IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following before continuing. The following applies to the following Prospectus (the "**Prospectus**"). You must read this disclaimer carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THE FOREGOING MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY NOTES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUCH NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes described therein (the "**Notes**"), you must not (i) be in the United States or (ii) be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing the Prospectus, you shall represent to Novo Banco, S.A. (the "**Issuer**") and to Credit Suisse Securities Sociedad de Valores S.A., Deutsche Bank Aktiengesellschaft, J.P. Morgan AG and Nomura Financial Products Europe GmbH (together, the "**Joint Lead Managers**") that:

(i) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Notes, you will be doing so pursuant to Regulation S under the Securities Act;

(ii) the electronic mail address to which the Prospectus has been delivered is not located in the United States of America, its territories and its possessions;

(iii) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the "**Order**") or a certified high net worth individual within Article 48 of the Order; and

(iv) you consent to delivery of the Prospectus and any amendments or supplements thereto by electronic transmission.

The Prospectus has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Lead Managers or their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus, electronically or otherwise, to any other person. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Recipients of the Prospectus who intend to subscribe for or purchase any Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus in final form.

NOVO BANCO, S.A.

(*incorporated with limited liability in Portugal*)

€300,000,000 3.500 per cent. Fixed/Floating Rate Callable Senior Preferred Notes due 2024

Issue price: 100 per cent.

The €300,000,000 3.500 per cent. Fixed/Floating Rate Callable Senior Preferred Notes due 2024 (the "**Notes**") will be issued by Novo Banco, S.A. (the "**Issuer**" or the "**Bank**") on or about 23 July 2021 (the "**Issue Date**"). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 23 July 2023 (the "**Call Date**"), at a rate of 3.500 per cent. per annum and thereafter at the Floating Interest Rate as provided in Condition 4(d) (*Floating Interest Rate*). Interest will be payable on the Notes annually in arrear on each Interest Payment Date during the Initial Fixed Rate Interest Period and thereafter interest shall be payable on the Notes quarterly in arrear as provided in Condition 4 (*Interest Payments*).

Unless previously redeemed or purchased and cancelled, the Notes will mature on the Interest Payment Date falling on, or nearest to, 23 July 2024. Holders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion, elect to (a) redeem all (but not some only) of the Notes at their principal amount, together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to (but excluding) the redemption date, on the Call Date or at any time if a Tax Event has occurred and is continuing or a Loss Absorption Disqualification Event (each as defined in Condition 16 (*Definitions*)) has occurred and is continuing or (b) repurchase the Notes at any time, subject in each case to compliance with the conditions described in Condition 5(b) (*Conditions to Redemption, Substitution or Variation, and Purchase*).

The Notes will be direct, unsecured, unsubordinated and unguaranteed obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and shall, in the event of the Winding-Up of the Issuer, rank *pari passu* with any other Senior Higher Priority Liabilities and senior to (i) Senior Non Preferred Liabilities and (ii) all present and future subordinated obligations and all classes of share capital of the Issuer.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to its official list (the "**Official List**") and trading on the Regulated Market of Euronext Dublin (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that the Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**").

The Notes will be issued in dematerialised book-entry form (*forma escritural*) and will be in registered (*nominativas*) form, in denominations of €100,000, and will be integrated in and held through Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"), as the entity responsible for the management and operation of the Central de Valores Mobiliários, a Portuguese Securities Centralised System managed and operated by Interbolsa (the "**CVM**"). The CVM currently has links in place with Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**, **Luxembourg**") through securities accounts held by Euroclear and Clearstream, Luxembourg with Affiliate Members (as described herein) of Interbolsa.

The Notes are expected to be rated Caa2 by Moody's Investors Service España, S.A. ("**Moody's**") and B (high) by DBRS Ratings GmbH ("**DBRS**") upon issue. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Moody's and DBRS are established in the European Union (the "**EU**") and registered in accordance with Regulation (EC) No 1060/2009, as amended (the "**EU CRA Regulation**"), and each appears on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority ("**ESMA**") website at https://www.esma.europa.eu/supervision/credit-rating-agencies/risk.

This Prospectus will be valid for a year from 20 July 2021. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when this Prospectus is no longer valid. For this purpose, "valid" means valid for making offers to the public or admissions to trading on a regulated market by or with the consent of the Issuer and the obligation to supplement this Prospectus is only required within its period of validity between the time when this Prospectus is approved and the closing of the offer period for the Notes or the time when trading on a regulated market begins, whichever occurs later.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*".

Joint Lead Managers

Credit Suisse	**Deutsche Bank**
J.P. Morgan	**Nomura**

Prospectus dated 20 July 2021

IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purpose of the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect the import of such information.

Certain information in this Prospectus has been extracted or derived from independent sources. Where this is the case, the source has been identified. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

This Prospectus is to be read in conjunction with all documents which are incorporated by reference herein (see "*Documents Incorporated by Reference*")

The Joint Lead Managers (as defined in "*Subscription and Sale*") have not verified the information contained in this Prospectus. The Joint Lead Managers do not make any representation, express or implied, or accept any responsibility, with respect to the accuracy or completeness of any of the information contained (or incorporated by reference) in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. The Joint Lead Managers do not accept any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer or the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase the Notes. Each potential purchaser should make its own independent investigation of the financial condition and affairs of and its own approval of the creditworthiness of the Issuer. Each potential purchaser of Notes should determine for itself the relevance of information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. The Joint Lead Managers do not undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus or to advise any investor or potential investor in the Notes of any information coming to their attention.

In the ordinary course of business, the Joint Lead Managers have engaged and may in the future engage in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither the delivery of this Prospectus nor the offering, placing, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

OFFER RESTRICTIONS

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are not being offered or sold except to non-U.S. Persons in offshore transactions in reliance on Regulation S thereunder. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's (if any) product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in the Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturer's (if any) target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's (if any) target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the

"**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs Regulation / Prohibition of sales to UK retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer does not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and it does not assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the EEA, Italy, the UK and Singapore.

Singapore SFA Product Classification – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to investors in Canada – The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, J.P. MORGAN AG AS STABILISATION MANAGER (THE "STABILISATION MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

GENERAL

Amounts payable under the Notes may be calculated by reference to the euro interbank offered rate ("**EURIBOR**"), which is provided by the European Money Markets Institute ("**EMMI**"). As at the date of this Prospectus, EMMI appears on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of Regulation (EU) 2016/1011.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Issuer's strategy, market position, plans or future financial or operating performance, constitutes "forward-looking statements". All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, those described in "*Risk Factors*".

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Prospectus speak only as at the date of this Prospectus, reflect the current view of the executive board of directors of the Issuer (the "**Board**") with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Issuer's operations, results of operations, strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to the information set out in "*Risk Factors*" and "*Description of the Issuer and of the Group*".

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical Financial Information

The historical financial information incorporated by reference in this Prospectus has been prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). The historical financial information presented in this Prospectus consists of audited consolidated financial information of the Issuer for the financial periods ended 31 December 2019 and 31 December 2020.

Alternative Performance Measures

To supplement the Group's consolidated financial statements presented in accordance with IFRS, the Group uses certain ratios and measures which are included in this Prospectus that might be considered to be "alternative performance measures" (each an "**APM**") as described in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework".

The Group believes that the inclusion of APMs, when considered in conjunction with measures reported under IFRS, is useful to investors because it provides a basis for measuring the Group's performance in the periods presented and enhances investors' overall understanding of the Group's financial performance. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS.

For further information on the APMs used by the Group, including their definition and purpose, basis of calculation and reconciliation to the Group's financial statements, see pages 102 to 105 of the Group's 2020 Annual Report.

Currency Presentation

Unless otherwise indicated, all references in this Prospectus to "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. The Issuer prepares its financial statements in euro.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in euro.

Roundings

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

Definitions

The Issuer and its subsidiaries are together referred to in this Prospectus as the "**Group**".

DOCUMENTS INCORPORATED BY REFERENCE

The following information which has previously been published and has been submitted to and filed with the Central Bank shall be incorporated in, and form part of, this Prospectus:

(1) the audited annual consolidated financial statements of the Group and related audit report for the financial year ended 31 December 2020, which can be found on pages 200 – 364 and 500 – 509 of the Group's 2020 Annual Report (which can be viewed online at https://www.novobanco.pt/site/images/inst/relatorios/NB_Annual_Report_2020.pdf);

(2) the audited annual consolidated financial statements of the Group and related audit report for the financial year ended 31 December 2019, which can be found on pages 108 – 262 and 395 – 403 of the Group's 2019 Annual Report (which can be viewed online at https://www.novobanco.pt/site/images/inst/resultados/Annual_Report_Accounts_2019_ENG.pdf);

(3) the unaudited consolidated financial information of the Group for the three months ended 31 March 2021 (the "**Q1 Results**") (which can be viewed online at https://www.novobanco.pt/images/inst/resultados/2021/NB_1Q2021_Results_EN.pdf); and

(4) information on APMs contained on pages 102 to 105 of the Group's 2020 Annual Report (which can be viewed online at https://www.novobanco.pt/site/images/inst/relatorios/NB_Annual_Report_2020.pdf).

Copies of documents incorporated by reference in this Prospectus can be obtained, upon request and free of charge, from the registered office of the Issuer. Other than the documents referred to above, none of the contents of the Issuer's website, any websites referred to in this Prospectus nor any website directly or indirectly linked to these websites form part of this Prospectus.

Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

*The following overview provides an overview of certain of the principal features of the Notes and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in "Terms and Conditions of the Notes" have the same respective meanings when used in this overview. References to numbered Conditions are to the terms and conditions of the Notes (the "**Conditions**") as set out under "Terms and Conditions of the Notes".*

Issuer	Novo Banco, S.A.
Legal Entity Identifier	5493009W2E2YDCXY6S81
Paying Agent	Novo Banco, S.A.
Agent Bank	Novo Banco, S.A.
Notes	€300,000,000 3.500 per cent. Fixed/Floating Rate Callable Senior Preferred Notes due 2024.
Risk factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Instrument. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. See "*Risk Factors*".
Status of the Notes	The Notes constitute direct, unsecured, unsubordinated and unguaranteed obligations of the Issuer and rank *pari passu* and without any preference among themselves.
Rights on a Winding-Up	The rights and claims of Holders in the event of a Winding-Up of the Issuer in respect of, or arising under, the Notes shall rank *pari passu* among themselves and with any other Senior Higher Priority Liabilities and senior to (i) Senior Non Preferred Liabilities and (ii) all present and future subordinated obligations and all classes of share capital of the Issuer.
Interest	The Notes will bear interest on their principal amount: (a) from (and including) the Issue Date to (but excluding) the Call Date, at the rate of 3.500 per cent. per annum; and (b) thereafter, at the Floating Interest Rate (as described in Condition 4(d) (*Floating Interest Rate*)), payable annually in arrear on each Interest Payment Date during the Initial Fixed Rate Interest Period and thereafter interest shall be payable quarterly in arrear on each Interest Payment Date.
Maturity	Unless previously redeemed or purchased and cancelled, the Notes will mature on the Interest Payment Date falling on, or nearest to, 23 July 2024.
Optional redemption	The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below, redeem all (but not some

	only) of the Notes on the Call Date at their principal amount together with any interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date.
Redemption following a Loss Absorption Disqualification Event or a Tax Event	The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below, redeem all (but not some only) of the Notes at any time following the occurrence of a Loss Absorption Disqualification Event or a Tax Event, in each case which has occurred and is continuing, and in each case, at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date.
Substitution or Variation of the Notes	If a Tax Event or a Loss Absorption Disqualification Event has occurred and is continuing or in order to ensure the effectiveness and enforceability of Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*), the Issuer may, subject to the conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below and upon notice to Holders (but without any consent of Holders), at any time elect to substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Loss Absorption Compliant Notes.
Purchase of the Notes	The Issuer may, at its option but subject to the conditions set out under "*Conditions to redemption, substitution or variation, and purchase*" below, purchase (or otherwise acquire) any of the outstanding Notes at any price in the open market or otherwise in accordance with the then prevailing Loss Absorption Regulations. All Notes purchased by or on behalf of the Issuer may be held, reissued, resold or, at the option of the Issuer, cancelled in accordance with the applicable regulations of Interbolsa.
Conditions to redemption, substitution or variation, and purchase	Any redemption or purchase of the Notes prior to their maturity or any substitution or variation of the Notes will be subject to: (i) the Issuer obtaining prior Regulatory Permission and (ii) in the case of any substitution or variation, such substitution or variation being permitted by, and conducted in accordance with, any other applicable requirement of the Relevant Regulator or under the Loss Absorption Regulations at such time.
Withholding tax and Additional Amounts	All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any

	other amount) the Issuer will (subject to certain customary exceptions as described in the Terms and Conditions) pay such Additional Amounts as may be necessary in order that the net amounts received by the Holders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. In no event will the Issuer be required to pay any Additional Amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986 and any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.
Default	If the Issuer has not made payment of any amount in respect of the Notes for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and, unless proceedings for a Winding-Up have already commenced, a Holder may institute proceedings for a winding-up. Holders may prove and/or claim in any Winding-Up of the Issuer and shall have such claim as is set out in Condition 3(a) (*Winding-Up*). If a Winding-Up occurs, then any Holder may give notice to the Issuer and to the Paying Agent at their respective registered offices, effective upon the date of receipt thereof by the Issuer, that the Notes held by such Holder(s) are, and they shall accordingly thereby forthwith become, immediately due and repayable together with accrued interest and any Additional Amounts thereon. See Condition 7(a) (*Default*) for further information.
Enforcement	Without prejudice and subject to Condition 7(a) (*Default*), a Holder may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Instrument, the Agency Terms or the Notes (other than any payment obligation of the Issuer under or arising from the Instrument, the Agency Terms or the Notes, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Conditions, the Instrument and the Agency Terms. See Condition 7(b) (*Enforcement*) for further information.

