bonus introduced by the ECB in the interest rate of these transactions, in accordance with the provisions of IAS 20, is being deducted from financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the eligibility requirements set by the ECB.

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 2.5.

Due to customers

The balance of Deposits due to customers is composed, as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Repayable on demand		
Demand deposits	12 267 880	11 475 826
Time deposits		
Time deposits	8 803 825	9 187 317
Other	16	241
	8 803 841	**9 187 558**
Savings accounts		
Retirement saving accounts	229 135	232 741
Other	4 973 673	4 673 474
	5 202 808	**4 906 215**
Other funds		
Other	299 747	208 908
	299 747	**208 908**
	26 574 276	**25 778 507**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption breaks down as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Debt securities issued		
Euro Medium Term Notes (EMTN)	519 033	515 311
Subordinated debt		
Bonds	432 169	415 234
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	995 653	**974 996**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias*"), which has a maximum amount of Euro 10 000 million, the Bank issued covered bonds which amount to Euro 5 500 million (31 December 2020: Euro 5 500 million), being these covered bonds totally repurchased by the Bank. The main characteristics of the outstanding issues as at 30 June 2021 and 31 December 2020 are as follows:

(in thousands of Euros)

30.06.2021									
Designation	**Nominal value**	**Carrying book value**	**Issue date**	**Maturity date**	**Interest payment**	**Interest Rate**	**Market**	**Rating**	
								Moody's	**DBRS**
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2020									
Designation	**Nominal value**	**Carrying book value**	**Issue date**	**Maturity date**	**Interest payment**	**Interest Rate**	**Market**	**Rating**	
								Moody's	**DBRS**
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 months + 0.25%	XDUB	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Bank's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6, 8 of 2006 and Instruction No. 13/2006 of Bank of Portugal. As at 30 June 2021, the assets that collateralize these covered debt securities amount to Euro 6 074.4 million (31 December 2020: Euro 6 104.8 million) (see Note 21).

The changes in the first semester of 2021 and the financial year of 2020 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2020	Issues	Redemptions	Net purchases	Other movements a)	Balance as at 30.06.2021
Debt securities issued						
Euro Medium Term Notes (EMTN)	515 311	-	-	(291)	4 013	519 033
Subordinated debt						
Bonds	415 234	-	-	-	16 935	432 169
Financial liabilities associated to transferred assets						
Asset lending operations	44 451	-	-	-	-	44 451
	974 996	**-**	**-**	**(291)**	**20 948**	**995 653**

a)) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousands of Euros)

	Balance as at 31.12.2019	Issues	Redemptions b)	Net purchases	Other movements a)	Balance as at 31.12.2020
Debt securities issued						
Euro Medium Term Notes (EMTN)	495 989	-	-	(570)	19 892	515 311
Subordinated debt						
Bonds	415 069	-	-	-	165	415 234
Financial liabilities associated to transferred assets						
Asset lending operations	133 387	-	(88 251)	-	(685)	44 451
	1 044 445	**-**	**(88 251)**	**(570)**	**20 057**	**974 996**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

b) During 2020, Classes D, E and S from Lusitano SME No. 3, on balance in 2019, was fully reimbursed.

The main characteristics of these liabilities, as at 30 June 2021 and 31 December 2020, are as follows:

(in thousands of Euros)

			30.06.2021						
Entity	**ISIN**	**Description**	**Currency**	**Issue date**	**Unit price (€)**	**Carrying Book value**	**Maturity**	**Interest rate**	**Market**
Euro Medium Term Notes									
NB (Luxembourg branch	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	41 418	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	95 311	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	61 863	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	45 560	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	37 472	2048	Zero Coupon	XLUX
NB (Luxembourg branch	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	47 206	2049	Zero Coupon	XLUX
NB (Luxembourg branch	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	41 546	2049	Zero Coupon	XLUX
NB (Luxembourg branch	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	36 011	2051	Zero Coupon	XLUX
NB (Luxembourg branch	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	15 719	2051	Zero Coupon	XLUX
NB (Luxembourg branch	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	45 184	2048	Zero Coupon	XLUX
NB (Luxembourg branch	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	39 862	2052	Zero Coupon	XLUX
NB (Luxembourg branch	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	11 881	2046	Zero Coupon	XLUX
Subordinates									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	432 169	2023 a)	8,50%	XDUB
						951 202			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	31.12.2020 Currency	Issue date	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
Euro Medium Term Notes									
NB (Luxembourg branch	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 287	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	97 153	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 183	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 521	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg branch	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	36 398	2048	Zero Coupon	XLUX
NB (Luxembourg branch	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	45 717	2049	Zero Coupon	XLUX
NB (Luxembourg branch	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	40 220	2049	Zero Coupon	XLUX
NB (Luxembourg branch	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	34 848	2051	Zero Coupon	XLUX
NB (Luxembourg branch	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	15 212	2051	Zero Coupon	XLUX
NB (Luxembourg branch	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	43 649	2048	Zero Coupon	XLUX
NB (Luxembourg branch	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	38 646	2052	Zero Coupon	XLUX
NB (Luxembourg branch	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	11 477	2046	Zero Coupon	XLUX
Subordinates									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 234	2023 a)	8,50%	XDUB
						930 545			

a) Date of the next call option

The Bank did not present any capital or interest defaults regarding debt issued during the first half of 2021 and the financial year 2020.

NOTE 30 – PROVISIONS

As at 30 June 2021 and 31 December 2020, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provisions	Provision for guarantees and commitments	Commercial offers	Outras Provisões	Other provisions
Balance as at 31 December 2019	**24 044**	**97 103**	**41 334**	**209 263**	**371 744**
Allocation / (write-backs) for the period	23 446	(7 554)	(629)	28 902	44 165
Utilization during the period	(15 698)	-	(23 445)	(6 614)	(45 757)
Foreign exchange differences and other	-	(105)	-	-	(105)
Balance as at 30 June 2020	**31 792**	**89 444**	**17 260**	**231 551**	**370 047**
Allocation / (write-backs) for the period	100 469	29 149	-	14 056	143 674
Utilization during the period	(26 490)	(2 188)	(6 061)	(7 955)	(42 694)
Foreign exchange differences and other	(8 798)	(14 921)	-	(8 736)	(32 455)
Balance as at 31 December 2020	**96 973**	**101 484**	**11 199**	**228 916**	**438 572**
Allocation / (write-backs) for the period	-	(18 622)	-	(13 774)	(32 396)
Utilization during the period	(12 792)	-	(10 205)	(14 863)	(37 860)
Foreign exchange differences and other	-	41	-	(1)	40
Balance as at 30 June 2021	**84 181**	**82 903**	**994**	**200 278**	**368 356**

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**3 575**	**14 061**	**76 387**	**94 023**
Increases due to changes in credit risk	159	2 070	11 289	13 518
Decreases due to changes in credit risk	(1 369)	(11 144)	(9 714)	(22 227)
Other movements	43	1 818	(1 966)	(105)
Balance as at 30 June 2020	**2 408**	**6 805**	**75 996**	**85 209**
Increases due to changes in credit risk	671	18 371	12 012	31 054
Decreases due to changes in credit risk	671	(1 646)	(6 277)	(7 252)
Utilizations	-	-	(2 188)	(2 188)
Other movements [(a)]	(2 436)	475	(12 957)	(14 918)
Balance as at 31 December 2020	**1 314**	**24 005**	**66 586**	**91 905**
Increases due to changes in credit risk	451	792	2 522	3 765
Decreases due to changes in credit risk	(319)	(16 991)	(7 474)	(24 784)
Other movements	117	58	(136)	39
Balance as at 30 June 2021	**1 563**	**7 864**	**61 498**	**70 925**

(a) Includes Euro 14.420 thousand of provisions for guarantees provided by the Spanish branch transferred to discontinued operations (Euro 2.360 thousand on Stage 1 and Euro 12.060 thousand on Stage 3).