Modification	The Instrument will contain provisions for convening meetings of Holders to consider any matter affecting their interests, pursuant to which defined majorities of the Holders may consent to the modification or abrogation of any of the Conditions, and any such modification or abrogation shall be binding on all Holders. See Condition 10 (*Meetings of Holders, Modification and Waiver*) for further information.
Acknowledgement of Statutory Loss Absorption Powers	Each Holder acknowledges and accepts that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority. See Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*).
Form	The Notes will be issued in denominations of €100,000 and will be issued in dematerialised book-entry (*forma escritural*) and will be in registered (*nominativas*) form. The Notes will be registered with the CVM, a Portuguese Securities Centralised System managed and operated by Interbolsa.
Denomination	€100,000.
Clearing	The Notes will be cleared and settled through Interbolsa (and indirectly through Euroclear and Clearstream, Luxembourg). For a summary description of rules applicable to Notes, see section "*Form of the Notes*".
Rating	The Notes are expected to be rated Caa2 on issue by Moody's Investors Service España, S.A. and B (high) by DBRS Ratings GmbH. A security rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agencies. Any adverse change in an applicable credit rating could adversely affect the trading price of the Notes. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Prospectus, and other factors that may affect the value of the Notes.
Listing	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Market with effect from the Issue Date.
Governing law	The Notes and the Instrument and any non-contractual obligations arising out of or in connection with the Notes or the Instrument will be governed by, and construed in accordance with, English law, save that the provisions of (i) Condition 1 (*Form, Denomination, Title and Transfer*) relating to the form (*representação formal*) and transfer of the Notes, the creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes; (ii) Condition 3 (*Ranking*) relating to the ranking of the Notes and set-off and (iii) Condition 14(d) (*Acknowledgement of Statutory Loss*

	Absorption Powers) are governed by, and shall be construed in accordance with, the laws of Portugal. The Agency Terms and any non-contractual obligations arising out of or in connection therewith, will be governed by, and construed in accordance with, the laws of Portugal. **The Conditions allow the Issuer, in certain circumstances, to vary the terms of, or substitute, the Notes. See "*Risk Factors—Risks relating to the Notes—The terms of the Notes may be modified, or the Notes may be substituted, by the Issuer without the consent of the Holders in certain circumstances*".**
ISIN	PTNOBIOM0014
Common Code	236681688

RISK FACTORS

Any investment in the Notes is subject to a number of risks, most of which are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Prior to investing in the Notes, prospective investors should carefully consider the risk factors associated with any investment in the Notes, the Issuer and the financial services industry in Portugal in general, together with all the other information contained, and incorporated, in this document. This section describes the risk factors which are considered by the Issuer to be material to the Issuer and an investment in the Notes. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks and uncertainties which are currently not known to the Issuer or which it currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties, occur this could have a material adverse effect on the Issuer's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the Notes to decline and, as a result, an investor in the Notes could lose some or all of its investment. In addition, many of these factors are correlated and may require changes to the Issuer's capital requirements, and events described therein could therefore have a compounding adverse effect on the Issuer.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

Prospective investors should also read the detailed information set out, and incorporated, elsewhere in this Prospectus and reach their own views prior to making any investment decision.

1. RISKS RELATING TO THE ISSUER

A. <u>Risks relating to the economic and financial environment</u>

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

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

The impact of Covid-19 on global markets has been wide-ranging, with increasing short-term volatility and a contraction in activity in the main economies worldwide. The pandemic has led various countries, including Portugal, to declare a state of emergency and to adopt different restrictive measures (including constitutional exception measures), such as the imposition of travel restrictions, the establishment of quarantines and the temporary shutdown of various institutions and businesses. Although the full implications of the Covid-19 outbreak cannot be entirely determined yet, the pandemic has had a material adverse impact on the Portuguese economy and on the Portuguese market, as well as on the markets of other jurisdictions where the Group operates.

Portugal's gross domestic product ("**GDP**") fell 7.6 per cent. in 2020 (*Source: INE, Quarterly National Accounts, May 2021*). The gradual lifting of containment measures as a result of progression made in the rolling out of vaccination programmes and other relative pandemic controls is likely to result in the recovery of economic activity during 2021 and onwards. The Bank of Portugal foresees GDP growth of approximately 4.8 per cent. in 2021 and 5.6 per cent. in 2022 (*Source: Bank of Portugal, Economic Bulletin, June 2021*).

Progress in the rolling out of vaccination programmes, aggressive fiscal and monetary policy stimuli and the gradual lifting of restrictions on economic activity is also expected to support growth in other economies. The International Monetary Fund (the "**IMF**") expects the global economy to grow by 6 per cent. in 2021 and 4.4 per cent. in 2022, after a 3.3 per cent. contraction in 2020. For the Euro Area, the IMF foresees GDP growth of approximately 4.4 per cent. in 2021 and 3.8 per cent. in 2022 (*Source: IMF, World Economic Outlook March 2021*). However, this scenario is still uncertain and there is a possibility that mutations and new variants of SARS-Cov-2 might be resistant to current vaccines and lead to increases in new cases and delays in the reopening of the main economies worldwide. Additionally, the deterioration of the Portuguese economy's productive capacity could be more permanent, particularly in sectors associated with tourism and hospitality, which have been more adversely affected by the pandemic and related lockdown measures.

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

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

On 2 April 2020, the European Banking Authority ("**EBA**") issued guidelines (EBA/GL/2020/02) on public and private payment moratoria on loan repayments applied before 30 June 2020, aiming to clarify the following points in the context of the Covid-19 pandemic: (i) the criteria that payment moratoria have to fulfil not to trigger forbearance classification, (ii) the application of the prudential requirements in the context of these moratoria and (iii) ensuring the consistent treatment of such measures in the calculation of own funds requirements. In this context, these guidelines clarify that payment moratoria do not trigger classification as forbearance or distressed restructuring if the measures taken are based on the applicable national law or on an industry or sector-wide private initiative agreed and applied broadly by the relevant credit institutions. In addition, the guidelines recall that institutions must continue to adequately identify those situations where borrowers may face longer-term financial difficulties and classify exposures in accordance with the existing regulation. The requirements for identification of forborne exposures and defaulted obligors remain in place. The application of the guidelines was since extended to 30 September 2020 and, on 21 September 2020, the EBA announced it would phase out its applicability in accordance with the end of September deadline. On 2 December 2020, the EBA announced that it was re-activating its guidelines on moratoria by introducing a new deadline for the application of moratoria of 31 March 2021. The regulatory treatment set out in the guidelines will continue to apply to all payment holidays granted under eligible payment moratoria prior to 1 April 2021, thus avoiding cliff effect risks of having to reclassify existing loans abruptly at a later stage. The Issuer may support its customers with extended payment moratoria or granting other remedial conditions after 31 March 2021, but such loans should be classified on a case-by-case basis according to the usual prudential framework.

Following the issue by the EBA, on 2 April 2020, of guidelines on public and private moratoria on loan operations in the light of the Covid-19 pandemic (EBA/GL/2020/02), on 16 April 2020, the members of the Portuguese Banking Association (*Associação Portuguesa de Bancos*) (including the Issuer) signed a protocol setting the basis for two types of private moratoria, both of which are for individuals who may be residents or non-residents in Portugal. One covers non-mortgage loans (i.e. personal or car loans) and the other mortgage loans. The deadline for the latter has expired on 31 March 2021, whereas the non-mortgage loan moratorium has a maximum extension period of 12 months as of the date of adherence, but in no event after 30 June 2021.

Measures implemented by the Portuguese Government in the context of the Covid-19 pandemic may adversely affect the Group's activity. Amongst the measures already adopted by the Portuguese Government which can have an impact on the Issuer is a moratorium on loan payments (capital and/or interest). See "*—Relief measures regarding asset quality deterioration and non-performing loans*" below for further information.

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

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

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

Temporary framework relating to Covid-19 in Portugal

Changes in Portuguese legislation regarding banking commissions

Decree-Law No. 10-H/2020, of 26 March 2020, established exceptional and temporary measures, in place until 30 June 2020, to promote the acceptance of card-based payments in the context of the Covid-19 pandemic. It established: (i) the suspension of the collection of the fixed component of any commission for card payment transactions at automatic payment terminals; (ii) the prohibition of payment service providers from making increases in the variable components of fees per transaction, as well as other fixed fees which are due for the use of automatic payment terminals in card payment transactions; and (iii) the prohibition of payment service providers from including in their pricing the possibility to charge new fixed or variable fees relating to the acceptance of card payment transactions made at automatic payment terminals. Law No. 7/2020, of 10 April 2020, as amended, established exceptional and temporary measures in the context of the Covid-19 pandemic, including the suspension, under certain circumstances, of the commission charged in payments made through digital platforms until 30 June 2021.

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

Further limitations or reductions of commissions charged by banks in Portugal may adversely affect the business and performance of the Issuer.

Relief measures regarding asset quality deterioration and non-performing loans

In March 2020, in the context of the Covid-19 pandemic, the Bank of Portugal relaxed some of the macroprudential measures for consumer credit. the Bank of Portugal decided that personal credit with maturities of up to two years and duly identified as intended to mitigate households' temporary liquidity shortage situations would no longer have to comply with a debt service-to-income ratio limit and would also be exempted from observing the recommendation of regular principal and interest payments. This measure applied to new personal credit granted from 1 April 2020 until September 2020.

Amongst the Covid-19 measures already adopted by the Portuguese Government which can have an impact on the Issuer is a moratorium on loan payments (capital and/or interest), implemented by Decree-Law No. 10-J/2020, of 26 March (last amended by Decree-Law No. 22-C/2021, of 22 March), initially set up until 30 September 2020 and which has since been extended, first until 31 March 2021, and secondly until 30 September 2021. However, as of 1 April 2021, except for mortgage loans, consumer credit and for beneficiaries operating in sectors which were particularly affected by the Covid-19 pandemic, this only applies to suspension of capital payments. Those entities from sectors that were more heavily affected by the Covid-19 pandemic, which are identified in Decree-Law No. 10-J/2020, of 26 March, may benefit from an extension of the maturity of their loans until 30 September 2022.

Interested entities were able to request access to the moratorium until 30 September 2020 (following the approval of Decree-Law 26/2020, of 16 June and Law 27-A/2020 of 27 July) and again between 1 January 2021 and 31 March 2021 (following the approval of Decree-Law No. 107/2020, of 31 December), with the entities adhering in the latter period benefiting from a maximum moratorium period of 9 months as of their adherence, even if such period extends beyond 30 September 2021. The moratorium has been made available for individuals (in particular, borrowers and entrepreneurs (*empresários em nome individual*)) and companies (except for companies in the financial sector, besides certain third sector entities who can also adhere), depending on the fulfilment of certain conditions. The moratorium does not provide for a cancellation or a pardon of any amounts in the affected loans. Decree-Law No. 10-J/2020, of 26 March, as amended, also foresees the granting of guarantees by the Portuguese State, including to non-financial corporate entities, subject to certain conditions.

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

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

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

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

Moratoria on loan repayments

Decree-Law No. 10-J/2020, of 26 March 2020, as amended, establishes extraordinary measures for debt protection in the context of the Covid-19 pandemic, to which a range of borrowers may adhere. Moratoria measures include: (i) prohibition of revocation of contracted credit lines and granted loans; (ii) extension of contracts with capital payment at the end of the contract; (iii) suspension of payments in respect of claims which are to be repaid in instalments or in respect of other instalments (and adjustment of the instalments calendar accordingly); and (iv) suspension of interest due during the extension period which will be capitalised into the value of the loan. Following the approval of Decree-Law No. 78-A/2020, of 29 September, the moratorium will remain in force until 30 September 2021. However, as of 1 April 2021, except for mortgage loans, consumer credit and for beneficiaries operating in sectors which were particularly affected by the Covid-19 pandemic, this only applies to suspension of capital payments which would otherwise become due. Those entities from sectors that were more heavily affected by the Covid-19 pandemic, which are identified in Decree-Law No. 10-J/2020, of 26 March, may benefit from an extension of the maturity of their loans until 30 September 2022.

Interested entities were able to request access to the moratorium until 30 September 2020 (following the approval of Decree-Law 26/2020, of 16 June and Law 27-A/2020 of 27 July) and again between 1 January 2021 and 31 March 2021 (following the approval of Decree-Law No. 107/2020, of 31 December), with the entities adhering in the latter period benefiting from a maximum moratorium period of 9 months as of their adherence, even if that such period extends beyond 30 September 2021.

The Portuguese Parliament has, on 18 June 2021, voted favourably on a legislative proposal for the extension of the moratorium for mortgage loans, consumer credit and for beneficiaries operating in sectors which were particularly affected by the Covid-19 pandemic, for those cases where beneficiaries were already covered by the moratorium on 1 October 2020, until 31 December 2021, beyond the 30 September 2021 deadline resulting from Decree-Law No. 78-A/2020, of 29 September. This initiative is still waiting for a final decree to be sent for promulgation by the President of the Republic of Portugal, following which it shall be published in the official journal (*Diário da República*), the current drafting foreseeing that the entry into force shall take place the day after such publication. The execution of this framework, however, according to the approved proposal, shall be subject to the re-activation of the regulatory and supervisory framework established by the EBA guidelines of 2 April 2020 on payment moratoria, EBA/GL/2020/02, the Portuguese Government being responsible to implement any measures required to adapt the national legislative framework with further EBA guidelines and their prudential treatment of the moratoria. However, following the approval of the aforementioned decree, the EBA has delivered its opinion, dated 24 June 2021, to the Portuguese Parliament, on whether it would support such envisaged extension of loan moratoria, and it refused backing up any such extension on the grounds that its risks would outweigh any potential benefits for corporates and families. The effectiveness of the aforementioned decree, even if it is promulgated by the President of the Portuguese Republic and published in the official journal (*Diário da República*), is thus largely hindered, considering the drafting which was finally approved by the Portuguese Parliament.

Regarding loan moratoria, by the end of December 2020, the Issuer had approved operations amounting to approximately €6.9 billion. About 66 per cent. of the amount were from companies, 29 per cent. related to residential mortgage loans moratorium and the remaining related to consumer loans and other. See also above "*—Relief measures regarding asset quality deterioration and non-performing loans*".

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

The implementation of these legal initiatives or other similar/broader initiatives that may arise in the future, and the content of which is unknown, may impact the Issuer's business, financial condition, net income, capital and prospects (most notably after the end of moratoria when clients will be required to revert to usual payment of instalments and the prudential temporary framework for the Issuer will likely not apply).