The changes in the caption Provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**1 935**	**1 145**	**-**	**3 080**
Increases due to changes in credit risk	3 633	1 698	-	5 331
Decreases due to changes in credit risk	(3 488)	(671)	(17)	(4 176)
Other movements	27	(44)	17	-
Balance as at 30 June 2020	**2 107**	**2 128**	**-**	**4 235**
Increases due to changes in credit risk	2 692	3 790	-	6 482
Decreases due to changes in credit risk	(220)	(899)	(16)	(1 135)
Other movements	1 044	(1 063)	16	(3)
Balance as at 31 December 2020	**5 623**	**3 956**	**-**	**9 579**
Increases due to changes in credit risk	1 312	3 768	35	5 115
Decreases due to changes in credit risk	(848)	(1 853)	(17)	(2 718)
Other movements	415	(433)	20	2
Balance as at 30 June 2021	**6 502**	**5 438**	**38**	**11 978**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Bank's sale and restructuring process. During the financial year of 2020, a provision of Euro 127.4 million was set up, and there was also a reversal of the provisions set up in 2016 and 2017 in the amount of Euro 3.4 million. As at 30 June 2021, the amount of restructuring provisions on the balance sheet is Euro 84.2 million.

Other provisions amounting to Euro 200.3 million (31 December 2020: Euro 228.9 million) are intended to cover certain identified contingencies related to the Bank's activities, the most relevant being:
- Contingencies associated with ongoing tax processes, for which the Bank maintains provisions of Euro 18.1 million (31 December 2020: Euro 20.4 million);
- Contingencies associated with legal proceedings in the amount of Euro 4.3 million (31 December 2020: Euro 6.6 million);
- Contingencies associated with sales processes in the amount of Euro 39.3 million (31 December 2020: Euro 41.1 million);
- Contingencies relating to the undivided part of the Executive Board's Pension Plan, in the amount of Euro 19.2 million, transferred from the net liability items of the value of the assets of the pension fund (31 December 2020: Euro 19.2 million) (see Note 15);
- The remaining amount, of Euro 119.4 million (31 December 2020: Euro 141.6 million), is intended to cover for losses in connection to the Bank's normal activities, such as fraud, theft and robbery, and ongoing legal lawsuits, among others.

NOTE 31 – OTHER LIABILITIES

As at 30 June 2021 and 31 December 2020, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Public sector	36 083	32 532
Creditors for supply of goods	52 023	65 586
Other creditors	93 652	62 119
Career bonuses (see Note 15)	7 671	7 465
Retirement pensions and health-care benefits (see Note 15)	75 088	24 692
Other accrued expenses	64 075	67 642
Deferred income	948	955
Other transactions pending settlement	80 961	53 620
	410 501	**314 611**

NOTE 32 – SHARE CAPITAL

Ordinary shares

In 2017 and following the acquisition of 75% of NOVO BANCO by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised. Thus, as at 30 June 2021 and 31 December 2020, the share capital of the Bank amounts to Euro 5 900 000 000, represented by 9 799 999 997 registered shares, with no nominal value, fully subscribed and realised by the following shareholders:

	Share Capital %	
	30.06.2021	31.12.2020
Nani Holdings, SGPS, SA	75.00%	75.00%
Resolution Fund [(1)]	25.00%	25.00%
	100.00%	**100.00%**

[(1)] Given the commitments assumed by the Portuguese Republic and the European Commission, the Resolution Fund is inhibited from using its voting rights.

As mentioned in Note 26, NOVO BANCO adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that grant the State the right to demand of NOVO BANCO the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost.

It is estimated that the conversion rights to be issued and allocated to the State following the net loss of years 2015 and 2020 will confer a shareholding of up to approximately 16.63% of the share capital of NOVO BANCO, which will dilute the Resolution Fund, according to the sale contract.

Regarding the financial years from 2015 to 2017, the tax authorities have already confirmed the tax credit and, consequently, the final number of conversion rights that were attributed to the Portuguese State represent an aggregate shareholding of 5.69%. of the share capital. Such conversion rights shall be exercised and converted in accordance with the procedure and timings established in the legal regime. The Issuer has agreed with the shareholders that a clarification from the Portuguese State shall be requested in respect of the procedure regarding the conversion of the conversion rights. Subject to this clarification, conversion of the conversion rights in relation to the 2015-2017 financial years shall occur until 31 December 2021.

NOTE 33 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES

As at 30 June 2021 and 31 December 2020, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	30.06.2021	31.12.2020
Other accumulated comprehensive income	**(888 266)**	**(749 259)**
Retained earnings	**(8 577 074)**	**(7 202 828)**
Other reserves	**6 275 834**	**6 179 422**
Originating reserve	1 848 691	1 976 173
Special reserve	856 043	728 561
Other reserves and Retained earnings	3 571 100	3 474 688
	(3 189 506)	**(1 772 665)**

Other accumulated comprehensive income

The changes in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income					
	Impairment reserves	Credit risk reserves	Reserves of sales	Fair value reserves	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2019	**5 505**	**(1 669)**	**(8 432)**	**(44 041)**	**(583 396)**	**(632 033)**
Actuarial deviations	-	-	-	-	(86 120)	(86 120)
Fair value changes, net of taxes	-	-	-	(45 099)	-	(45 099)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	15 500	-	-	-	15 500
Impairment reserves of securities at fair value through other comprehensive income	(887)	-	-	-	-	(887)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(10 473)	-	-	(10 473)
Balance as at 30 June 2020	**4 618**	**13 831**	**(18 905)**	**(89 140)**	**(669 516)**	**(759 112)**
Actuarial deviations	-	-	-	-	(36 079)	(36 079)
Fair value changes, net of taxes	-	-	-	57 383	-	57 383
Changes in credit risk of financial liabilities at fair value, net of taxes	-	(4 617)	-	-	-	(4 617)
Impairment reserves of securities at fair value through other comprehensive income	(951)	-	-	-	-	(951)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(5 883)	-	-	(5 883)
Balance as at 31 December 2020	**3 667**	**9 214**	**(24 788)**	**(31 757)**	**(705 595)**	**(749 259)**
Actuarial deviations	-	-	-	-	(41 687)	(41 687)
Fair value changes, net of taxes	-	-	-	(89 228)	-	(89 228)
Impairment reserves of securities at fair value through other comprehensive income	(228)	-	-	-	-	(228)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(7 864)	-	-	(7 864)
Balance as at 30 June2021	**3 439**	**9 214**	**(32 652)**	**(120 985)**	**(747 282)**	**(888 266)**

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	30.06.2021			31.12.2020		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total Fair value reserves	Financial assets at fair value through other comprehensive	Deferred tax reserves	Total Fair value reserves
Balance at the beginning of the period	**70 520**	**(102 277)**	**(31 757)**	**53 179**	**(97 220)**	**(44 041)**
Changes in fair value	(119 378)	-	(119 378)	88 253	-	88 253
Foreign exchange differences	346	-	346	(4 372)	-	(4 372)
Sales in the period	(9 715)	-	(9 715)	(66 540)	-	(66 540)
Deferred taxes recognized in the period	-	39 519	39 519	-	(5 057)	(5 057)
Balance at the end of the period	**(58 227)**	**(62 758)**	**120 985**	**70 520**	**(102 277)**	**(31 757)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Amortised cost of financial assets at fair value through other comprehensive income	7 687 176	7 744 257
Market value of financial assets at fair value through other comprehensive income	7 628 131	7 813 584
Unrealised gains / (losses) in the fair value reserve	(59 045)	69 327
Fair value reserves for discontinuing activities	818	1 193
Deferred taxes	(62 758)	(102 277)
Fair value reserve attributable to shareholders	**(120 985)**	**(31 757)**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to NOVO BANCO, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 26, the special reserve was created as a result of the adhesion of NOVO BANCO to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the net losses recorded from 2015 until 2020 and with reference to the eligible deferred tax assets at the end of each year, the special reserve was set up for the same amount of the tax credit calculated, increased by 10%, as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
2016 (net loss 2015)	168 911	168 911
2017 (net loss 2016)	109 421	109 421
2018 (net loss 2017)	140 332	150 044
2019 (net loss 2018)	178 171	178 171
2020 (net loss 2019)	122 015	122 014
2021 (net loss 2020)	137 193	-
	856 043	**728 561**

Other reserves and retained earnings

Following the conditions agreed in the NOVO BANCO'S sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3 890 million (see Note 34 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 30 June 2021 these assets had a net value of Euro 2.0 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2020: net value of Euro 2.1 billion).