Risks relating to the Portuguese economy

As a financial group whose core business is banking (taking deposits and granting credit) operating mainly in Portugal, the Group is dependent on the performance of the Portuguese economy. Moreover, in the last two years, the Group registered a stabilisation of the proportion of the business it conducts in Portugal, as it focused on its core retail and corporate banking business in Portugal and having divested from its non-core operations abroad, including as required by the commitments undertaken by the Portuguese State towards the European Commission ("**EC**"). For more information on such commitments, see the risk factor entitled "*—Risks relating to the Issuer's business—The Group is subject to the commitments undertaken by the Portuguese State to the EC, and a failure to achieve the commitments may result in further corrective measures being implemented*" below. As at 31 December 2020 and 31 December 2019, 90.8 per cent. and 90.0 per cent., respectively, of the Group's consolidated net assets related to its business activities in Portugal. Consequently, the business of the Group is particularly exposed to macroeconomic conditions, which affect growth in the Portuguese market, which in turn are affected by both domestic and international economic and political events. Furthermore, because the Group has significant exposure to large corporate and small and medium-sized enterprise ("**SME**") lending, the performance of which is closely linked to both trends in the economy and export activity, the Group could be more heavily affected by macroeconomic conditions in Portugal than other Portuguese banks with less exposure to the large corporate and SME segments.

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

Economic conditions in Portugal have since then improved, with the Portuguese economy performing strongly up until the end of February 2020. However, the economic situation changed dramatically in March 2020, when the Covid-19 pandemic hit. Authorities announced containment measures on 12 March 2020 and a state of emergency was declared on 18 March 2020, with further restrictions on mobility. The Portuguese Government implemented a comprehensive package of measures, addressing the immediate health policy challenges and implementing social distancing measures. The package also included measures to counter the negative economic impact of Covid-19, e.g. guarantee programmes for affected companies and income support measures. The economic and fiscal impact will depend on the duration and the magnitude of disruption at global and regional levels and the related policy response.

Economic activity reversed sharply with those significant disruptions, particularly to the country's large hospitality industry. Consequently, GDP fell by 4.0 per cent. quarter-on-quarter (2.2 per cent. year-on-year) in the first quarter of 2020 despite positive data in the first two months of the year. Economic performance deteriorated at a much steeper pace of 14 per cent. quarter-on-quarter (16.4 per cent. year-on-year) in the second quarter of 2020, reflecting strong contractions in most of economic sectors (*Source: Statistics Portugal*). Tourism has been the most dramatically affected, with visits collapsing by almost 100 per cent. in April 2020 relative to a year earlier.

With the restrictions starting to ease in May 2020, economic activity gradually increased. GDP increased 13.4 per cent. quarter-on-quarter in the third quarter of 2020 and 0.2 per cent. quarter-on quarter in the last quarter of 2020 (*Source: Statistics Portugal*). However, it remained well below the pre-pandemic level, particularly in sectors and businesses that were more exposed to the Covid-19 pandemic, such as airlines and hotels. In the first quarter of 2021, a new wave of the Covid-19 pandemic – which led to a new high in daily new cases of over 16,400 versus a previous peak of 7,500 (*Source: DGS, Ministry of Health*) – forced the imposition of new and stricter lockdown measures, which had a negative effect on economic activity. GDP fell 3.3 per cent. quarter-on quarter in the first quarter of 2021, or 5.4 per cent. year-on-year (*Source: Statistics Portugal*). Eventually, these measures and the accelerating pace of the vaccination drive led to a significant decline in the daily number of new Covid-19 cases, which hovered around 500-600 by mid-June 2021 (*Source: DGS, Ministry of Health*). This allowed for an improvement in most indicators of economic activity, sustaining the expectation of an economic recovery. The daily indicator of economic activity from the Bank of Portugal, which includes high-frequency indicators, such as energy consumption, payments and transportation, rose 16.5 per cent. year-on-year in the week of 27 June 2021, or 1.6 per cent. compared with the same week in 2019 (*Source: Bank of Portugal, Daily Indicator of Economic Activity, 1 July 2021*). The Bank of Portugal expects annual GDP to grow by approximately 4.8 per cent. in 2021 and 5.6 per cent. in 2022 (*Source: Bank of Portugal, Economic Bulletin, June 2021*).

Significant uncertainties over the short and medium term remain due to the large impact on foreign tourism. Further waves of infections due to virus mutations, leading to a reintroduction of more restrictive measures on activity and/or worsening of the health crisis in other European countries and worldwide, would weaken the recovery in 2021 and 2022. Such a scenario would exacerbate negative spill overs to the labour market, banking sector and public finances.

The average annual unemployment rate rose from 6.6 per cent. in 2019 to 7.0 per cent. of the labour force in 2020. In May 2021, the monthly unemployment rate stood at 7.2 per cent. of the labour force (*Source: Statistics Portugal*). The relatively contained deterioration can be attributed to government short-term work schemes, such as the "temporary layoff" or the "support to the gradual recovery of activity", which helped offset the shock from the Covid-19 pandemic in the labour market. Many of the job cuts are likely to be temporary, but the expected slow recovery in tourism and related services is likely to have a negative impact on labour demand over a longer period. The average annual unemployment rate is therefore set to rise from 7.0 per cent. in 2020 to about 7.2 per cent. in 2021 before improving to around 7.1 per cent. in 2022 (*Source: Bank of Portugal, Economic Bulletin, March 2021*).

The economic and social consequences of the Covid-19 pandemic caused a sizeable deterioration in the general government balance in 2020, reflecting the operation of the automatic stabilisers and the need for significant fiscal policy support. The general government balance fell from 0.1 per cent. to -5.7 per cent. of GDP in 2020 (*Source: Ministry of Finance, March 2021*), with the deterioration driven by increases in most expenditure items (particularly subsidies and social transfers), as well as decreases in current revenue reflecting a strong contraction in the relevant tax bases. Risks to the budgetary forecast are tilted to the downside, linked to uncertainties surrounding the country's epidemic evolution and the persistence of its economic and social effects, as well as the surge in public contingent liabilities on top of non-negligible pre-existing levels partly related to potential further fiscal impacts of additional bank support measures. The public debt ratio reached 133.6 per cent. of GDP in 2020, up from 116.8 per cent. of GDP in 2019 and is expected to fall to 130.9 per cent. of GDP in 2021 (*Source: Ministry of Finance*). Independent of the Covid-19 measures, there were pressures on the expenditure side of the budget, in particular on compensation of employees, as well as on pension and healthcare spending. The path of public debt will be highly dependent on the pace of fiscal consolidation and the Portuguese Government's ability to introduce new measures that offset the rising costs of ageing.

For further details concerning the impacts of the Covid-19 pandemic see the risk factor entitled "*—The Group is exposed to the adverse consequences of the Covid-19 pandemic*" above.

Economic growth, the improvement in public accounts and the stabilisation of the banking sector led to upgrades in the Portuguese sovereign rating by Fitch in December 2017 (from BB+ to BBB), having from April 2020 a "stable" outlook. This rating and the stable outlook were reaffirmed in May 2021. Moody's also upgraded Portuguese sovereign long-term debt rating (from Ba1 to Baa3, stable outlook) in October 2018, having revised the outlook to "positive" in August 2019, and confirmed it in April 2020. Moody's rating and outlook were reaffirmed in March 2021. Similarly, S&P upgraded Portugal's rating from BBB- to BBB (stable outlook) in March 2019 with the outlook revised to "positive" in September 2019 and revised again to "stable" in April 2020. The rating and outlook from S&P were reaffirmed in September 2020. In October 2019, DBRS upgraded Portugal's sovereign long-term rating to BBB (high) after having upgraded it from BBB- to BBB in April 2018, and having the current "stable" outlook been affirmed in March 2020. DBRS reaffirmed its rating and outlook in February 2021. With these ratings, Portugal's sovereign debt is considered investment grade by all main rating agencies. In the context of the Covid-19 pandemic, Fitch and S&P both revised the outlook from "positive" to "stable" in April 2020. These actions reflect the significant impact of the global Covid-19 pandemic on the Portuguese economy and the sovereign's fiscal position. According to Fitch in a report dated 17 April 2020, the shock of the Covid-19 pandemic is likely to interrupt previous improving trends in economic growth, public debt-to-GDP, and resilience in the banking sector. Portugal's small and open economy, with its high dependence on tourism, is exposed to downside risks from the severity of the Covid-19 pandemic, particularly if the country's lockdown persists for a prolonged period.

With the economy expanding and credit agencies upgrading their rating of Portuguese sovereign debt, interest costs have declined. After peaking at 17 per cent. at the beginning of 2012, long-term interest rates on government bonds fell to -0.06 per cent. in December 2020, after increasing over 1 per cent. in late April, reflecting some uncertainty about the strength of the common response, at the European level, to the Covid-19 crisis (*Source: Bloomberg*). Debt-servicing costs have also been reduced by the ongoing amortisation of bonds that were issued at higher interest rates during the financial crisis, as well as by the effect of the asset purchase programmes from the ECB. Under a scenario of stable interest rates, debt-servicing costs should decline, given there is still a pipeline of high-cost public debt that is scheduled to mature over the coming years. The approval of the EU Recovery Fund (Next Generation EU) by the European Council on 21 July 2020 has led to a visible reduction of the spread between peripheral economies' debt yields versus Germany. With a total size of €750 billion (€390 billion as grants and €360 billion as loans), the EU Recovery Fund was perceived as a key step towards deepening European fiscal integration and an important instrument to promote a more robust recovery of activity in Europe.

The Portuguese economy continues to be characterised by high levels of public and private debt, among other factors, and thus remains vulnerable to negative external shocks. A deterioration of investor sentiment associated with political, geopolitical and financial market uncertainty could increase volatility in global financial markets and have a negative impact on financing conditions. For example, the parliamentary elections in Portugal held at the beginning of October 2019 did not return a parliamentary majority of any of the parties and no coalition or agreement was reached between them. As there is no majority in terms of parliamentary support, the Portuguese Government could face increased difficulties in achieving structural fiscal consolidation or implementing certain measures, which could lead to political instability in Portugal. Risks to the outlook thus include a tightening in financial conditions, particularly an increase in interest rates, potentially stemming from a lack of confidence in the power and efficiency of the European coordinated response to the Covid-19 crisis. The ECB announced a new Pandemic Emergency Purchase Programme ("**PEPP**"), which will have an overall envelope of €1,850 billion, and that could be increased. Purchases will be conducted until the first quarter of 2022 – and possibly extended –and will include all the asset categories eligible under the existing asset purchase programme ("**APP**"), aiming at eliminating any risks to the smooth transmission of its monetary policy in all jurisdictions of the Euro area. The ECB will be flexible conducting these purchases, and it will accept some bonds below investment grade as collateral for its loans, in order to ensure Euro area banks can access central bank cash during the coronavirus pandemic. To qualify as collateral, the bonds must have been rated as investment grade on 7 April 2020 (by at least one rating agency recognised by the ECB). This new instrument should contribute to contain any significant increase of Portuguese bond yields, even if it would be downgraded to levels below investment grade. However, the ECB's monetary policy has come under scrutiny after the German Constitutional Court ruled that some aspects of the institution's earlier bond-buying program are not backed by EU treaties and needed to be fixed. Worries that more similar lawsuits could undermine the PEPP have fuelled unease and uncertainty in European sovereign debt markets, and its future intervention could become more conditioned.

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

Domestic risks also include potential economic and fiscal impacts of the ongoing adjustments in the banking sector in Portugal, given the potential impacts of the Covid-19 pandemic on the stock of non-performing exposures and on banks' profitability. The stock of NPLs has consistently declined (from a peak of 17.9 per cent. of total loans in June 2016 to 4.6 per cent. in the first quarter of 2021 (*Source: Bank of Portugal, Portuguese Banking System Statistics, June 2021*). However, the ratio of NPLs to total loan exposures is still relatively high, weighing on banks profitability. Policy measures aimed at smoothing a transition period could be announced, but the end of the loan moratoria in September 2021, and the gradual retreat of policy support measures, could lead to a deterioration in credit quality, particularly in those sectors which are more exposed to the effects of the Covid-19 pandemic and that are lagging in the recovery (mainly tourism and hospitality).

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

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

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

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

Risks relating to international economic and financial conditions

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

External risks include changes in the framework of the EU, or uncertainties or consequences arising from the UK's exit from the EU, including the possibility that other EU member states may seek to leave the EU in the future, or any other significant changes to the structure of the EU and/or European Monetary Union, as well as the increased shift in the focus of some national governments toward more protectionist or restrictive economic and trade policies, which in some cases have led to the imposition of trade tariffs.

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

A revaluation in asset prices and a market correction resulting from a rise in inflation and interest rate expectations could lead to lower confidence levels, negative wealth effects and a tightening in financing conditions. A trade war that results in a significant increase in policy barriers to trade between the EU and other large economies, such as the United States, could additionally deteriorate the outlook for activity, given the economy's increased reliance on the external sector. Similarly, turbulence that is transmitted across emerging markets could have a negative impact on the Portuguese business sector. For example, Brazil and Angola account for over 10 per cent. of the stock of Portugal's outward foreign direct investment. A weaker performance of the European economy could lead to a persistence of very low interest rates.

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

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

- negatively affect the capacity of Portugal to satisfy its financing needs;
- have a material adverse effect on the value of portfolios of sovereign debt securities of peripheral Eurozone countries;
- have a significant adverse effect on the Group's capacity to raise and/or generate capital and comply with minimum regulatory capital requirements;
- significantly restrict the Group's ability to obtain liquidity; and

- negatively affect the Group's capital position, its operational results and its financial condition.

The UK's departure from the EU could adversely affect the Issuer

On 23 June 2016, the UK held a referendum on the country's membership of the EU, according to which the UK voters elected to leave the EU ("**Brexit**"). The UK formally left the EU on 31 January 2020. The terms of the new trade relationship were negotiated in December 2020. Since then, British and EU exporters have faced increased difficulties related to regulatory red tape and border disruptions. The EU-UK agreement is also under pressure, given difficulties in executing the terms related to Northern Ireland. Uncertainty related to these issues could create difficulties for Portuguese exporters. The EU and the UK have reached a post-Brexit deal on financial services, but this has yet to be ratified. Failure to implement this agreement could hamper access to financial market infrastructures, the ability to perform contractual obligations under existing contracts, access to funding markets.

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

Portugal may be subject to rating downgrades

Rating agencies S&P, Moody's, Fitch and DBRS have downgraded the long-and short-term ratings and outlook of Portugal on several occasions since 2010 due to the uncertainties and risks of a prolonged recession, the outlook for modest GDP growth, high levels of unemployment, limited fiscal flexibility, the high leverage of the private sector and the level of sustainability of Portugal's public debt. Portugal's small and open economy, with its high dependence on tourism, is exposed to downside risks from the severity of the Covid-19 pandemic, particularly if the country's lockdown persists for a prolonged period.

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

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

B. Risks relating to the Issuer's business

The Group is exposed to significant credit risk

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

The following indicators characterised the Group's credit risk exposure as at 31 December 2020:

- the ratio of overdue loans greater than 90 days to gross loans (overdue loans > 90 days/gross loans) was 2.4 per cent., compared to 4.0 per cent. as at 31 December 2019, with a coverage ratio (the ratio of provisions to overdue loans > 90 days) of 262.2 per cent. (171.0 per cent. as at 31 December 2019); and

- the ratio of non-performing loans was 8.9 per cent., compared to 11.8 per cent. as at 31 December 2019, with a coverage ratio of 74.1 per cent. (56.2 per cent. as at 31 December 2019).

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

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

Moreover, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, the collateral and security provided to the Group may be insufficient to cover the exposure, for example, as a result of sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations, it could have a material adverse effect on the Group's financial condition and results of operations.

Additionally, the Group is subject to a concentration of credit risk in particular industries, countries, counterparties, borrowers, issuers and customers. The Group's loans and advances to customers, which comprised a net amount of 53.1 per cent. of the Group's assets as at 31 December 2020 (55.5 per cent. as at 31 December 2019), had significant exposure with respect to the services sector and real estate activities, which represented 11.9 per cent. and 7.0 per cent., respectively, of its loans and advances to customers as at 31 December 2020 (13.7 per cent. and 7.6 per cent., respectively, as at 31 December 2019). Macroeconomic downturn or deterioration in real estate values, adverse business conditions, market disruptions or greater volatility in those industries as a result of lower prices in such industries or other factors could result in significant credit losses for the Group. See also the risk factor entitled "—*The Group is exposed to fluctuations in the value of Portuguese real estate*". Additionally, the Group is exposed to risks arising from the high concentration of individual exposures in its loan portfolio, with the 10 largest loan exposures of the Group as at 31 December 2020 representing 10.2 per cent. of the total loan portfolio (gross) (11.8 per cent. as at 31 December 2019).

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

As a result of the Covid-19 outbreak, economic activity worldwide and, with particular relevance for the Issuer, in Portugal, has been severely affected. Despite the fact that economic activity is expected to recover during 2021 and onwards, uncertainty remains as to the full impact of the Covid-19 pandemic on the Portuguese economy, including on business activity and unemployment, particularly in sectors associated with tourism and hospitality, which have been more adversely affected by the Covid-19 pandemic and related lockdown measures. The Covid-19 pandemic may have a material adverse effect on the ability of the Issuer's customers to fulfil their obligations, as well as on the value of the collateral securing their payment obligation, thereby increasing the Issuer's exposure to credit risk and cost of risk, especially on the industry sectors that are being most affected, such as tourism, restaurants, entertainment and others. The depth and duration of this economic crisis will largely depend on the ability to control the pandemic, either through an effective vaccine or treatment and the effectiveness of the measures taken by governments and monetary authorities. For further details on the impacts of the Covid-19 pandemic, see the risk factor entitled "*—The Group is exposed to the adverse consequences of the Covid-19 pandemic*" above.

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

The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement

As part of the conditions of the sale of 75 per cent. of the share capital of the Issuer to Lone Star agreed in March 2017 and completed in October 2017 (the "**Lone Star Sale**"), the Portuguese resolution fund, a public law legal entity created in 2012 pursuant to RGICSF (as defined below), with the goal to provide financial support to resolution measures applied by the Bank of Portugal, in its capacity as national resolution authority (the "**Resolution Fund**") and the Issuer have entered into the Contingent Capital Agreement (the "**CCA**"). Currently there are legal proceedings filed in the Portuguese courts challenging the validity of the CCA and of the obligations of the Resolution Fund in connection with it. Any court decision that considers the CCA illegal, void or otherwise invalid, in whole or in part, or that prevents the Resolution Fund from making any payments under the CCA may have a significant effect on the Group and its financial position, including as a result of any required repayment of funds already disbursed under the CCA. For further details on proceedings relating to the sale of the Issuer, see "*—Risks relating to legal proceedings—Proceedings relating to the sale of the Issuer*" and "*Description of the Issuer and of the Group—Legal, Administrative and Arbitration Proceedings—Proceedings relating to the sale of the Issuer*".

Additionally, uncertainties remain as to the potential liabilities to which the Resolution Fund may be subject and the indemnification mechanism established in connection with the Lone Star Sale (the "**Indemnification Mechanism**"), in the event any the litigation contingencies materialise and the Resolution Fund is considered liable, this may have a significant impact on the Resolution Fund's financial resources and increase the risk that it has insufficient funds to comply with its obligations under the CCA, which would have a material adverse effect on the Group and its financial position. See also "*—The Group is subject to the commitments undertaken by the Portuguese State to the EC, and a failure to achieve the commitments may result in further corrective measures being implemented*" below.

With respect to the 2020 financial year, the Issuer requested a payment in the amount of €598 million. Although the Resolution Fund had expressly recognised as due an amount of €429 million, the final amount received by the Issuer under the CCA in relation to the 2020 accounts fell short by €112 million to €317 million. This was in spite of the Issuer having complied with the established procedures, including verification by an independent third party. The Issuer believes this is a breach of the Resolution Fund's legal obligations and the Issuer will take the necessary actions to enforce the Resolution Fund's legal obligations regarding all the amounts that have not been paid or have been retained with respect to the 2020 financial year, in particular the €112 million shortfall.

There can be no assurance that the Issuer 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 be willing or able to make such payments. In addition, given that the payments received by the Issuer were lower than the amount already recognised by the Resolution Fund, which was taken into account in the Issuer's capital position, and that uncertainty remains on those amounts that have not been paid or have been retained, there can be no assurance that the Issuer will be able to continue to use the CCA as a capital instrument, as the regulatory authorities, the auditors or the Issuer's management may be unwilling to do so before the actual payment has been made. In any such case, the Issuer may not be able to comply with the regulatory capital ratios in the future despite the existence of the CCA. If the Issuer is required to raise further capital but is unable to do so or to do so on acceptable terms, the Issuer may be required to take further measures, which may not occur or be completed in a timely manner or achieve prices which will not be attractive to the Issuer.

Additionally, the continuous political and public scrutiny in relation to the CCA payments have had and are likely to continue to have a negative impact on the reputation and market perception of the Issuer and its business. Any of the events described above, if materialised, could have a material adverse effect on the Group and its financial position.

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

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

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

The Issuer believes it has materially complied with all Commitments up until 2020, but the monitoring trustee report, which has already been sent to the Directorate-General for Competition, is still pending authorisation from said institution. Although the Issuer expects to comply with the Commitments for 2021, due to the fact that the underlying assumptions of the business plan embedded in the 2017 Commitments materially differ from present market conditions (notably, as a result of the EURIBOR rates and the Covid-19 pandemic), it is very unlikely that the Issuer is able to comply with the pre-provision income commitment.

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

Such occurrences could materially and adversely impact the business, financial condition and results of operations of the Group.

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

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

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

In response to the deterioration of activity caused by the Covid-19 pandemic, the central banks of leading economies intensified the expansionary stance of monetary policy in 2020. Among others, the ECB has improved the terms and conditions of the targeted longer-term refinancing operations (the "**TLTRO III**"), including the increase in the borrowing allowance and better financing conditions, -1 per cent. subject to compliance with a net lending condition, a bonus of -0.5 per cent. As at 31 December 2020, the Issuer had borrowed €7 billion within the TLTRO III. The bonus introduced by the ECB in the interest rate of these operations is being deducted from the financing costs on a linear basis for accounting purposes, taking into account the Issuer's expectation of complying with the requirements of eligibility criteria defined by the ECB. If the Issuer is unable to comply with the said targets, its net interest margin will be adversely affected.

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

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

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

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

The ongoing availability of customer deposits to fund the Group business is subject to a variety of factors, such as depositors' concerns relating to the Portuguese economy in general, the financial services industry or the Group specifically, economic conditions in Portugal impacting the availability of funds for deposits, the availability and extent of deposit guarantees and the existence of alternative and competitive savings products. Customer deposits, consisting of repayable on demand deposits, time deposits and savings accounts are the principal source of funding for the Group, and accounted for 58.8 per cent. and 57.3 per cent. of total liabilities as at 31 December 2020 and 31 December 2019 (on a pro-forma basis in light of the transfer of the Issuer's Spanish Branch to discontinue operations), respectively.

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

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

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

The Group's liquidity could also be impaired by other limitations on its ability to raise liquidity when required, such as an inability to access wholesale funding, an inability to sell assets or redeem its investments, or to do so at an acceptable value, and other unexpected outflows of cash or collateral deterioration. These situations may arise due to factors such as a deterioration of risk perception of the Group or to circumstances that the Group is unable to control, such as continued general market disruption, loss of confidence in financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties. As a result of the Covid-19 pandemic, financial markets experienced extreme volatility and have then recovered following monetary and fiscal policy stimulus worldwide. As the evolution of the pandemic and its impact on the world economy remains unclear, including the impact of withdrawal of the monetary and fiscal stimulus and/or its effects on the real economy, financial markets may remain unstable in the near future. For further details on the impact of the Covid-19 pandemic, see the risk factor entitled "*—Risks relating to the economic and financial environment—The Group is exposed to the adverse consequences of the Covid-19 pandemic*" above.

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

- Increased difficulty in selling the Group's assets, particularly if other participants in distressed situations are seeking to sell similar assets or because the market value of assets, including financial instruments underlying derivative transactions, has become difficult to ascertain, which has occurred in the past and may occur again.
- Financial institutions with which the Group interacts may exercise set-off rights or the right to require additional collateral.
- Customers with whom the Group has outstanding but undrawn lending commitments may draw down an amount on these credit lines that is higher than the Group is anticipating.
- The Group's liquidity position relies largely on its ability to raise funds on open market operations with the ECB. If the ECB were to suspend or materially change the terms under which it provides such funding, and if no similar source of financing were to exist in the market, this could severely impede the Group's ability to manage a period of liquidity stress. For further details, see the risk factor entitled "*The Group is dependent on the ECB for access to funding, which is subject to certain conditions and risks*".
- An increase in interest rates and/or credit spreads, including as a result of concerns relating to the Group, such as the need to raise additional capital, as well as any restriction on the availability of funding, including, but not limited to, inter-bank funding, could impact the Group's ability to borrow on a secured or unsecured basis, which may have a material adverse effect on the Group's liquidity and results of operations.

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

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

As at 31 December 2020, the liquidity coverage ratio ("**LCR**") and net stable funding ratio ("**NSFR**") stood at 140 per cent. and 112 per cent., respectively (143 per cent. and 101 per cent. as at 31 December 2019, respectively). There is no assurance that the Issuer will always be able to comply with these requirements, particularly in relation to the regulatory liquidity ratios LCR and NSFR, or any other requirements that may be introduced in the future.

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

The Group's access to capital markets has been very limited since its establishment. As a result, in addition to deposits, the Group has made significant use of funding from the ECB. The ECB, which currently makes funding available to European banks that satisfy certain conditions, including pledging eligible collateral, was a major funding source for the majority of Portuguese banks during the financial crisis and the European sovereign debt crisis. The Group had €4.7 billion net exposure with the ECB as at both 31 December 2020 and 31 December 2019.

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

Although the monetary policy followed by the ECB in past years has contributed to improving the liquidity conditions of European banks (most recently in response to the Covid-19 outbreak, the ECB has further improved financing conditions by reducing the interest rate on the TLTRO III and announced a package of collateral easing measures), if the ECB starts to remove the monetary stimulus faster than expected, this could require the Group to find alternative funding sources, some of which may be more costly or may not be available at all, or to dispose of assets at a potentially significant discount in relation to their respective book values, with a corresponding negative impact on the Group's capital position and results of operations. Additionally, any sudden change could also have a material effect on the financial markets and the valuation of the Issuer's assets, including public debt portfolio.

The Issuer may also be eligible for ELA funding. National Central Banks in the Eurosystem may provide ELA funding to solvent financial institutions with temporary liquidity problems in their respective jurisdictions, unless the ECB restricts such funding if it considers that these operations interfere with the objectives and tasks of the Eurosystem or the funding conditions. At 31 December 2020, the Group's portfolio of assets eligible as collateral for rediscounting operations with the ECB (net of haircut) totalled €16.7 billion (€15.3 billion at 31 December 2019).

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

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

The Group is exposed to fluctuations in the value of Portuguese real estate, both directly through assets related to its operations or obtained in lieu of payment, or indirectly, through real estate that secures loans or by financing real estate projects. The Group's real estate assets registered as investment properties amounted to €0.6 billion as at 31 March 2021 and €0.6 billion as at 31 December 2020 (€0.7 billion as at 31 December 2019), and the real estate assets registered as other assets amounted to €0.8 billion as at 31 March 2021 (net of impairment amounted to €282 million, including €232 million net repossessed real estate) and €0.8 billion as at 31 December 2020 (net of impairment which amounted to €289 million, including €238 million net repossessed real estate) and €1.0 billion as at 31 December 2019 (net of impairment amounted to €435 million, including €300 million net repossessed real estate). During 2020 and 2019, the Group recognised a loss of €101.8 million and a loss of €216.1 million, respectively, related to the fair value of investment properties. Concerning the real estate registered in other assets, the impairment charge of 2020 and 2019 amounted to €64.4 million and €270.0 million, respectively. The Group is also exposed to the real estate market through holdings of real estate restructuring funds (funds managed by external parties that were established by the Portuguese banking system to deal with the financial recovery of companies which were in financial stress), and some minor stakes in real estate funds held in securities portfolio. A decrease in the value of Portuguese real estate market prices will decrease the value of the real estate assets held by the Issuer, directly or indirectly, as well as of the collateral provided with respect to such loans, thus adversely affecting the financial condition and results of the operations of the Group.

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

Furthermore, as at 31 December 2020, 39.7 per cent. of the Group's loans and advances to customers consisted of mortgage loans (37.9 per cent. as at 31 December 2019), of which 20 per cent. were in moratorium. While the Group has experienced a relatively low level of defaults in these types of loans, a decrease in house prices, which can happen at any time in the future, could negatively affect the recovery value of the loans and/or increase the Group's impairment charges or capital requirements, as they depend, among others, on the loan to value ratio (which would increase in such circumstances).

The Group's loans and advances to customers in the real estate sector represented 7.0 per cent. of all its loans and advances to customers as at 31 December 2020 (7.6 per cent. as at 31 December 2019). If the real estate sector faces economic or other difficulties, this can also negatively impact the recovery value of the loans or increase the impairment charge or capital requirements. Any such changes could negatively affect the financial condition, results of operations and capital position of the Group.