As a result of the losses recorded by NOVO BANCO on 31 December 2019, 2018 and 2017, the conditions determining the payment by Resolution Fund of Euro 1 035 016 thousand, Euro 1 149 295 thousand and Euro 791 695 thousand were meet and the payments occurred in May 2020, 2019 and 2018, respectively. In the financial year of 2020, the caption Reserves registered the responsibility of the Resolution Fund amounting to Euro 598 312 thousand relating to the Contingent Capital Agreement. The amount is accounted for under Other reserves and it results at each Balance Sheet date of the incurred losses and of the regulatory ratios in force at the moment of its determination. In June 2021, regarding the year 2020, the amount of Euro 317 013 thousand was paid. The difference results from divergences between NOVO BANCO and the Resolution Fund regarding (i) the provision for discontinued operations in Spain, (ii) valuation of participation units and (iii) interest rate risk hedge accounting policy, leading to a limitation on immediate access to this amount, which despite being recorded as receivables, the Bank deducted at 30 June 2021 the amount of Euro 277 442 thousand from the calculation of regulatory capital. NOVO BANCO considers the amount of Euro 277 442 thousand as due under the Contingent Capitalization Mechanism and the legal and contractual mechanisms at its disposal are being triggered in order to ensure their receipt (see Note 34). Additionally, it was also deducted the amount of variable remuneration to the Executive Board of Directors related to the year-end of 2019 and 2020 (Euro 3 857 thousand).

NOTE 34 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 June 2021 and 31 December 2020 are the following:

(in thousands of Euros)

	30.06.2021	31.12.2020
Contingent liabilities		
Guarantees and standby letters	2 614 384	2 815 920
Financial assets pledged as collateral	14 077 013	14 194 624
Open documentary credits	475 158	410 292
	17 166 555	**17 420 836**
Commitments		
Revocable commitments	6 014 221	6 419 991
Irrevocable commitments	576 765	629 454
	6 590 986	**7 049 445**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As at 30 June 2021, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.1 billion (31 December 2020: Euro 13.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 8.0 million (31 December 2020: Euro 8.1 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 67.8 million (31 December 2020: Euro 69.5 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 683.8 million (31 December 2020: Euro 769.7 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 103.8 million (31 December 2020: Euro 107.0 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Bank (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	30.06.2021	31.12.2020
Deposit and custodianship of securities and other items	33 963 845	35 774 785
Assets received for subsequent collection	228 138	233 938
Securitized loans under management (servicing)	2 018 237	2 118 806
Other responsibilities related with banking services	1 838 669	1 838 050
	38 048 889	**39 965 579**

Under the resolution measure applied to BES by deliberation of Bank of Portugal of 3 August 2014, (point 1., paragraph b), subparagraph (vii) of Appendix 2), as altered by the deliberation of Bank of Portugal of 11 August 2014, the "Excluded Liabilities" from the transfer to NOVO BANCO include "any obligations, guarantees, liabilities or contingencies assumed in the trading, financial intermediation and distribution of debt instruments issued by entities integrating Espírito Santo Group (…)".

Under the terms of the point and paragraph referred to above and sub point (v), the excluded liabilities also include "any liabilities or contingencies, namely those resulting from fraud or the violation of regulatory, penal or administrative offense provisions or regulations".

On 29 December 2015, Bank of Portugal adopted a new deliberation for the "Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of Bank of Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Bank of Portugal of 11 August 2014 (5 p.m.)". Through this deliberation, Bank of Portugal:

(i) Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labour, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of 3 August; and

(ii) Clarified that the following liabilities had not been transferred from BES to NOVO BANCO:
   a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;
   b. All liabilities, damages and expenses related to real estate assets that were transferred to NOVO BANCO;
   c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 8 p.m. on 3 August 2014;
   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
   e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;
   f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and
   g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

(iii) To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to NOVO BANCO which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from NOVO BANCO to BES, with effect as at 8 p.m. of 3 August 2014.

In the preparation of its consolidated and separate financial statements as at 30 June 2021 (as well as in the previous financial statements), NOVO BANCO incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet items and assets under management of BES, as well as from the deliberation of 29 December 2015 of Bank of Portugal, in particular, with regards to the clarification of the non-transmission to NOVO BANCO of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by the deliberation of Bank of Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to neutralize, at the Bank level, the effects of decisions that are legally binding, beyond the control of NOVO BANCO and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the perimeter of the transfer to NOVO BANCO as defined by Bank of Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Bank of Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Bank of Portugal of 29 December 2015, there are still relevant litigation risks, albeit mitigated, namely regarding the various disputes relating to the loan made by Oak Finance to BES and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to NOVO BANCO. These disputes include the two lawsuits of late January 2016, with the Supreme Court of Justice of Venezuela, Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and NOVO BANCO, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of 37 million dollars and 335 million dollars, respectively, and which requests the reimbursement of the amount invested, plus interest, compensation for the value of inflation and costs (in a total estimated amount by the claimants of 96 and 871 million dollars, respectively). In accordance with resolution measure, these responsibilities were not transferred to NOVO BANCO and the main actions and precautionary seizure procedures are still pending before the Supreme Court of Venezuela.

In the preparation of the separate and consolidated financial statements of the Bank as at 30 June 2020 (as well as in the previous ones), the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Bank of Portugal, in particular the decisions of 29 December 2015. In this context, the present financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management and liabilities transferred from BES to NOVO BANCO, as determined by Bank of Portugal and taking as reference the current legal bases and the information available at the present date.

As part of the sale of NOVO BANCO, completed on 18 October 2017, the respective contractual documents include specific provisions that produce effects equivalent to the aforementioned resolution of the Board of Directors of the Bank of Portugal, dated 29 December 2015, concerning the neutralisation, at the level of NOVO BANCO, of the effects of unfavourable decisions that are legally binding, although it is now contractual in nature, thus maintaining the contingent liabilities of the Resolution Fund.

Relevant lawsuits
For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely regarding the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Bank of Portugal (and the criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against NOVO BANCO and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. be declared invalid and, secondarily, that said pledge be annulled or declared ineffective;

(ii) Lawsuit brought by NOVO BANCO, challenging the resolution decided in favour of the insolvent estate in respect of the acts of the constitution and subsequent execution of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A., due to considering that there are no grounds for the resolution of these acts, as well as demanding the reimbursement of the amount received by way of price (Euro 25 million, subject to possible positive adjustment) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. NOVO BANCO challenged judicially the resolution act, with this process running its course attached to the insolvency proceedings of Partran, SGPS, S.A.;

(iii) Following the conclusion of the sale agreement of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, certain legal suits have been lodged, related to the conditions of the sale, namely the administrative action brought by Banco Comercial Português, SA (BCP) against the Resolution Fund, of which NOVO BANCO is not a party, and according to the public disclosure of inside information made by BCP on the website of the CMVM on 1 September 2017, it requested the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the CCA;

(iv) NOVO BANCO was notified of an order by the Central Court of Criminal Investigation (“TCIC”) that determines the provision of a guarantee by the NB in the approximate amount of EUR 51 million due to an alleged failure to comply with an arrest order bank accounts, having used the respective means of reaction to oppose the application of the aforementioned asset guarantee measure due to the absence of a legal basis..

Regarding the 2020 financial year, the amount requested by NOVO BANCO from the Resolution Fund under the Contingent Capitalization Mechanism was not fully paid due to divergences on some issues, namely, the provision for discontinued operations in Spain, the valuation of participation units and the interest rate risk hedge accounting policy in the total amount of Euro 277.4 million, divergences that must be settled in arbitration with the International Chamber of Commerce, in accordance with the contractual terms. Without prejudice to the fact that these amounts are recorded as receivables, NOVO BANCO is triggering the legal and contractual mechanisms at its disposal to ensure the receipt of these amounts.

Resolution Fund
Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law No. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Bank of Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal, based, essentially, on the amount of its liabilities. As at 31 June 2021 the periodic contribution made by the Bank amounted to Euro 14 854 thousand (31 December 2020: Euro 12 528 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to NOVO BANCO, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

To realise the share capital of NOVO BANCO, Resolution Fund made available Euro 4 900 million, of which Euro 365 million corresponded to own funds. A loan was also granted by a banking syndicate to Resolution Fund, amounting to Euro 635 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euro 3 900 million) had its origin in a reimbursable loan granted by the Portuguese State.

In December 2015, national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, S.A. (Santander Totta), for Euro 150 million, also in the scope of the application of a resolution measure. This operation involved an estimated Euro 2 255 million of public funding, aimed at covering future contingencies, financed in Euro 489 million by Resolution Fund and Euro 1 766 million directly by the Portuguese State. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A.. This operation involved public support estimated at Euro 2 255 million, which aimed to cover future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1 766 million directly by the Portuguese State.

The serious financial imbalance of BES in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving Resolution Fund, which is significant, as well as to the risk of an insufficiency of funds to ensure its compliance with its responsibilities, namely the short-term repayment of the loans contracted.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and by the banks participating in Resolution Fund in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Resolution Fund. To this end, an addendum to the financing agreements with Resolution Fund was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Resolution Fund for special contributions or any other extraordinary contribution.

As announced by the Resolution Fund in 21 March 2017, issued following an earlier statement of 28 September 2016 and the statement of the Ministry of Finance issued on the same date the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, with the basis of a stable, predictable and affordable charge to the banking sector. Based on this review, the assumed Resolution Fund is assured the full payment of their responsibilities, and the respective remuneration, without need for recourse to special contributions or any other type of contributions extraordinary by the banking industry.

Also on 31 March 2017, Bank of Portugal announced that it had selected Lone Star Funds for the acquisition of NOVO BANCO, which was completed on 18 October 2017, through the injection, by the new shareholder, of Euro 750 million, followed by another capital injection of Euro 250 million, made on 21 December 2017. Lone Star Funds came to hold 75% of the share capital of NOVO BANCO and Resolution Fund the remaining 25%. In addition, the approved conditions include:

- A Contingent Capital Agreement, under which the Resolution Fund, whilst shareholder, may be called upon to make payments in the event of certain cumulative conditions related to: i) the performance of a restricted set of assets of NOVO BANCO and ii) the evolution of the Bank's capitalization levels. The possible payments needed, in the agreed terms of this Contingent Capital Agreement are of an absolute maximum of Euro 3 890 million;
- A Compensation Mechanism to NOVO BANCO if in the event that some conditions are met, and it is convinced to make payments of any responsibilities, due to a financial court judicial decision not recognizing or that is opposed to the resolution measure applied by Bank of Portugal, or to NOVO BANCO's perimeter of assets and liabilities.

Notwithstanding the possibility under the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Resolution Fund by the Portuguese State and by a syndicate of banks, and of the public press releases made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Executive Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTE 35 – RELATED PARTIES TRANSACTIONS

The group of entities considered to be related parties by NOVO BANCO in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of NOVO BANCO); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of NOVO BANCO; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which NOVO BANCO has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of NOVO BANCO (joint ventures).
The Bank balances with related parties as at 30 June 2021 and 31 December 2020, as well as the respective profit and losses, can be summarized as follows:

(in thousands of Euros)

	30.06.2021					31.12.2020				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	153	-	166	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	377 712	-	-	-	14 854	598 312	-	-	-	12 528
Subsidiaries										
GNB RECUPERAÇÃO DE CRÉDITO	-	-	-	-	42	-	257	-	13	1 761
GNB CONCESSÕES	83 473	39 286	-	-	-	83 473	39 339	-	-	-
GNB ACE	-	-	-	-	-	-	-	-	-	1 479
GNB GA	3 160	72 578	6	3 112	-	1 723	73 536	6	5 977	-
NOVO BANCO SERVICIOS	19 932	1 212	-			18 511	23	-	496	12
ES TECH VENTURES	48 779	72 738	-	-	-	48 738	69 809	-	-	-
BEST	1 145	593 915	37	856	1 550	973	577 185	37	1 892	4 368
NB AÇORES	140 408	246 820	102 458	463	703	139 435	159 509	102 458	960	1 873
FCR PME	-	305	-	-	-	-	1 007	-	-	-
SPE-LM6	280 435	2 332	-	184	-	286 687	2 902	-	397	-
SPE-LM7	830 693	4 586	-	504	-	869 975	5 490	-	1 068	-
FCR NB GROWTH	15 134	3 553	-	-	-	15 414	3 562	-	-	-
NB ÁFRICA	-	7 166	-	-	-	-	7 185	-	-	-
NOVO VANGUARDA	-	147	-	-	-	-	162	-	-	261
FUNGEPI	-	62 556	1 442	24	3	-	60 942	-	29	7
FUNGEPI_II	-	81 187	35	15	4	-	81 394	-	34	7
FUNGERE	-	43 539	1 182	14	2	-	41 699	-	31	4
IMOINVESTIMENTO	-	2 604	-	13	-	-	922	-	39	-
PREDILOC	-	2 841	-	-	-	-	2 649	-	-	-
IMOGESTÃO	-	36 211	-	-	2	-	36 427	-	-	6
ARRABIDA	-	2 520	-	-	1	-	3 633	-	-	1
INVESFUNDO VII	-	1 187	-	2	-	-	1 216	-	4	-
NB LOGÍSTICA	-	29 034	-	-	1	-	28 707	-	-	1
NB PATRIMÓNIO	-	39 361	-	-	2 216	-	35 911	-	-	4 447
FUNDES	-	12 869	-	-	1	-	12 625	-	-	1
AMOREIRAS	-	30 835	-	-	-	-	31 824	-	-	-
FIMES ORIENTE	17	13 785	-	-	1	18	13 753	-	-	2
NB ARRENDAMENTO	-	1 227	-	-	-	-	1 025	-	-	-
NB FINANCE	-	8 690	3 629	16	144	-	8 770	3 566	43	4 625
ASAS INVEST	-	581	-	-	-	-	571	-	-	-
FEBAGRI	-	977	-	-	-	-	925	-	-	-
AUTODRIL	-	68	-	-	-	-	89	-	-	-
GREENWOODS	-	1 767	-	-	-	-	1 761	-	-	-
QUINTA D. MANUEL I	-	398	-	-	-	-	-	-	-	-
QUINTA DA AREIA	-	13	-	-	-	-	-	-	-	-
PROMOTUR	-	3	-	-	-	-	-	-	-	-
HERDADE DA BOINA	-	9	-	-	-	-	5	-	-	-
BENAGIL	-	156	-	-	-	-	312	-	-	-
IMOASCAY	-	562	-	-	-	-	624	-	-	-
QUINTA DA RIBEIRA	-	232	-	-	-	-	187	-	-	-
PROMOFUNDO	-	147	-	-	-	-	230	-	-	-
GREENDRAIVE	6 445	547	106	-	-	4 923	58	106	-	-
	1 807 333	**1 418 867**	**108 895**	**5 369**	**19 524**	**2 068 182**	**1 306 388**	**106 173**	**11 315**	**31 383**
Associated companies										
LINEAS	63 179	4 233	-	1 442	-	64 933	6 505	-	2 871	-
LOCARENT	115 153	1 338	-	511	1 666	115 832	633	-	1 081	3 800
GNB SEGUROS	-	-	-	-	-	-	-	-	-	-
ESEGUR	2 425	607	915	-	-	2 955	1 650	915	-	-
UNICRE	33 934	57	-	118	-	22 597	49	-	289	-
MULTIPESSOAL	2 008	35	273	-	-	2 030	31	273	31	-
OTHER	3	70 743	-	1 577	6	2	64 816	-	1 982	291
	216 702	**77 013**	**1 188**	**3 648**	**1 672**	**208 349**	**73 684**	**1 188**	**6 254**	**4 091**
Other related entities										
HUDSON ADVISORS PORTUGAL	-	-	-	-	1 102	-	-	-	-	4 685
NACIONAL CONTA LDA	318	29	-	-	-	295	52	-	-	-
INFRAMOURA	105	18	-	-	-	114	16	-	-	-
ESMALGLASS	-	107	2	-	-	-	107	2	-	-
MARINA VILAMOURA	-	1	-	-	-	-	1	-	-	-
Other	**423**	**155**	**2**	**-**	**1 102**	**409**	**176**	**2**	**-**	**4 685**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the first half of 2021 and the financial year of 2020.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.a.r.l. and NOVO BANCO, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted or debt securities acquired in the scope of the Bank's activity. The liabilities relate mainly to bank deposits taken.

The guarantees relating to associated undertakings included in the table above mainly refer to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 6.50% (the rates correspond to the rates applied according to the original currency of the asset).