The risk of a significant devaluation of Portuguese real estate prices has increased as a result of the economic crisis resulting from the Covid-19 pandemic, including, without limitation, through decrease in occupancy rates that have been reported in the tourism sector, a decrease in economic activity in general and a reduction in the market's ability to transact these assets. A decrease in the value of Portuguese real estate market prices will decrease the value of the real estate assets held by the Issuer, directly or indirectly, as well as of the collateral provided with respect to such loans, thus adversely affecting the financial condition and results of the operations of the Group. For further details on the impacts of the Covid-19 pandemic, see the risk factor entitled "—*Risks relating to the economic and financial environment—The Group is exposed to the adverse consequences of the Covid-19 pandemic*".

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

Regulation (EU) No 575/2013, as amended (including as amended by the Capital Requirements Regulation II (Regulation (EU) 2019/876 (the "**CRR II**")) (the "**CRR**") requires that deferred tax assets ("**DTAs**") be deducted from Common Equity Tier 1 ("**CET1**") capital.

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

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

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

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

The deduction of DTAs from CET1 capital would thus have an impact on credit institutions established in EU member states where national tax law imposes a time mismatch between the accounting and tax recognition of certain gains and losses.

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

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

The amount of DTAs is declared by corporate income taxpayers in their annual corporate income tax return. The amount of the declared tax credit must subsequently be certified by the auditors and confirmed by the Portuguese tax authorities.

The tax credits obtained with the conversion of the DTAs may be offset against any state taxes on income and on assets payable by the taxpayer.

The conversion of DTAs entails the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increased by 10 per cent., and conversely, the issuance of symmetric warrants to the Portuguese State. The warrants entitle the Portuguese State (i) to demand the Issuer to increase its share capital by converting the special reserve into ordinary shares representing the Issuer's share capital and to subsequently deliver such shares to the Portuguese State for no consideration; or (ii) to freely dispose of them, including by sale to third parties, which may subsequently demand such increase of the Issuer's share capital.

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

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

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

The Issuer adhered to the special regime applicable to DTAs approved by Law 61/2014, which applies to DTAs related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10 per cent. The conversion rights are securities that grant the Portuguese State the right to demand of the Issuer a share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. The shareholders of the Issuer have the unilateral right to acquire the conversion rights from the Portuguese State. For further details, see "*Description of the Issuer and of the Group—Ownership Structure (Including Government Relationship)*".

As at 31 December 2020, the Group held €774.9 million of DTAs in its accounts of which €0.8 million related to reported losses and €774.1 million related to temporary differences. Of these, €400.4 million are protected under the Portuguese special fiscal regime. If any DTAs are not recovered, this could have an adverse impact on the profitability and equity of the Issuer and the Group.

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

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

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

The Group has significant pension liabilities associated with its defined benefit pension fund, which includes the following three plans: the "Master Plan" (or "**Base Plan**"), the "Complementary Plan" and the "Executive Committee's Complementary Plan" (the "**Executive Committee's Complementary Plan**" is only for members of the Executive Committee and was subject to the split between the Issuer and BES pursuant to the Resolution Measure, which occurred during 2020, and related decisions) (the "**Pension Fund**"). The Group's expected return on the assets in its Pension Fund is based on certain assumptions. If the returns on the assets in its Pension Fund is less positive than expected or negative, the Group will be required to recognise actuarial losses on the difference between a greater expected value of the assets and the actual value. Similarly, demographic factors, such as an increase in life expectancy among active employees and pensioners, can result in changes in mortality tables used by insurance companies and thus negatively affect the Group's defined-benefit obligations, generating actuarial losses that require recognition and contribution to the Group's Pension Fund in order to guarantee that its Pension Fund liabilities are fully funded, as required by regulation.

In addition to such losses requiring contribution to the Group's Pension Fund, these actuarial losses may have the effect of reducing the Issuer's CET1, undermining the Issuer's capital ratios and negatively impacting the Issuer's shareholders' equity. Until 1 January 2018, the Issuer was required to deduct from its CET1 the portion of actuarial losses exceeding 10 per cent. of its pension liabilities or the value of its pension assets, adjusted by a phase-in factor (20 per cent. per year). After 1 January 2018, actuarial losses are deducted from CET1 in full. As at 31 December 2020, the Group's pension obligations in the Pension Fund amounted to €1,935 million, and the fair value of the Pension Fund allocated to the Issuer as at the same date was €1,908 million. The unfunded liabilities amounted to €27.1 million as at 31 December 2020 (€153.1 million as at 31 December 2019).

The Group is exposed to market risks

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

As at 31 December 2020, the Group's securities portfolio amounted to €11.4 billion, of which 63.2 per cent. were public debt instruments, 29.2 per cent. were classified as bonds and 7.6 per cent. were shares and other variable income securities (64.9 per cent., 24.0 per cent. and 11.1 per cent. respectively as at 31 December 2019).

Additionally, as at 31 December 2020, 80.4 per cent. of such assets were classified as Level 1 (those that are quoted on a recognised market as of such date), 3.3 per cent. as Level 2 (those for which valuation methods with prices and standards that are observable in the markets are used) and 16.3 per cent. as Level 3 (those for which valuation methods with prices and standards that are not observable in the markets are used). As at 31 December 2019, the Group's securities portfolio amounted to €12.0 billion, of which 65.0 per cent. were public debt instruments, 23.9 per cent. were classified as bonds and 11.2 per cent. were shares and other variable income securities. Additionally, 78.0 per cent. of such assets were classified as Level 1, 4.1 per cent. as Level 2 and 17.8 per cent. as Level 3.

As at 31 December 2020, the Group had a value at risk ("**VaR**") of €28.7 million in its trading positions in respect of equities, interest rates, volatility and credit spread, total commodities position and total foreign exchange position and liquidity management portfolios, compared to €81.9 million as at 31 December 2019. The Group's VaR is calculated using the "Monte Carlo" simulation method, with a 99 per cent. confidence level and a holding period of ten days.

The Issuer has, in its securities portfolio, investments in restructuring funds in an amount of €839.9 million as at 31 December 2019, most of which are covered by the CCA. These funds are Level 3 assets according to the fair value hierarchy of IFRS13 (quotations provided by third parties whose inputs used are unobservable in the market, as mentioned above). In compliance with the guidance by the ECB, the Issuer obtained an independent valuation of its exposure on these funds. The valuation resulted in a market value of €498.8 million for the total investment held in these assets, leading to a loss of €300.2 million in 2020.

The deterioration of the global economic outlook and high uncertainty surrounding the effects of the Covid-19 pandemic resulted in strong increases in volatility and risk aversion in financial markets. Governments by way of monetary stimulus have supported the markets but the outlook remains uncertain. For further details on the impact of the Covid-19 pandemic, see the risk factor entitled "*—Risks relating to the economic and financial environment—The Group is exposed to the adverse consequences of the Covid-19 pandemic*".

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

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

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

As at 31 December 2020, the Group's public debt securities of Eurozone countries portfolio comprised approximately €3.5 billion in Portuguese public debt, approximately €2.0 billion in Spanish public debt, approximately €0.2 billion in Irish public debt, approximately €0.1 billion in Italian public debt, and no exposure to Greek public debt, which together represents 51 per cent. of the Group's total securities portfolio. As at 31 December 2019, the Group's public debt securities of Eurozone countries portfolio comprised approximately €4.1 billion in Portuguese public debt, approximately €2.2 billion in Spanish public debt, approximately €0.2 billion in Irish public debt, approximately €0.1 billion in Italian public debt and no exposure to Greek public debt.

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

In addition, despite the negative impacts of the Covid-19 pandemic in these countries economies and, also as a result of the fiscal stimulus provided by the governments to give support to the economy, the significant rise in budget deficits and public debt, public debt yields have remained low and market conditions favourable, following the significant spike at the beginning of the Covid-19 pandemic, mainly due to the relevant intervention of the monetary authorities. As both the government and monetary stimulus are withdrawn, the conditions for public debt can significantly deteriorate, including, but not limited, to the possibility of faster interest rate rise scenarios. For further details on the impacts of the Covid-19 pandemic, see the risk factor entitled "*—Risks relating to the economic and financial environment—The Group is exposed to the adverse consequences of the Covid-19 pandemic*".

Depreciations in the public debt portfolio can have the effect of reducing the Issuer's CET1 used to determine its capital ratios and could adversely affect its results of operations. Any decrease of the Issuer's solvency ratios could hinder its ability to operate its business in accordance with its strategy.

The Group faces significant competition

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

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

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

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

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

Rating agencies have been revising the ratings of European banks in different geographies due to the disruption caused by the Covid-19 outbreak and there has already been a reassessment of the Portuguese market by the rating agencies. With the end of moratoria and depending on the future performance of those loans which were granted payment holidays under such moratoria, further rating actions or outlook revisions may be done.

Additionally, uncertainty in relation to the amounts to be received by the Issuer under the CCA or any reduction on the requested amount could compromise the ability of the Issuer to comply with the required capital ratios, which will put additional pressure on the Issuer's credit ratings. For further information see "*—The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement*".

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

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

The Group's business is subject to operational risks

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

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

The Issuer's activity is subject to reputational risks

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

On 11 February 2020, Novo Banco, S.A. - Spanish Branch was informed by a former employee that he had performed several allegedly fraudulent acts involving several clients, relating to the management of a client portfolio of a given agency of the Spanish Branch, outside the scope of and in non-compliance with the internal procedures defined by the Issuer. The quantification of the potential damages and identification of customers that may be at stake are still in progress and therefore the effects or the amounts that could potentially be at stake and the potential liability of the Issuer is, for the moment, unable to be finally determined. Nevertheless, according to the Issuer's current assessment, supported by legal and forensic analysis, the Issuer has booked a provision of €18 million for these claims. In any case, this may result in reputational risk to the Issuer.

Furthermore, the Issuer is subject to continuous political and public scrutiny (including, but not limited to) in relation to its incorporation and the Lone Star Sale, 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.

The Issuer cannot assure potential investors that it will be able to foresee and mitigate the impacts of these initiatives (or similar initiatives in the future) and risks if the same occur and, should that be the case, such circumstances could materially adversely affect the Issuer's business activities, financial condition and results of operations.

The Group is exposed to IT and cybercrime risks

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

C. <u>Legal and regulatory risks</u>

Risks relating to legal proceedings

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

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

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

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

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

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

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

There are still relevant litigation risks, notably regarding the various disputes relating to the US$835 million loan made by Oak Finance to BES, the placement of BES and Grupo Espírito Santo debt instruments directly and indirectly in BES retail clients and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain where there are several unfavourable decisions) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to the Issuer.

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

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

Ultimately, if a court were to declare the Resolution Measure invalid and, despite its disruptive effects, determine the invalidity and ineffectiveness of all contracts and legal acts performed by the Issuer since its incorporation, the issue of the Notes would become void and investors could suffer substantial losses.

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

Proceedings relating to the sale of the Issuer

Following the conclusion of the Lone Star Sale, certain legal suits have been lodged, related to the conditions of the sale, notably the administrative action brought by Banco Comercial Português, S.A. ("**BCP**") against the Resolution Fund, of which the Issuer is not a party, and, according to the public disclosure made by BCP on the website of the Portuguese Securities Markets Commission (*Comissão do Mercado de Valores Mobiliários*) ("**CMVM**") on 1 September 2017, it requested the legal assessment of the contingent capitalisation obligation assumed by the Resolution Fund within the CCA.

Any final court decision that may be issued in the context of such judicial proceedings may adversely affect the capacity of the Issuer to carry out its obligations under the Notes.

For further details on proceedings relating to the sale of the Issuer, see "*Description of the Issuer and of the Group—Legal, Administrative and Arbitration Proceedings*".

Other proceedings

There are two pending proceedings related to the enforcement of a financial pledge by the Issuer: (i) in one of them, the plaintiff requires the declaration of invalidity of the financial pledge existing over shares and the execution of such pledge; and (ii) the Issuer has challenged the decision of the insolvency administrator of resolution of the acts of creation of the pledge decided in favour of the insolvency estate. Additionally, the Issuer was notified to grant a guarantee in the approximate amount of €51 million due to an alleged failure to comply with an arrest order for bank accounts, which was challenged.

In connection with the CCA, there is an ongoing dispute in arbitration regarding the implementation of IFRS9 from the phase-in to the fully-loaded regime and the impact of such implementation in the calculation of the amount due by the Resolution Fund under the CCA for the 2019 financial year. The arbitration proceeding is still ongoing and it has been agreed that the implementation of the fully-loaded regime should be delayed pending the result of this proceeding.

There may be further arbitration and proceedings regarding the amounts that the Issuer believes are due and should have been paid by the Resolution Fund in accordance with the rules of the CCA with respect to the 2020 financial year. See "*Risks relating to the Issuer's business—The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement*".

For further details on these and other proceedings mentioned above, see "*Description of the Issuer and of the Group—Legal, Administrative and Arbitration Proceedings—Other proceedings*".

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

Holders of Notes should be aware that the legal proceedings and consequences arising therefrom may adversely affect the incorporation, financial condition and/or the capacity of the Issuer to carry out its obligations under the Notes.

Risks relating to regulatory requirements

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

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

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

Changes in regulatory requirements may also require the Issuer to raise additional capital. In June 2013, the European Parliament and the Council of Europe issued Directive 2013/36/EU, as amended (including as amended by the Capital Requirements Directive V (Directive (EU) 2019/878 (the "**CRD V**")) (the "**CRD IV Directive**") and the CRR (the CRR and the CRD IV Directive together, the "**CRD IV**"), which incorporate the key amendments that have been proposed by the Basel Committee for Banking Supervision (known as "**Basel III**"). Full implementation began from 1 January 2014, with particular elements being phased in over a period of time. The requirements largely became effective by 2019, although some minor transitional provisions provide for phase-in until 2024.

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

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

According to Council Regulation (EU) No 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to the Issuer on 4 December 2019 (which was confirmed in the 17 December 2020 SREP decision) that the Group should comply with an own funds requirement of 3.00 per cent. to be held in excess of the minimum own funds requirement, of which currently 1.69 per cent. is to be made up of CET1 capital. Without prejudice to the foregoing, the measures announced by the ECB on 12 March 2020, following the Covid-19 outbreak, are also applicable to the Issuer (for further details, see "*Description of the Issuer and of the Group—Supervision and Regulation—European Central Bank—Non-exhaustive summary of recent regulatory developments following the Covid-19 pandemic*"). There can be no assurance that the SREP review to be conducted in the following years will not increase the minimum own funds requirement.