As at 30 June 2021, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 324 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

As at 31 December 2020, the amount of credit granted to members of Key Management Personnel of NOVO BANCO was as follows: (i) to members of the Executive Board of Directors and their immediate relatives was Euro 331 thousand; and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted.

NOTE 36 – SECURITISATION OF ASSETS

As at 30 June 2021 and 31 December 2020, the outstanding securitization transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			30.06.2021	31.12.2020	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	264 662	280 051	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	395 747	417 854	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	377 541	396 083	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	959 722	1 003 303	Mortgage loans (general scheme)

The main characteristics of these operations, as at 30 June 2021 and 31 December 2020, can be analyzed as follows:

(in thousands of Euros)

30.06.2021

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by the Bank (Nominal value)	Interest held by the Bank (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	202 385	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	13 397	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	A-	-
	Class C	19 200	11 281	-	-	December 2048	A+	A1	A+	-	BB	Ba2	BBB-	-
	Class D	24 000	14 102	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa2	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	293 874	-	-	December 2059	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	26 600	24 054	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	AA	-
	Class C	22 400	20 256	-	-	December 2059	A	A1	A	-	B	B1	BBB	-
	Class D	28 000	25 320	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 530	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	208 211	173 349	166 880	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	59 939	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 903	March 2060	A	A3	A	-	B	Ba3	A-	-
	Class D	17 600	17 600	17 600	12 106	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	B	-
	Class E	31 900	31 900	31 900	8 497	March 2060	BB	-	BB	-	CC	NR	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	482 749	482 749	449 776	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 097	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	115 820	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2020

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by the Bank (Nominal value)	Interest held by the Bank (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	214 891	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	14 224	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BB+	-
	Class C	19 200	11 978	-	-	December 2048	A+	A1	A+	-	BB	Ba3	B+	-
	Class D	24 000	14 973	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	311 465	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	A	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	B	B3	BBB	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	235 906	188 337	180 754	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	52 775	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 562	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	8 458	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	528 003	528 003	488 778	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 146	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	116 051	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

NOTE 37 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (*bid-price*), the price of the last transaction made or the value of the last known price (*bid*). In the absence of a quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of recent transaction prices, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in the fair value hierarchy 3, whose quotation is provided by a third party using parameters that are not observable in the market, the Bank proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as as a result of additional internal or external valuations.

In accordance with the fair value valuation methodology of assets and liabilities followed, these are classified in the corresponding hierarchy of fair value defined in IFRS 13 - Fair Value. The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding valuation method:

Quoted market prices (level 1)
This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favour of a specific price.

This category includes, amongst others, the following financial instruments:
(i) Derivatives traded on an organized market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with observable market quotes;
(vi) Financial instruments with market offers, even if these are not available at the normal information sources (e.g. securities traded based on *recovery* rate).

Valuation models based on observable market parameters / prices (level 2)
In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations, but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:
(i) Bonds without observable market valuations valued using observable market inputs; and
(ii) Derivatives (OTC) over-the-counter valued using observable market *inputs*; and
(iii) Unlisted shares valued using internal models using observable market *inputs*.

Valuation models based on unobservable market parameters (level 3)
This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:
(i) Debt securities valued using non-observable market inputs;
(ii) Unquoted shares;
(iii) Closed real estate funds;
(iv) Hedge funds;
(v) Private equities;
(vi) Restructuring funds; and
(vii) Over the counter (OTC) derivatives with prices provided by third parties.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analyzed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realized. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company.

In the specific case of the Restructuring Funds (“Assessed Assets”), their assessment was carried out by an independent external international entity (“Appraiser”), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the “Underlying Assets”); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of Novo Banco's investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1 000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

With regard to information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under development			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.

Notes:

1. *All assumptions presented above were calculated based on the averages of the values considered by the external appraisers per appraised property.*
2. *The average presented was calculated on the weighted average per property in the sum of the value of the underlying assets per category presented.*
3. *Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or project are incorporated in Real Estate under Development along with their respective property.*
4. *€/m2 considers the gross construction area.*

Derivative instruments: if these are traded on organized markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads.
- Futures and Options: the Bank trades these products on an organized market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organized market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct prices.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Bank is as follows:

(in thousands of Euro)

	At fair value			
	Quoted market prices (Level1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair value
30 June 2021				
Financial assets held for trading	**78 286**	**293 784**	**-**	**372 070**
Securities held for trading	78 286	-	-	78 286
Bonds issued by public entities	*78 286*	*-*	*-*	*78 286*
Derivatives held for trading	-	293 784	-	293 784
Foreign exchange rate contracts	*-*	*38 622*	*-*	*38 622*
Interest rate contracts	*-*	*242 591*	*-*	*242 591*
Other	*-*	*12 571*	*-*	*12 571*
Financial assets mandatorily at fair value through profit or loss	**251 362**	**38 203**	**2 109 601**	**2 399 166**
Bonds issued by other entities	*81 541*	*50*	*496 740*	*578 331*
Shares	*169 821*	*-*	*274 421*	*444 242*
Other variable income securities	*-*	*38 153*	*1 338 440*	*1 376 593*
Financial assets at fair value through other comprehensive income	**7 585 146**	**7 496**	**35 489**	**7 628 131**
Bonds issued by public entities	*6 194 638*	*-*	*-*	*6 194 638*
Bonds issued by other entities	*1 380 711*	*-*	*-*	*1 380 711*
Shares	*9 797*	*7 496*	*35 489*	*52 782*
Derivatives - Hedge accounting	**-**	**15 269**	**-**	**15 269**
Interest rate contracts	*-*	*15 269*	*-*	*15 269*
Assets at fair value	**7 914 794**	**354 752**	**2 145 090**	**10 414 636**
Financial liabilities held for trading	**-**	**416 099**	**2 128**	**418 227**
Derivatives held for trading	-	416 099	2 128	418 227
Foreign exchange rate contracts	*-*	*36 538*	*-*	*36 538*
Interest rate contracts	*-*	*372 965*	*2 128*	*375 093*
Credit default contracts	*-*	*8*	*-*	*8*
Other	*-*	*6 588*	*-*	*6 588*
Derivatives - Hedge accounting	**-**	**52 349**	**-**	**52 349**
Credit default contracts	*-*	*52 349*	*-*	*52 349*
Liabilities at fair value	**-**	**468 448**	**2 128**	**470 576**

(in thousands of Euro)

	At fair value			
	Quoted market prices (Level1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total Fair value
31 December 2020				
Financial assets held for trading	**267 016**	**388 311**	**-**	**655 327**
Securities held for trading	267 016	-	-	267 016
Bonds issued by public entities	*267 016*	*-*	*-*	*267 016*
Derivatives held for trading	-	388 311	-	388 311
Foreign exchange rate contracts	*-*	*57 273*	*-*	*57 273*
Interest rate contracts	*-*	*319 662*	*-*	*319 662*
Other	*-*	*11 376*	*-*	*11 376*
Financial assets mandatorily at fair value through profit or loss	**212 392**	**44 694**	**2 188 519**	**2 445 605**
Bonds issued by other entities	*82 203*	*50*	*564 829*	*647 082*
Shares	*130 189*	*-*	*273 563*	*403 752*
Other variable income securities	*-*	*44 644*	*1 350 127*	*1 394 771*
Financial assets at fair value through other comprehensive income	**7 770 720**	**7 131**	**35 733**	**7 813 584**
Bonds issued by public entities	*6 406 465*	*-*	*-*	*6 406 465*
Bonds issued by other entities	*1 352 759*	*-*	*-*	*1 352 759*
Shares	*11 496*	*7 131*	*35 733*	*54 360*
Others	*-*	*-*	*-*	*-*
Derivatives - Hedge accounting	**-**	**13 606**	**-**	**13 606**
Interest rate contracts	*-*	*13 606*	*-*	*13 606*
Assets at fair value	**8 250 128**	**453 742**	**2 224 252**	**10 928 122**
Financial liabilities held for trading	**-**	**552 185**	**2 158**	**554 343**
Derivatives held for trading	-	552 185	2 158	554 343
Foreign exchange rate contracts	*-*	*45 450*	*-*	*45 450*
Interest rate contracts	*-*	*501 419*	*2 158*	*503 577*
Credit default contracts	*-*	*16*	*-*	*16*
Other	*-*	*5 300*	*-*	*5 300*
Derivatives - Hedge accounting	**-**	**72 543**	**-**	**72 543**
Credit default contracts	*-*	*72 543*	*-*	*72 543*
Liabilities at fair value	**-**	**624 728**	**2 158**	**626 886**