In addition, credit institutions identified as other systemically important institutions ("**O-SIIs**") are subject to an additional buffer requirement (the "**O-SII Buffer**"). According to the Bank of Portugal's decision, the O-SII buffer is not applicable to the Issuer from 2020 onwards (but rather applicable to its indirect controlling shareholder LSF Nani Investments S.à.r.l.).

As at 31 December 2020, the Issuer reported a CET1 ratio of 11.3 per cent. (phased-in) and 10.0 per cent. (fully implemented) (13.5 per cent. (phased-in) and 12.8 per cent. (fully implemented) as at 31 December 2019). However, given that the final amount received by the Issuer was €317.0 million, reduced also by an unexpected amount of €112.0 million, the Issuer has subsequently announced that its restated CET1 ratio would be 10.9 per cent. (phased-in) and 9.5 per cent. (fully implemented). See the risk factor "*—Risks relating to the Issuer's business—The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement*" and "*Description of the Issuer and of the Group—Contingent Capital Agreement*".

Over the past years, the Issuer's capital shortfall has been restored by operation of the CCA, which has provided €792 million, €1,149 million and €1,035 million in May 2018, May 2019 and May 2020. As at the date of this Prospectus, the funds received by the Issuer so far in 2021 amounted to €317 million, which is lower than the requested amount of €598 million. Despite being in compliance with its CET1 requirement due to the Covid-19 relief measures, the Issuer is currently below its required total capital ratio. See "*—Risks relating to the Issuer's business—The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement*" above.

If the Group does not satisfy these or other minimum capital ratio requirements in the future, it may be required to raise additional capital or be subject to measures or sanctions by the Bank of Portugal, the ECB or the SSM. If the Issuer is required to raise further capital in the future after failing to satisfy the minimum capital ratio requirements, but is unable to do so or to do so on acceptable terms, the Issuer may be required to further reduce the amount of the Issuer's risk-weighted assets and engage in the disposition of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Issuer. Any failure to maintain minimum regulatory capital ratios could result in administrative actions or other sanctions, which in turn may have a material adverse effect on the Issuer's operating results, financial condition and prospects. The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the Group. It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which the Group conducts its business, the products and services it can offer and the value of its assets.

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

On 14 May 2019, the European Council announced that it had adopted the Reforms, with most of the new rules applying in mid-2021. The Reforms include the following key measures:

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

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

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

New regulations may increase capital, liquidity and other requirements and can result in additional requirements of capital and/or other type of financial instruments, preparatory work, disclosure needs, restrictions on certain types of transactions, limitations or changes to the Issuer's strategy. Any of the above could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

Risks relating to the Bank Recovery and Resolution Directive and the Single Resolution Mechanism

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

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

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

A Single Resolution Mechanism ("**SRM**") has been introduced, including an SRB, which focuses on resolution planning and enhancing resolvability, to avoid the potential negative impacts of a bank failure on the economy and financial stability. The requirements of the SRM are set out in the Single Resolution Mechanism Regulation (Regulation (EU) No. 806/2014 of 15 July 2014) (the "**SRM Regulation**") and the BRRD. The SRM Regulation has been fully applicable from 1 January 2016 and the SRB has also been fully operational since that date.

Until 31 December 2015, the Bank of Portugal was the relevant resolution authority for the Issuer and from 1 January 2016, the SRM applies with the SRB being the relevant resolution authority for the Issuer.

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

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

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

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

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

Minimum requirement for own funds and eligible liabilities could have a material effect on the Issuer

BRRD II was implemented in the EU together with the formal adoption of Regulation (EU) 2019/876 of the European Parliament and of the Council, which entered into force on 27 June 2019. BRRD II should have been transposed into national law no later than 28 December 2020 with national regulators having until 1 January 2024 at the latest to impose full MREL requirements on firms. Under BRRD II, banks, such as the Issuer, shall be subject to an entity-specific MREL regime, under which they will be required to issue a sufficient amount of eligible instruments to absorb expected losses in resolution and to recapitalise the institution or the surviving part thereof. The transposition of BRRD II into Portuguese law has not yet taken place, but it is intended to be effectuated through the approval of a new Banking Activity Act (*Código da Atividade Bancária*). The preliminary project of the Banking Activity Act was prepared by the Bank of Portugal and was subject to public consultation from 29 October 2020 to 15 January 2021. Following such public consultation, the Bank of Portugal prepared its Public Consultation Report No. 6/2020 and the revised preliminary project was sent to the Portuguese Ministry of Finance for review.

In accordance with Portuguese law, Article 145-Y of the RGICSF, financial institutions will be required to meet certain MREL requirements. The Issuer received the notification of the decision on 16 June 2021 by the Single Resolution Board ("**SRB**"), together with the Bank of Portugal. According to the decision taken on 8 June 2021, the Issuer should comply with MREL on a consolidated basis at the level of 14.64 per cent. of total risk exposure amount ("**TREA**") that shall be reached by 1 January 2022 (17.52 per cent. including the combined buffer requirement) and 22.78 per cent. of TREA from 1 January 2026 onwards, which shall be met at all times. The preferred resolution strategy for the Issuer is the single point of entry, with the Issuer being the resolution entity. Additionally, the Issuer is not subject to any subordination requirement. However these MREL requirements, the resolution strategy and the lack of a subordination requirement may change from time to time.

In order to comply with this requirement, the Issuer plans to issue, in the coming years, additional liabilities eligible for MREL requirement, with the issue of the Notes forming part of this additional MREL.

If, until the applicable deadlines, the Issuer is unable to issue or can only issue on unfavourable conditions own funds and additional liabilities which will be eligible to count toward the MREL requirement or to reduce its risk-weighted assets, this may result in regulatory sanctions and may have a material adverse effect on the Issuer's business, financial condition, results of operations, its prospects and activities in terms which cannot be predicted at this stage, including changes to the Issuer's strategy.

The Issuer will be affected by the strategic decisions made by it or its direct and indirect shareholders and, in making such decisions, the interests of the Issuer, its shareholders and the Noteholders may not be aligned

The Issuer and its direct and indirect shareholders (including its indirect controlling shareholder LSF Nani Investments S.à.r.l.) will make strategic decisions which may (directly or indirectly) affect the business and operations of the Issuer and of the Group. Neither the Issuer nor its shareholders will have any obligation to consider the interests of the Noteholders in connection with any such strategic decisions, including in respect of the capital management of the Issuer, the Group or LSF Nani Investments S.à.r.l. Noteholders will not have any claim against the Issuer or any other entity relating to decisions that affect the business and operations of the Issuer or the Group, including in relation to the capital position of the Issuer, the Group or LSF Nani Investments S.à.r.l.

The Group is required to make contributions to the Resolution Fund

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

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

The Group's contribution will vary from time to time depending on the liabilities and own funds of the Issuer and applicable members of the Group, as compared to other participating institutions. Contribution to the Resolution Fund is adjusted to the risk profile and systemic relevance of each participating institution, in consideration of its solvency profile. For the year ended 31 December 2020, the Group paid €12.7 million in contributions to the Resolution Fund, €27.4 million in Bank Levies to the Resolution Fund and €22.3 million in contributions to the Single Resolution Fund (compared to €12.2 million, €27.1 million and €22.5 million, respectively, for the year ended 31 December 2019).

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

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

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

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

Risks relating to data protection and privacy

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

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

Risks associated with the disposal of non-performing assets

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

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

The Issuer has approved a NPA reduction plan (2021–2023), which is expected to materially reduce the stock of NPAs (which mostly relates to NPLs), including sales to the market, potentially in the near term.

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

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

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

Other risks exist in relation to further requirements that may be imposed by the ECB, through guidelines or legislation, to accelerate the reduction of NPAs, such as the following, which are currently under discussion by the ECB: (i) reforms of insolvency and debt recovery frameworks, (ii) development of secondary markets for distressed assets, (iii) accelerated loss recognition with backstop provision limits, and (iv) requirements on the use of templates for information on NPLs.

Furthermore, an increase in the entry levels of new NPLs may hinder the Issuer's ability to reduce its NPL stock, including if, as a result of the end of the moratorium scheme in Portugal in September 2021, the stock of new NPLs is higher than anticipated by the Issuer.

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

The Issuer was subject to Targeted Review of Internal Models

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

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

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

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

Banking institutions, including the Issuer, were legally obliged to apply the negative index value only to loans for acquisition or construction of own housing

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

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

The use of standardised contracts and forms carries certain risks

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

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

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

The Issuer 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 Issuer, including any potential liabilities for the 2021 financial year and subsequent years, are currently under analysis.

In addition, the Issuer might be adversely affected by difficulties in the interpretation of or compliance with new tax laws and regulations. The materialisation of these risks may have a material adverse effect on the Issuer's strategy, financial condition, results of operations and prospects.

2. RISKS RELATING TO THE NOTES

The obligations of the Issuer in respect of the Notes are subject to resolution measures, including the general bail-in tool

Holders are subject to the provisions of the BRRD relating to, *inter alia*, the bail-in of liabilities. See "*—Risks relating to the Issuer—Legal and regulatory risks—Risks relating to the Bank Recovery and Resolution Directive and the Single Resolution Mechanism*" for a further description.

The remedies available to Holders under the Notes are limited

Holders may not at any time demand repayment or redemption of their Notes, although in a Winding-Up the Holders will have a claim for an amount equal to the principal amount of the Notes together with any accrued interest and any Additional Amounts thereon.

The sole remedy in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described in Condition 7 (*Default*), is that a Holder may, subject to applicable laws, institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the Issuer arising under the Notes in any Winding-Up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes are more limited than those typically available to the Issuer's senior (non-MREL) creditors. For further details regarding the limited remedies of the Holder, see Condition 7 (*Default*).

Limitation on gross-up obligation under the Notes

The obligation under Condition 8 (*Taxation*) to pay Additional Amounts in the event of any withholding or deduction in respect of taxes on any payments under the terms of the Notes applies only to payments of interest and not to payments of principal or any such other amount. As such, the Issuer would not be required to pay any Additional Amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal or any such other amount. Accordingly, if any such withholding or deduction were to apply to any payments of principal or any such other amount under the Notes, Holders may receive less than the full amount of principal or any such other such amount due under the Notes upon redemption, and the market value of such Notes may be adversely affected.

Further, the obligation under Condition 8 (*Taxation*) to pay Additional Amounts in the event of any withholding or deduction in respect of taxes on any interest payments is subject to certain exceptions, including where a Holder fails to comply with certain documentary and/or information obligations as foreseen under the STRIDS (as defined in the section "*Taxation*") regime, in which case the Issuer would not be required to pay any Additional Amounts and the Holders would potentially receive less than the full amount of interest due under the Notes. Holders are advised to consult their own tax advisers and to closely monitor any applicable documentary and information requirements.

Risks relating to withholding tax

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

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

It should also be noted that, if interest and other income derived from the Notes is paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities (e.g. typically "jumbo" accounts) such income will be subject to withholding tax in Portugal at a rate of 35 per cent. unless the beneficial owner of the income is disclosed. Failure by the investors to comply with this disclosure obligation will result in the application of the said Portuguese withholding tax at a rate of 35 per cent. and the Issuer will not be required to gross up payments in respect of any withheld accounts in accordance with Condition 8 (*Taxation*).

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

The Issuer will not be required to gross up payments in respect of any such non-resident holders, in accordance with Condition 8 (*Taxation*).

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

The terms of the Notes may be modified, or the Notes may be substituted, by the Issuer without the consent of the Holders in certain circumstances

If a Tax Event or a Loss Absorption Disqualification Event occurs and is continuing or in order to ensure the effectiveness and enforceability of Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*), the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Loss Absorption Compliant Notes, without the consent of the Holders.

Loss Absorption Compliant Notes must have terms which are not materially less favourable to Holders than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial adviser of international standing, save where the governing law of Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*) is changed in order to ensure the effectiveness or enforceability of Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*). However, there can be no assurance that, due to the particular circumstances of a Holder, such Loss Absorption Compliant Notes will be as favourable to each investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Loss Absorption Compliant Notes are not materially less favourable to Holders than the terms of the Notes.

There is no limit on the amount or type of further bonds or indebtedness that the Issuer may issue, incur or guarantee

There is no restriction on the amount of bonds or other liabilities that the Issuer may issue, incur or guarantee and which rank *pari passu* with the Notes. The issue, incurrence or guaranteeing of any such bonds or other liabilities may reduce the amount (if any) recoverable by Holders during a winding-up or administration or resolution of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes.

Because the Notes are held in Interbolsa, investors will have to rely on Interbolsa procedures

The Notes will be issued in uncertificated, dematerialised book-entry form and cleared in Interbolsa, through direct or indirect accounts with Euroclear and Clearstream, Luxembourg. Legal title to the Notes will be evidenced by book entries in individual Securities Accounts established by Affiliate Members of Interbolsa. Transfers of title to the Notes will take place in accordance with Portuguese law and the rules and procedures for the time being of Interbolsa.

Each person who is for the time being shown in individual Securities Accounts established by an Affiliate Member of Interbolsa as the Holder of a particular principal amount of the Notes shall be treated by the Issuer and the Paying Agent as the Holder of such principal amount of such Notes for all purposes.

Holders may not require the redemption of the Notes prior to their maturity

Unless previously redeemed or purchased and cancelled, the Notes will mature on the Interest Payment Date falling on, or nearest to, 23 July 2024 (the "**Maturity Date**"). The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Holders have no right to require the Issuer to redeem or purchase any Notes at any time. Prior to the Maturity Date, any redemption of the Notes and the purchase of any Notes by the Issuer will be subject always to receiving Regulatory Permission (as defined in the Conditions), and the Holders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

The Notes are subject to early redemption at the option of the Issuer and upon the occurrence of certain tax and regulatory events, subject to certain conditions being met

The Issuer may, at its option, subject to the conditions set out in Condition 5(b) (*Conditions to Redemption, Substitution or Variation, and Purchase*), redeem all, but not some only, of the Notes on the Call Date at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. In addition, upon the occurrence of a Tax Event or a Loss Absorption Disqualification Event, the Issuer may, at its option, subject to the conditions set out in Condition 5(b) (*Conditions to Redemption, Substitution or Variation, and Purchase*), redeem all, but not some only, of the Notes at any time at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

Condition 5(b) (*Conditions to Redemption, Substitution or Variation, and Purchase*) provides that any redemption of the Notes in accordance with Conditions 5(c) (*Issuer's Call Option*), 5(d) (*Redemption Due to Tax Event*) and 5(e) (*Redemption Due to Loss Absorption Disqualification Event*) is subject to the Issuer obtaining prior Regulatory Permission (as at the date of this Prospectus, Article 78(a) of CRR II sets out circumstances in which the relevant resolution authority for an institution shall grant permission for such institution to call, redeem, repay or repurchase eligible liabilities, such as the Notes) therefor, save that, if at the time of any redemption the prevailing Loss Absorption Regulations permit the repayment only after compliance with one or more alternative or additional pre-conditions to those set out in Condition 5(b) (*Conditions to Redemption, Substitution or Variation, and Purchase*), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s). As such redemption is subject to the Issuer obtaining Regulatory Permission, the outcome may not necessarily reflect the commercial intention of the Issuer or the commercial expectations of Holders and this may have an adverse impact on the market value of the Notes.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. Further, during periods when there is an increased likelihood, or perceived increased likelihood, that the Notes will be redeemed early, the market value of the Notes may be adversely affected.