The changes occurred in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the first semester of 2021 and the financial year of 2020, may be analyzed as follows:

(in thousands of Euros)

	30.06.2021						
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	**Total assets**	Financial liabilities held for trading	**Total liabilities**
	Derivatives held for trading	Economic hedging derivatives				Derivatives held for trading	
Balance as at 31 December 2020	**-**	**-**	**2 188 519**	**35 733**	**2 224 252**	**2 158**	**2 158**
Acquisitions	-	-	5 861	545	6 406	24 117	24 117
Maturity	-	-	(2 676)	-	(2 676)	-	-
Liquidation	-	-	(76 837)	(719)	(77 556)	(24 117)	(24 117)
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Changes in value	-	-	(5 266)	(70)	(5 336)	(30)	(30)
Balance as at 30 June 2021	**-**	**-**	**2 109 601**	**35 489**	**2 145 090**	**2 128**	**2 128**

(in thousands of Euros)

	31.12.2020						
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total assets	Financial liabilities held for trading	Total liabilities
	Derivatives held for trading	Economic hedging derivatives				Derivatives held for trading	
Balance as at 31 December 2019	**191**	**74 093**	**2 875 070**	**34 600**	**2 983 954**	**1 837**	**1 837**
Acquisitions	-	-	31 393	5 048	36 441	-	-
Maturity	-	-	(162 380)	-	(162 380)	-	-
Liquidation	-	(80 489)	(1 583)	(21 317)	(103 389)	-	-
Transfers in	-	-	-	9 738	9 738	-	-
Transfers out	-	-	(35 386)	(1 250)	(36 636)	-	-
Changes in value	(191)	6 396	(518 595)	8 914	(503 476)	321	321
Balance as at 31 December 2020	**-**	**-**	**2 188 519**	**35 733**	**2 224 252**	**2 158**	**2 158**

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated in the six-month periods ended 30 June 2021, 31 December 2020 and 30 June 2020 were as follows:

(in thousands of Euros)

	Six month period ending on								
	30.06.2021			31.12.2020			30.06.2020		
	Recognised in reserves	Recognised in income statement	Total	Recognised in reserves	Recognised in income statement	Total	Recognised in reserves	Recognised in income statement	Total
Derivatives held for trading	-	30	30	-	24 437	24 437	-	(832)	(832)
Derivatives - Hedge accounting	-	(24 117)	(24 117)	-	(79 911)	(79 911)	-	11 189	11 189
Financial assets mandatory at fair value through profit or loss	-	3 674	3 674	-	(132 441)	(132 441)	-	(381 745)	(381 745)
Financial assets at fair value through other comprehensive income	9 925	-	9 925	11 148	-	11 148	(1 516)	-	(1 516)
	9 925	**(20 413)**	**(10 488)**	**11 148**	**(187 915)**	**(176 767)**	**(1 516)**	**(371 388)**	**(372 904)**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	30.06.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**2109.6**		**(35.7)**		**68.2**
Bonds issued by other entities			496.7				
	Discounted cash flow model	*Specific impairment*	*2.4*	*-50%*	*(2.4)*	*+50%*	*10.8*
	Discounted cash flow model	*Discount rate*	*494.4*	*(-) 100 bps*	*(33.3)*	*(+) 100 bps*	*57.4*
Shares	*Valuation of the management company*	(b)	274.4		-		-
Other variable income securities			1338.4		-		-
	Valuation of the management company	*(b)*	*225.2*		-		-
	Valuation of the management company	*(c)*	*1113.2*		-		-
Financial assets at fair value through other comprehensive income			**35.5**		**(1.7)**		**0.1**
Shares			35.5		-		-
	Discounted cash flows	*Renewable Energy Rates*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*25.9*		-		-
Total			**2145.1**		**(37.4)**		**68.3**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the Funds' underlying assets, a variation of + 10% and -10% was considered on the fair value of the main real estate assets of each Fund, which leads to an impact of +6.15% and -5.8% on the fair value of the Restructuring Funds.

(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity.

(in millions of Euros)

Assets classified under level 3	31.12.2020						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**2188.5**		**(56.4)**		**68.9**
Bonds issued by other entities			564.8				
	Discounted cash flow model	*Specific impairment*	*77.9*	*-50%*	*(22.2)*	*+50%*	*12.2*
	Discounted cash flow model	*Discount rate*	*486.9*	*(-) 100 bps*	*(34.3)*	*(+) 100 bps*	*56.7*
Shares	*Valuation of the management company*	(b)	273.6		-		-
Other variable income securities			*1350.1*		-		-
	Valuation of the management company	*(b)*	*225.3*		-		-
	Valuation of the management company	*(c)*	*1124.9*				
Financial assets at fair value through other comprehensive income			**35.7**		**(1.7)**		**0.1**
Shares			35.7		-		-
	Discounted cash flow model	*Renewable Energy Rates*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*26.1*		-		-
Total			**2224.3**		**(58.2)**		**69.0**

(a)) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the Funds' underlying assets, a variation of + 10% and -10% was considered on the fair value of the main real estate assets of each Fund, which leads to an impact of +6.15% and -5.8% on the fair value of the Restructuring Funds.

(c) In the specific case of derivatives valued according to information provided by external entities, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity.

The main parameters used, at 30 June 2021 and 31 December 2020, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate *swap* quotations for the respective periods:

(%)

	30.06.2021			31.12.2020		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.5750	0.0865	0.1000	-0.5780	0.0776	0.1000
1 month	-0.5690	0.1005	0.0900	-0.5540	0.1439	0.900
3 months	-0.5420	0.1458	0.1450	-0.5450	0.2384	0.0900
6 months	-0.5150	0.1595	0.1950	-0.5260	0.2576	0.1450
9 months	-0.4990	0.2026	0.1950	-0.5125	0.2995	0.1950
1 year	-0.4830	0.2463	0.1445	-0.4990	0.3419	-0.0125
3 years	-0.3950	0.5500	0.5088	-0.5080	0.2370	0.0913
5 years	-0.2600	0.9350	0.7020	-0.4575	0.4275	0.1926
7 years	-0.1090	1.1815	0.8262	-0.3845	0.6478	0.2799
10 years	0.1000	1.4020	0.9618	-0.2650	0.9170	0.3966
15 years	0.3590	1.6020	1.0780	-0.0720	1.1835	0.5200
20 years	0.4740	1.6940	1.1114	0.0090	1.3033	0.5730
25 years	0.4940	1.7150	1.1099	0.0090	1.3680	0.5805
30 years	0	1.7296	1.0935	-0.0250	1.3998	0.5741

Credit Spreads

The credit *spreads* used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by *Markit*, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis point)

Index	Series	1 year	3 years	5 years	7 years	10 years
30 June 2021						
CDX USD Main	**36**	9.96	26.45	47.74	67.58	88.13
iTraxx Eur Main	**35**	0.00	26.86	46.80	65.12	86.16
iTraxx Eur Senior Financial	**35**	0.00	0.00	54.55	0.00	85.86
31 December 2020						
CDX USD Main	**35**	18.95	30.35	49.98	70.70	90.52
iTraxx Eur Main	**34**	0.00	27.66	47.95	66.24	86.37
iTraxx Eur Senior Financial	**34**	0.00	0.00	59.06	0.00	89.30

Interest rate volatility
The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	30.06.2021			31.12.2020		
	EUR	USD	GBP	EUR	USD	GBP
1 year	13.10	86.23	131.07	15.39	118.44	-
3 years	24.18	78.27	89.29	21.33	91.12	-
5 years	36.50	63.54	89.19	28.38	84.06	-
7 years	44.87	55.53	85.14	34.60	65.41	-
10 years	51.79	50.52	79.12	41.18	62.77	-
15 years	55.33	-	-	46.54	-	-

Foreign exchange rates and volatility
Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	30.06.2021	31.12.2020	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1884	1.2271	5.62	5.68	5.71	5.75	6.11
EUR/GBP	0.8581	0.8990	4.80	5.06	5.35	5.58	5.93
EUR/CHF	1.0980	1.0802	3.66	4.05	4.33	4.55	4.94
EUR/NOK	10.1717	10.4703	6.85	7.43	7.73	7.89	8.05
EUR/PLN	4.5201	4.5597	5.40	5.20	5.14	5.13	5.10
EUR/RUB	86.7725	91.4671	7.51	8.07	8.71	9.29	9.58
USD/BRL a)	4.9689	5.1940	15.97	15.68	15.83	15.90	15.97
USD/TRY b)	8.6848	7.4265	15.83	17.56	18.84	19.88	20.39

a) Calculated based on the EUR/USD and EUR/BRL rates

b) Calculated based on the EUR/USD and EUR/TRY rates

Regarding foreign exchange rates, the Bank uses in its valuation models the *spot* rate observed in the market at the moment of the valuation.