If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Holders may only be able to reinvest the redemption proceeds in securities with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

The events referred to above may occur and lead to circumstances in which the Issuer may elect to redeem the Notes, but even then, the Issuer may not satisfy the conditions or may not elect to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes on the Call Date if the Issuer's funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed the Holders may not be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

The interest rate on the Notes will be reset on the Call Date, which may affect the market value of the Notes

The Notes will initially accrue interest at a fixed rate of interest to, but excluding, the Call Date. From, and including, the Call Date, however, the interest rate will be the Floating Interest Rate (as described in Condition 4(d) (*Floating Interest Rate*)). The Floating Interest Rate could be less than the Initial Fixed Interest Rate (as defined in Condition 4(c) (*Initial Fixed Interest Rate*)), which would affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

In addition, the Floating Interest Rate derives in part from the EURIBOR benchmark. On 27 July 2017, the Chief Executive of the UK Financial Conduct Authority (the "**FCA**"), which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Other interbank offered rates (such as EURIBOR) suffer from similar weaknesses to LIBOR and although work continues on reforming their respective methodologies to make them more grounded in actual transactions, they may be discontinued or be subject to changes in their administration.

Changes to the administration of EURIBOR, or the emergence of alternatives to EURIBOR, may cause EURIBOR to perform differently than in the past, or there could be other consequences which cannot be predicted. The discontinuation of EURIBOR or changes to its administration could require changes to the way in which the Floating Interest Rate is calculated. The development of alternatives to EURIBOR may result in the Notes performing differently than would otherwise have been the case if the alternatives to EURIBOR had not developed. Any such consequence could have a material adverse effect on the value of, and return on, the Notes after the Call Date.

If a Benchmark Event occurs, in accordance with Condition 4(i) (*Benchmark Discontinuation*), the Issuer shall use its reasonable endeavours to appoint an Independent Adviser to determine a Successor Rate or an Alternative Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Floating Interest Rate is likely to result in the Notes performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to be referenced. In addition, the market (if any) for Notes linked to any such Successor Rate or Alternative Rate may be less liquid than the market for Notes linked to the Original Reference Rate.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate. If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate will apply without an Adjustment Spread.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of Holders.

If the Issuer is unable to appoint an Independent Adviser or the Independent Adviser fails to determine a Successor Rate or an Alternative Rate, the Floating Interest Rate applicable to the next succeeding Interest Period shall be equal to the Floating Interest Rate last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date after the Call Date, the Floating Rate of Interest shall be determined using the Original Reference Rate last displayed on Reuters Page EURIBOR01 plus the Margin.

Meetings of Holders and modification

The Conditions of the Notes and the Instrument will contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The quorum requirements for such meetings does not require all Holders to vote or be present. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain Conditions (including, inter alia, the provisions regarding ranking referred to in Condition 3 (*Ranking*), the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes, or the Interest Rate or varying the method of calculating the Interest Rate) the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

In addition, the Agent and the Issuer may, without the consent of the Holders, make any modification of the Conditions, the Instrument or the Agency Terms which (i) is not prejudicial to the interests of the Holders, (ii) is of a formal, minor or technical nature, (iii) is made to correct a manifest error, or (iv) is to comply with mandatory provisions of any applicable law or regulation. Any such modification shall be binding on the Holders and shall be notified to the Holders as soon as practicable.

Each investor in the Notes must act independently as they do not have the benefit of a trustee

Because the Notes will not be issued pursuant to an indenture or a trust deed, the Holders will not have the benefit of a trustee to act upon their behalf and each investor will be responsible for acting independently with respect to certain matters affecting their interests in the Notes including instituting proceedings, following an event described in Condition 7(b) (*Enforcement*), and responding to any requests for consents, waivers or amendments.

Change of law

The Conditions of the Notes will be governed by the laws of England save that the provisions of (i) Condition 1 (*Form, Denomination, Title and Transfer*) relating to the form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes; (ii) Condition 3 (*Ranking*) relating to the ranking of the Notes and set-off and (iii) Condition 14(d) (*Acknowledgement of Statutory Loss Absorption Powers*) are governed by, and shall be construed in accordance with, the laws of Portugal. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or Portugal or administrative practice after the date of this Prospectus. As set out above, any security interests (rights in rem) granted by the Holders thereof over the Notes will need to comply with the mandatory requirements of Portuguese law, including relating to perfection.

Legality of purchase

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

A Holder's actual yield on the Notes may be reduced from the stated yield by transaction costs

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Holders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), Holders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Credit ratings assigned to the Issuer or the Notes may not reflect all the risks associated with an investment in those Notes

The Notes have been rated by Moody's and DBRS. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In addition, rating agencies may assign unsolicited ratings to the Notes. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable solicited ratings assigned to the Notes, which could adversely affect the market value and liquidity of the Notes.

In general, European regulated investors are restricted under the EU CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant non-EEA rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the EU CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Similarly, UK regulated investors are restricted under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the UK and registered under the UK CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-UK credit rating agencies, unless the relevant credit ratings are endorsed by a UK-registered credit rating agency or the relevant non-UK rating agency is certified in accordance with the UK CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the FCA on its website in accordance with the UK CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated FCA list.

Moody's and DBRS are established in the EU and registered in accordance with the EU CRA Regulation, and each appears on the latest update of the list of registered credit rating agencies on the ESMA website at https://www.esma.europa.eu/supervision/credit-rating-agencies/risk. Moody's and DBRS are not established in the UK but the credit ratings assigned by Moody's and DBRS have been endorsed by Moody's Investors Service

Limited and DBRS Ratings Limited, respectively, in accordance with UK CRA Regulation. As such, credit ratings assigned by Moody's and DBRS may be used for regulatory purposes in the UK in accordance with the UK CRA Regulation.

3. RISKS RELATING TO THE MARKET GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk and interest rate risk.

There is no existing secondary trading market for the Notes and one may not develop

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded bonds from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition of the Issuer deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes in full, or of the Notes being subject to loss absorption under an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control.

Any or all of such events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Issuer and any subsidiary of the Issuer can (subject to receiving Regulatory Permission (if required)) purchase Notes at any time, they have no obligation to do so. Purchases made by the Issuer could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, Holders should be aware of the prevailing credit market conditions (which continue at the date of this Prospectus), whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the Notes or the assets of the Issuer. The Issuer cannot predict whether these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Although applications have been made for the Notes to be admitted to trading on Euronext Dublin, there is no assurance that such application will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency or euro may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal as measured in the Investor's Currency.

Interest rate risks

An investment in the Notes, which bear interest at a fixed rate (reset after five years), involves the risk that subsequent changes in market interest rates may adversely affect their value. The rate of interest will be reset after five years, and as such the reset rate is not pre-defined at the date of issue of the Notes; it may be different from the initial rate of interest and may adversely affect the yield of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes.

The issue of the €300,000,000 3.500 per cent. Fixed/Floating Rate Callable Senior Preferred Notes due 2024 (the "**Notes**") of Novo Banco, S.A. (the "**Issuer**") was authorised by a resolution of the Executive Board of Directors of the Issuer passed on 7 July 2021 further to the prior consent of the General and Supervisory Board by a resolution passed on 7 July 2021. The Notes are governed by these terms and conditions (the "**Conditions**") and a deed poll given by the Issuer in favour of the Holders dated 23 July 2021 (the "**Instrument**"). The Notes also have the benefit of the Agency Terms dated 23 July 2021 (such Agency Terms as amended and/or restated and/or supplemented from time to time, the "**Agency Terms**"). The Issuer will be the initial paying agent (the "**Paying Agent**") and the initial agent bank (the "**Agent Bank**") in respect of the Notes. The Holders are entitled to the benefits of, bound by, and are deemed to have notice of, all the provisions of the Instrument and the Agency Terms applicable to them. Copies of the Instrument and the Agency Terms are available for inspection by Holders during normal business hours at the registered office of the Issuer.

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

1 Form, Denomination, Title and Transfer

The Notes are issued in denominations of €100,000. The Notes are issued in dematerialised book-entry form (*forma escritural*) and are registered (*nominativas*) and constituted by registration in individual securities accounts ("**Securities Accounts**"). The Notes are registered with the Central de Valores Mobiliários (the "**CVM**"), a Portuguese Securities Centralised System managed and operated by Interbolsa – *Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* ("**Interbolsa**"). Each person shown in the individual Securities Accounts held with an Affiliate Member of Interbolsa as having an interest in the Notes shall be considered the Holder of the principal amount of Notes recorded therein. Title to the Notes passes upon registration in the relevant individual Securities Accounts held with an Affiliate Member of Interbolsa. Any Holder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in respect of it) and no person will be liable for so treating the Holder.

In these Conditions, "**Holder**" means the person in whose name a Note is registered in the relevant individual Securities Accounts held with an Affiliate Member of Interbolsa.

2 Status

The Notes constitute direct, unsecured, unsubordinated and unguaranteed obligations of the Issuer and rank *pari passu* and without any preference among themselves.

3 Ranking

(a) ***Winding-Up***

The Issuer and, by virtue of its holding of any Note or any beneficial interest therein, each Holder acknowledge and agree that if a Winding-Up occurs, the rights and claims of the Holders against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any accrued and unpaid interest thereon, Additional Amounts and any damages awarded for breach of any obligations in respect of such Note, provided however that such rights and claims shall rank:

(i) *pari passu* among themselves and with any other Senior Higher Priority Liabilities; and

(ii) senior to (i) Senior Non Preferred Liabilities and (ii) all present and future subordinated obligations and all classes of share capital of the Issuer.

(b) ***Set-Off***

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes or the Instrument and each Holder shall, by virtue of his holding of any Note, be deemed, to the extent permitted under applicable law, to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up, the liquidator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

4 Interest Payments

(a) ***Interest Rate***

The Notes bear interest at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 4.

During the Initial Fixed Rate Interest Period, interest shall be payable on the Notes annually in arrear on each Interest Payment Date and, in respect of each full Interest Period up to the Call Date, shall amount to €3,500 per Calculation Amount, and thereafter interest shall be payable on the Notes quarterly in arrear on each Interest Payment Date, in each case as provided in this Condition 4.

Where it is necessary to compute an amount of interest in respect of any Note during the Initial Fixed Rate Interest Period for a period which is less than a year, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

Interest shall accrue on the Notes in respect of all Interest Periods (and any other period in respect of which interest may fall to be calculated) commencing on or after the Call Date on the basis of a day-count fraction equal to the actual number of days elapsed in the relevant period divided by 360.

(b) ***Interest Accrual***

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 5(a), (c), (d) or (e) or the date of substitution thereof pursuant to Condition 5(f), as the case may be, unless payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall, save as provided in Condition 4(a) in relation to payments of Interest for each Interest Period up to the Call Date, be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 4(a) for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(c) ***Initial Fixed Interest Rate***

For the Initial Fixed Rate Interest Period, the Notes bear interest at the rate of 3.500 per cent. per annum (the "**Initial Fixed Interest Rate**").

(d) ***Floating Interest Rate***

From and including the Call Date, the Notes will bear interest at a floating rate of interest (the "**Floating Interest Rate**"). The Floating Interest Rate in respect of each Interest Period commencing on or after the Call Date will be determined by the Agent Bank on the basis of the following provisions:

(i) On each Interest Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for 3-month deposits in euro as at 11 a.m. (Central European time) on such Interest Determination Date, as displayed on Reuters Page EURIBOR01. The Floating Interest Rate for the relevant Interest Period shall be such offered rate as determined by the Agent Bank plus the Margin.

(ii) If such offered rate does not so appear, or if Reuters Page EURIBOR01 is unavailable, the Agent Bank will, on such date, request the principal eurozone office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the eurozone inter bank market for 3-month deposits in euro at approximately 11 a.m. (Central European time) on the Interest Determination Date in question in an amount that is representative for a single transaction in the market at that time. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Interest Rate for the relevant Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.

(iii) If on any Interest Determination Date to which the provisions of paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Interest Rate for the relevant Interest Period shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which leading banks in the eurozone selected by the Agent Bank are quoting, at approximately 11 a.m. (Central European time) on the relevant Interest Determination Date, to leading banks in the eurozone for a period of 3 months in an amount that is representative for a single transaction in the market at that time, provided that if the applicable Floating Interest Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the relevant Floating Interest Rate shall be determined by the Agent Bank as the rate applicable at the last preceding Interest Determination Date or if there has not been a first Interest Payment Date after the Call Date, the Floating Rate of Interest shall be determined using the rate last displayed on Reuters Page EURIBOR01 plus the Margin.

(e) ***Floating Interest Rate and Calculation of Floating Interest Amounts***

The Agent Bank will, as soon as practicable after 11:00 a.m. (Central European time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the relevant Interest Period and calculate the amount of interest which is payable in respect of a Calculation Amount on the Interest Payment Date for that Interest Period (the "**Floating Interest Amounts**"). The determination of the applicable Floating Interest Rate and the amount of interest which is payable per Calculation Amount by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

(f) ***Publication of Floating Interest Rate and Floating Interest Amounts***

The Agent Bank shall cause notice of the Floating Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period, the Floating Interest Amount per Calculation Amount and the relevant date scheduled for payment to be given to the Paying Agent (if a different entity to the Agent Bank), any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 11, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth TARGET Business Day thereafter.

The Floating Interest Amount and the date scheduled for payment so notified may subsequently be amended without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions. If the Notes become due and payable pursuant to Condition 7(a), the accrued interest per Calculation Amount and the Floating Interest Rate payable, as applicable, in respect of the Notes shall nevertheless continue to be calculated as previously by the Agent Bank in accordance with this Condition 4 but no publication of the Floating Interest Rate or the amount of interest payable per Calculation Amount so calculated need be made.