Equity indexes
The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implicit volatility
	30.06.2021	31.12.2020	Variation %	1 month	3 months	
DJ Euro Stoxx 50	4 064	3 553	14.40%	10.39	13.20	14.13
PSI 20	5 035	4 898	2.79%	11.95	14.79	-
IBEX 35	8 821	8 074	9.26%	12.18	14.20	-
FTSE 100	7 037	6 461	8.93%	9.36	12.21	13.20
DAX	15 531	13 719	13.21%	11.5	13.95	14.75
S&P 500	4 298	3 756	14.41%	8.40	13.60	11.16
BOVESPA	126 802	119 017	6.54%	11.78	18.31	20.27

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets/Liabilities at amortised cost	Fair value			
		Quoted market prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
30 June 2021					
Cash, cash balances at central Banks and other demand deposits	4 716 188	-	4 716 188	-	4 716 188
Financial assets at amortised cost					
Debt securities	3 006 172	958 624	350 407	1 923 798	3 232 829
Loans and advances to Banks	221 226	-	221 226	-	221 226
Loans and advances to customers	21 649 491	-	-	21 903 477	21 903 477
Financial assets	**29 593 077**	**958 624**	**5 287 821**	**23 827 275**	**30 073 720**
Financial liabilities measured at amortised cost					
Deposits from Banks	11 301 576	-	11 328 510	-	11 328 510
Due to customers	26 574 276	-	-	26 574 276	26 574 276
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	995 653	1 273 194	-	44 451	1 317 645
Other financial liabilities	438 677	-	-	438 677	438 677
Financial liabilities	**39 310 182**	**1 273 194**	**11 328 510**	**27 057 404**	**39 659 108**

(in thousands of Euros)

	Assets/Liabilities at amortised cost	Fair value			
		Quoted market prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Total fair value
31 December 2020					
Cash, cash balances at central Banks and other demand deposits	2 524 868	-	2 524 868	-	2 524 868
Financial assets at amortised cost					
Debt securities	2 873 753	839 673	378 588	1 887 104	3 105 365
Loans and advances to Banks	245 472	-	245 472	-	245 472
Loans and advances to customers	21 685 258	-	-	21 930 569	21 930 569
Financial assets	**27 329 351**	**839 673**	**3 148 928**	**23 817 673**	**27 806 274**
Financial liabilities measured at amortised cost					
Deposits from Banks	10 778 468	-	10 819 077	-	10 819 077
Due to customers	25 778 507	-	-	25 778 507	25 778 507
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	974 996	1 143 995	-	44 451	1 188 446
Other financial liabilities	364 013	-	-	364 013	364 013
Financial liabilities	**37 895 984**	**1 143 995**	**10 819 077**	**26 186 971**	**38 150 043**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers
The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions
The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt
The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities
These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 38 – RENDERING OF INSURANCE AND RE-INSURANCE BROKERING SERVICES

At 30 June 2021 and 31 December 2020, services provided with insurance and re-insurance brokerage have the following composition:

(in thousands of euros)

	30.06.2021	31.12.2020
Life Branch		
Unit Link and other life commissions	927	1 832
Credit protection insurance (life insurance)	387	655
Traditional products	7 224	15 176
	8 538	**17 663**
Non-life Branch		
Private Insurance	3 836	6 677
Insurance for companies	89	193
Credit protection insurance (non-life part)	583	905
	4 508	**7 775**
	13 046	**25 438**

Note: the yields shown are net of periodization

The Bank does not collect insurance premiums on behalf of the Insurance companies, nor does it undertake the movement of funds relating to insurance contracts. In this manner, there are no other assets, liabilities, income or expenses to report, relating to the insurance brokering activity carried out by the Bank, other than those already disclosed.

NOTE 39 – RELEVANT TRANSACTIONS OCCURRED IN THE FIRST HALF OF 2021 AND IN THE FINANCIAL YEAR OF 2020

First half of 2021

Sale of a non-performing loan portfolio (called Project Wilkinson)
On 5 March 2021, NOVO BANCO signed a purchase and sale agreement for a portfolio of non-performing loans and related assets (Project Wilkinson), with a net book value of Euro 62.3 million (gross value of Euro 210.4 million), with Burlington Loan Management, a company owned by affiliated companies and advised by Davidson Kempner European Partners, LLP. The impact of this operation on net income for the year 2021 resulted in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on Income Statement	30.06.2021
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	-1 363
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-3 175
Impact on Net Income	**-4 538**

Financial year 2020

Sale of a portfolio of non-performing loans (called the Carter Project)
On 23 December 2020, NOVO BANCO entered into a purchase and sale agreement for a portfolio of non-performing loans (non-performing loans) and related assets (together, the Carter Project), with a net book value of Euro 37.0 million (gross amount of Euro 82.8 million), to a company owned by affiliated companies and advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The impact of this operation on the net income for the year 2020 was reflected in a gain of Euro 2.3 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2020
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	3 310
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-983
Impact on Net Income	**2 327**

NOTE 40 – RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:
- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:
- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss based on insurance contract services provided over the coverage period;
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining coverage period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense;
- A loss-recovery component of the asset for the remaining coverage of a group of reinsurance contracts held is determined and recorded in profit or loss when an entity recognizes a recovery of a loss on initial recognition of an onerous group of underlying issued contracts as well as for subsequent measurement of the recovery of those losses;
- Entities should present separately in the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held;
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

In June 2020, the IASB issued amendments to IFRS 17. These amendments included changing the effective date to 2023.

In June 2021, the IASB tentatively decided to propose a narrow scope amendment to IFRS 17 to permit a classification overlay for financial assets in the comparative period if certain conditions are met. This was in response to concerns regarding accounting mismatches that could arise between financial assets and insurance contracts in comparative information when IFRS 17 and IFRS 9 are first applied.

The IASB will begin the balloting process to publish an Exposure Draft (ED) with an intention to publish it by the end of July 2021. Once the ED is published, there will be a 60-day comment period.

No material impacts are expected on the Group's financial statements.

Reform of interest rate reference indices - Phase 2 - changes to IFRS 9, IAS 39 and IFRS 7
On 27 August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform.

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred.

Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognized. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognized in profit or loss.

The practical expedient is also required for entities applying IFRS 4 that are using the exemption from IFRS 9 (and, therefore, apply IAS 39 Financial Instruments: Recognition and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships
The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 and IAS 39 to measure and recognize hedge ineffectiveness.

Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR. The cash flow hedge reserve is released to profit or loss in the same period or periods in which the hedged cash flows based on the RFR affect profit or loss.

For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero. This relief applies when the exception to the retrospective assessment ends.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, they will be transferred to sub-groups of instruments that reference RFRs as the hedged risk.

As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform. The phase two reliefs cease to apply once all changes have been made to financial instruments and hedging relationships, as required by IBOR reform.

Separately identifiable risk components
The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

Additional disclosures
IFRS 7 Financial Instruments: Disclosures includes the following:
• How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform;
• Disaggregated by each significant IBOR benchmark, quantitative information about financial instruments that have yet to transition to RFRs;
• If IBOR reform has given rise to changes in the entity’s risk management strategy, a description of these changes.

The amendments are mandatory for annual periods beginning on or after 1 January 2021, with earlier application permitted. Hedging relationships must be reinstated if the hedging relationship was discontinued solely due to changes required by IBOR reform and it would not have been discontinued if the phase two amendments had been applied at that time. While application is retrospective, an entity is not required to restate prior periods.

Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16
In March 2021, the IASB amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Lessees will apply the amendment retrospectively, recognizing the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which they first apply the amendment. In the reporting period in which a lessee first applies the 2021 amendment, the lessee will not be required to disclose the information required by paragraph 28(f) of IAS 8.
In accordance with paragraph 2 of IFRS 16, a lessee is required to apply the relief consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient before or after the amendment.

No material impacts are expected on the Group's financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards (March 2018).

No material impacts are expected on the Group's financial statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied prospectively.

No material impacts are expected on the Group's financial statements.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a ‘directly related cost approach’. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

No material impacts are expected on the Group's financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.

No material impacts are expected on the Group's financial statements.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:
- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

Right to defer settlement

The IASB decided that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the ‘classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period’. That is, management’s intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for
issuance.

Meaning of the term 'settlement'
The IASB added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The IASB concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception. In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion
option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

In June 2021, the IASB tentatively decided to propose several amendments to the clarifications made in January 2020. In particular, the IASB decided to propose that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current. Additional presentation and disclosure requirements would be applicable in such circumstances.

Furthermore, the IASB tentatively decided to defer the effective date to 1 January 2024 (from 1 January 2023).

No material impacts are expected on the Group's financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by:
• Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
• Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Replacement of the term 'significant' with 'material'
In the absence of a definition of the term 'significant' in IFRS, the IASB decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the IASB.

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them.

Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

Disclosure of standardised information
Although standardised information is less useful to users than entity-specific accounting policy information, the IASB agreed that, in some circumstances, standardised accounting policy information may be needed for users to understand other material information in the financial statements. In those situations, standardised accounting policy information is material, and should be disclosed.

The amendments to the PS also provide examples of situations when generic or standardised information summarizing or duplicating the requirements of IFRS may be considered material accounting policy information.

The amendments are effective for annual periods beginning on or after 1 January 2023 and earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed.

Since the amendments to the PS provide non-mandatory guidance on the application of the definition of material to accounting policy information, the IASB concluded that transition requirements and an effective date for these amendments were not necessary.

No material impacts are expected on the Group's financial statements.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'.

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the IASB.

The amendments apply to changes in accounting policies and changes in accounting estimates that occur on annual periods beginning on or after 1 January 2023. Earlier application is permitted.

No material impacts are expected on the Group's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

Determining the tax base of assets and liabilities
The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Changes to the initial recognition exception
Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the IASB expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognize a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are effective for annual periods beginning on or after 1 January 2023.

No material impacts are expected on the Group's financial statements.

Improvement to IFRS - 2018-2020 cycle (issued in May 2020)

IFRS 1 - First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

No material impacts are expected on the Group's financial statements.

IFRS 9 - Financial Instruments - Fees in the ’10 per cent’ test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

No material impacts are expected on the Group's financial statements.

IFRS 16 - Leases
The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

No material impacts are expected on the Group's financial statements.

IAS 41 - Agriculture
The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

No material impacts are expected on the Group's financial statements.

NOTE 41 – SUBSEQUENT EVENTS

- On July 9, NOVO BANCO announced a voluntary repurchase offer of “Tender Offer and Solicitation Memorandum” issued by NOVO BANCO, S.A. Luxembourg and NB Finance. The early participation term has expired on the 28th of July. In this offer, zero coupon bonds were accepted, corresponding to a repurchase value of Euro 161 million, equivalent to a book value of Euro 88 million. More information is available at: www.bourse.lu/notices;

- On July 13, NOVO BANCO issued a senior preferred debt in the amount of Euro 300 million, with a maturity of 3 years and an option for early repayment by the Bank at the end of 2 years. The bonds have an issue price of 100% and an annual interest rate of 3.5% in the first 2 years, and 3-month Euribor plus margin in the following year. The issue was placed exclusively with institutional investors and settlement took place on July 23, 2021. This inaugural senior issue is part of the financing plan defined to meet the Minimum Requirements for own funds and Eligible Liabilities (“MREL”) and will improve NOVO BANCO's financing profile.

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(Translation from the original document in the Portuguese language.
In case of doubt, the Portuguese version prevails)

Report on Limited Review of Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements of Novo Banco, S.A. ("The Group"), which comprise the interim condensed consolidated balance sheet as at June 30, 2021 (which shows a total of 45,887,106 thousand euros and total equity of 3,238,805 thousand euros, including a net profit attributable to the shareholders of the Bank of 137,707 thousand euros), the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed statement of changes in consolidated equity and the interim condensed consolidated cash flow statement for the three-month period then ended, and accompanying notes thereto, including a summary of significant accounting policies.

Responsibilities of management

Management is responsible for the preparation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes, and designing and maintaining an appropriate internal control system to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objective is to express a conclusion on these interim condensed consolidated financial statements. We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and further technical and ethical guidelines from *Ordem dos Revisores Oficiais* de Contas (the Portuguese Institute of Statutory Auditors). These Standards require that our work be conducted for the purpose of expressing a conclusion whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Novo Banco, S.A., as at June 30, 2021 have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

Sociedade Anónima - Capital Social 1.335.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 20161480 na Comissão do Mercado de Valores Mobiliários
Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited

Emphasis of matter

On April 7, 2021, having complied with all contractual provisions, Novo Banco, S.A. requested from the Resolution Fund the amount of 598,312 thousand euros related to the Contingent Capital Agreement ("CCA") for the year 2020, having received until June 30, 2021 the amount of 317,013 thousand euros and derecognized 3,857 thousand euros. The amount of 277,442 thousand euros recorded in Other Assets corresponds to the difference, which the Bank continues to consider due as it complies with the provisions of the agreement signed between the Bank and the Resolution Fund on October 18, 2017, results from a divergence of interpretation with the Resolution Fund regarding events that gave rise to losses in 2020, such as (i) the provision for discontinued operations in Spain, (ii) participation units valuation and (iii) interest rate risk hedging policies. As it did not immediately received the referred amount of 277,442 thousand euros, the Bank deducted this amount from the regulatory capital calculation on June 30, 2021, and the legal and contractual mechanisms at its disposal are in effect in order to ensure its receipt, as per note 35. Our opinion is not modified in relation to this matter.

Lisbon, 25th August 2021

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás – ROC nº 1661
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Report on Limited Review of Interim Condensed Separate Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed separate financial statements of Novo Banco, S.A. ("The Bank"), which comprise the interim condensed separate balance sheet as at June 30, 2021 (which shows a total of 45,557,892 thousand euros and total shareholder equity of 2,859,030 thousand euros, including a net profit attributable to shareholder of 148,536 thousand euros), the interim condensed separate income statement, the interim condensed separate statement of comprehensive income, the interim condensed separate statement of changes in equity and the interim condensed separate statement of cash flows for the three-month period then ended, and accompanying notes thereto, including a summary of significant accounting policies.

Responsibilities of management

Management is responsible for the preparation of these interim condensed separate financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes, and designing and maintaining an appropriate internal control system to enable the preparation of interim condensed separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objective is to express a conclusion on these interim condensed separate financial statements. We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and further technical and ethical guidelines from *Ordem dos Revisores Oficiais de Contas* (the Portuguese Institute of Statutory Auditors). These Standards require that our work be conducted for the purpose of expressing a conclusion whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed separate financial statements of Novo Banco, S.A., as at June 30, 2021 have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

Emphasis of matter

On April 7, 2021, having complied with all contractual provisions, Novo Banco, S.A. requested from the Resolution Fund the amount of 598,312 thousand euros related to the Contingent Capital Agreement ("CCA") for the year 2020, having received until June 30, 2021 the amount of 317,013 thousand euros and derecognized 3,857 thousand euros. The amount of 277,442 thousand euros recorded in Other Assets corresponds to the difference, which the Bank continues to consider due as it complies with the provisions of the agreement signed between the Bank and the Resolution Fund on October 18, 2017, results from a divergence of interpretation with the Resolution Fund regarding events that gave rise to losses in 2020, such as (i) the provision for discontinued operations in Spain, (ii) participation units valuation and (iii) interest rate risk hedging policies. As it did not immediately received the referred amount of 277,442 thousand euros, the Bank deducted this amount from the regulatory capital calculation on June 30, 2021, and the legal and contractual mechanisms at its disposal are in effect in order to ensure its receipt, as per note 33. Our opinion is not modified in relation to this matter.

Lisbon, 25th August 2021

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
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(Signed)

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