(g) ***Agent Bank and Reference Banks***

Whenever a function expressed in these Conditions to be performed by the Agent Bank and Reference Banks falls to be performed, the Issuer will maintain an Agent Bank and (if required) the number of Reference Banks provided below where the Floating Interest Rate is to be calculated by reference to them.

The Issuer may from time to time replace the Agent Bank or any Reference Bank with another leading investment, merchant or commercial bank or financial institution. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Floating Interest Rate in respect of any Interest Period as provided in Condition 4(d) or calculate the Floating Interest Amount, the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in the eurozone to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid. A Reference Bank may not be the Issuer or any of its affiliates.

(h) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank, shall (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Paying Agent and all Holders and (in the absence of wilful default or negligence) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

(i) ***Benchmark Discontinuation***

(i) *Independent Adviser*

Notwithstanding the foregoing, if a Benchmark Event occurs in relation to the Original Reference Rate when any Floating Interest Rate (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4(i)(ii)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 4(i)(iv)), provided that such appointment need not be made earlier than 30 days prior to the first date on which the Original Reference Rate is to be used to determine any Floating Interest Rate (or any component part thereof). In making such determination, the Independent Adviser appointed pursuant to this Condition 4(i) shall act in good faith and in a commercially reasonable manner. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Agent Bank, the Paying Agent, or the Holders for any determination made by it, pursuant to this Condition 4(i).

If (a) the Issuer is unable to appoint an Independent Adviser; or (b) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 4(i)(i) prior to the date which is 10 TARGET Business Days prior to the relevant Interest Determination Date, the Floating Interest Rate applicable to the next succeeding Interest Period shall be equal to the Floating Interest Rate last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date after the Call Date, the Floating Rate of Interest shall be determined using the Original Reference Rate last displayed on Reuters Page EURIBOR01 plus the Margin. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 4(i)(i).

(ii) *Successor Rate or Alternative Rate*

If the Independent Adviser, determines that:

(a) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Floating Interest Rate (or the relevant component part thereof), subject to the subsequent operation of this Condition 4(i); or

(b) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Floating Interest Rate (or the relevant component part thereof), subject to the subsequent operation of this Condition 4(i).

(iii) *Adjustment Spread*

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be), subject to the subsequent operation of this Condition 4(i). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iv) *Benchmark Amendments*

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4(i) and the Independent Adviser determines (i) that amendments to these Conditions, the Instrument or the Agency Terms are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(i)(v), without any requirement for the consent or approval of Holders, vary these Conditions, the Instrument or the Agency Terms to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 4(i)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 4(i), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to (i) prejudice the qualification of the Notes as eligible liabilities or loss absorbing capacity instruments for the purposes of the Loss Absorption Regulations or (ii) result in the Relevant Regulator treating the next Interest Payment Date or the Call Date, as the case may be, as the effective maturity of the Notes, rather than the maturity date of the Notes for the purposes of qualification of the Notes as eligible liabilities or loss absorbing capacity instruments for the purposes of the Loss Absorption Regulations.

(v) *Notices*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 4(i) will be notified at least 10 TARGET Business Days prior to the relevant Interest Determination Date by the Issuer to the Agent Bank and the Paying

Agent. In accordance with Condition 11, notice shall be provided to the Holders promptly thereafter. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Holders of the same, the Issuer shall deliver to the Paying Agent to make available at its registered office to the Holders a certificate signed by two members of the Executive Board of Directors of the Issuer:

(a) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(i); and

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

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

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Condition 4(i)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Condition 4(d) will continue to apply unless and until a Benchmark Event has occurred.

5 Redemption, Substitution, Variation and Purchase

(a) ***Final Redemption***

Unless previously redeemed or purchased and cancelled or (pursuant to Condition 5(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on the Interest Payment Date falling on, or nearest to, 23 July 2024. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.

(b) ***Conditions to Redemption, Substitution or Variation, and Purchase***

Any redemption, substitution, variation or purchase of the Notes in accordance with Conditions 5(c), (d), (e), (f) or (g) is subject to:

(i) the Issuer obtaining prior Regulatory Permission therefor; and

(ii) in the case of any substitution or variation, such substitution or variation being permitted by, and conducted in accordance with, any other applicable requirement of the Relevant Regulator or under the Loss Absorption Regulations at such time.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase, the prevailing Loss Absorption Regulations permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 5(b), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

For the avoidance of doubt, any failure by the Issuer to obtain Regulatory Permission (whether from the Relevant Regulator or otherwise) as contemplated above shall not constitute a default of the Issuer under the Notes or for any purpose.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 5 (other than a redemption pursuant to Condition 5(c)), the Issuer shall deliver to the Paying Agent to make available at its registered office to the Holders a copy of a certificate signed by two members of the Executive Board of Directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or, as appropriate, vary is satisfied and, in the case of a substitution or variation, that the terms of the relevant Loss Absorption Compliant Notes comply with the definition thereof in Condition 16 and, in the case of a redemption pursuant to Condition 5(d) only, an opinion from a nationally recognised law firm or other tax adviser in Portugal, experienced in such matters to the effect that the relevant requirement or circumstance referred to in any of paragraphs (i) to (iii) (inclusive) of the definition of "Tax Event" applies.

(c) ***Issuer's Call Option***

Subject to Condition 5(b), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes on the Call Date at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

(d) ***Redemption Due to Tax Event***

If, prior to the giving of the notice referred to in this Condition 5(d), a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

(e) ***Redemption Due to Loss Absorption Disqualification Event***

If, prior to the giving of the notice referred to in this Condition 5(e), a Loss Absorption Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption.

(f) ***Substitution or Variation***

If a Tax Event or a Loss Absorption Disqualification Event has occurred and is continuing or in order to ensure the effectiveness and enforceability of Condition 14(d), then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 11 and the Paying Agent (which notice shall be irrevocable and shall specify the date for substitution or, as the case may be, variation of the Notes) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the Call Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Loss Absorption Compliant Notes and may make any consequential amendments to the Instrument and the Agency Terms. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 5(f), as the case may be and make any consequential amendments to the Instrument and the Agency Terms.

In connection with any substitution or variation in accordance with this Condition 5(f), the Issuer shall comply with all securities and other laws and the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

The exercise of such substitution or variation rights may have adverse tax and other consequences for Holders and Holders should consult their own tax and other advisers in connection therewith. The Issuer is *not required to take into account the consequences to Holders if it exercises its rights of substitution or variation hereunder.*

(g) ***Purchases***

The Issuer may, subject to Condition 5(b), purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. The Notes so purchased (or acquired), while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders.

(h) ***Cancellation***

All Notes redeemed or substituted by the Issuer pursuant to this Condition 5 will forthwith be cancelled in accordance with the applicable regulations of Interbolsa. All Notes purchased by or on behalf of the Issuer may, subject to obtaining any Regulatory Permission therefor, be held, reissued, resold or, at the option of the Issuer, cancelled in accordance with the applicable regulations of Interbolsa.

6 Payments

(a) ***Method of Payment***

Payments in respect of the Notes will be made by transfer to the account of the Holder maintained by or on its behalf in the relevant Affiliate Member of Interbolsa, details of which appear in the records of the relevant Affiliate Member of Interbolsa at close of business on the TARGET Business Day before the due date for payment of principal and/or interest.

If the due date for payment of any amount in respect of any Note is not a TARGET Business Day, the Holder shall not be entitled to payment of the amount due until the next succeeding TARGET Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

(b) ***Payments Subject to Laws***

Save as provided in Condition 8, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

7 Default

(a) ***Default***

(i) If the Issuer shall not make payment in respect of the Notes for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Instrument and the Notes and a Holder may notwithstanding the provisions of Condition 7(b), institute proceedings for the winding-up of the Issuer.

(ii) In the event of a Winding-Up of the Issuer (whether or not instituted by a Holder pursuant to the foregoing), a Holder may prove and/or claim in such Winding-Up of the Issuer, such claim being as contemplated in Condition 3(a). If a Winding-Up occurs, then any Holder may give notice to the Issuer and to the Paying Agent at their respective registered offices, effective upon the date of receipt thereof by the Issuer, that the Notes held by such Holder(s) are, and they shall accordingly thereby forthwith become, immediately due and repayable together with accrued interest and any Additional Amounts thereon.

(b) ***Enforcement***

Without prejudice and subject to Condition 7(a), a Holder may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Instrument, the Agency Terms or the Notes (other than any payment obligation of the Issuer under or arising from the Instrument, the Agency Terms or the Notes, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions, the Instrument and the Agency Terms. Nothing in this Condition 7(b) shall, however, prevent a Holder from instituting proceedings for the winding-up of the Issuer (in accordance with and to the extent permitted by applicable law at the relevant time) and/or proving and/or claiming in any Winding-Up of the Issuer in respect of any payment obligations of the Issuer arising from the Notes, the Instrument and the Agency Terms (including any damages awarded for breach of any obligations) in the circumstances provided in Conditions 3(a) and 7(a).

(c) ***Extent of Holders' Remedy***

No remedy against the Issuer, other than as referred to in this Condition 7, shall be available to the Holders, whether for the recovery of amounts owing in respect of the Instrument, the Notes or in respect of the Agency Terms or any breach by the Issuer of any of its other obligations under or in respect of the Instrument, the Notes or under the Agency Terms.

8 Taxation

All payments of principal, interest and any other amounts by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction or any political subdivision thereof or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount) the Issuer will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders of such amounts as would have been received by them in respect of payments of interest had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

(a) held by a recipient which is not the ultimate beneficial owner of the income arising from such Note; or

(b) held by or on behalf of a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than a mere holding of such Note; or

(c) held by, or by a third party on behalf of, a Holder who could lawfully prevent (but has not so prevented) such deduction or withholding by complying or procuring that any third party complied with any statutory requirements or by making or procuring that any third party made a declaration of non-residence or other similar claim for exemption to any applicable tax authority; or

(d) held by, or by a third party on behalf of, an entity resident for income tax purposes in a country, territory or region subject to a clearly more favourable tax regime, as listed in the Ministerial Order no. 150/2004, of 13 February 2004, issued by the Portuguese Minister of Finance and Public Administration (as amended), or legislation replacing it, unless a Double Tax Convention or a Tax Information Exchange Agreement entered into between such country, territory or region and Portugal is in force at the time the interest becomes due and payable; or

(e) to, or to a third party on behalf of, a Holder in respect of whom the documentation required to certify the tax residence, pursuant to the conditions set forth in Decree-Law No. 193/2005, of 7 November 2005, as amended, and accessory regulations, or legislation replacing it, is not provided within 30 days after the Relevant Date.

References in these Conditions to interest shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 8.

Notwithstanding any other provisions of these Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer shall be made net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.

9 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Meetings of Holders, Modification and Waiver

(a) ***Meetings of Holders***

The Instrument contains provisions for convening meetings of Holders (including by way of conference call) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Instrument. Such a meeting may be convened by the Issuer or Holders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding ranking referred to in Condition 3, the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes or the Interest Rate or varying the method of calculating the Interest Rate) the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

The agreement or approval of the Holders shall not be required (i) in the case of any substitution or variation of the Notes required to be made in the circumstances described in Condition 5(f) in connection with the substitution of the Notes for, or variation of the terms of the Notes so that they remain, or as appropriate become, Loss Absorption Compliant Notes or (ii) in the case of any variation of these Conditions, the Instrument or the Agency Terms required to be made in the circumstances described in Condition 4(i).

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Instrument provides that a resolution in writing signed by or on behalf of the Holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) ***Modification of the Notes***

The Agent and the Issuer may, without the consent of the Holders, make any modification of these Conditions, the Instrument or the Agency Terms which (i) is not prejudicial to the interests of the Holders, (ii) is of a formal, minor or technical nature, (iii) is made to correct a manifest error, or (iv) is to comply with mandatory provisions of any applicable law.

Any such modification shall be binding on the Holders and shall be notified to the Holders as soon as practicable. No modification to these Conditions or any provisions of the Instrument shall become effective unless (if and to the extent required at the relevant time by the Relevant Regulator) the Issuer shall have given such period of prior written notice thereof required by the Relevant Regulator, to, and received Regulatory Permission therefor from, the Relevant Regulator (provided that there is a requirement to give such notice and obtain such Regulatory Permission).

(c) ***Notices***

Any such modification shall be binding on all Holders and shall be notified to the Holders in accordance with Condition 11 as soon as practicable thereafter.

11 Notices

Notices required to be given to the Holders pursuant to the Conditions shall be valid if published in such manner as the stock exchange on which Notes are listed or its rules and regulations may prescribe or accept. The Issuer shall also ensure that all such notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. The Issuer shall also comply with the requirements of Interbolsa and of Portuguese law generally in respect of notices relating to the Notes.

As at the Issue Date, notices are required to be (i) published on the website of Euronext Dublin and (ii) delivered to Interbolsa for communication to its Affiliate Members.

12 Further Issues

The Issuer may from time to time without the consent of the Holders, but subject to any Regulatory Permission required, create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

13 Agents

The Issuer shall be the initial Paying Agent and the initial Agent Bank. Any Paying Agent or Agent Bank does not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer reserves the right at any time to vary or terminate the appointment of the Paying Agent or the Agent Bank and to appoint replacement agents, provided that it will:

(a) at all times maintain a Paying Agent; and

(b) whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank.

Notice of any such termination or appointment and of any change in the registered offices of the Paying Agent or Agent Bank will be given to the Holders in accordance with Condition 11. If either the Agent Bank or the Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the Issuer shall appoint an independent financial institution to act as such in its place. All calculations and determinations made by the Agent Bank or the Paying Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Agent Bank, the Paying Agent and the Holders.

14 Governing Law and Jurisdiction

(a) ***Governing Law***

The Instrument, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England, save that the provisions of (i) Condition 1 relating to the form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes; (ii) Condition 3 relating to the ranking of the Notes and set-off and (iii) Condition 14(d) are governed by, and shall be construed in accordance with, the laws of Portugal. The Agency Terms and any non-contractual obligations arising out of or in connection therewith, shall be governed by, and shall be construed in accordance with, the laws of Portugal.

(b) ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Instrument or the Notes (other than the provisions of (i) Condition 1 relating to the form and transfer of the Notes, creation of security over the Notes, and the Interbolsa procedures for the exercise of rights under the Notes; (ii) Condition 3 relating to the ranking of the Notes and set-off and (iii) Condition 14(d) (together the "**Excluded Matters**"), in respect of which the courts of Portugal shall have jurisdiction) and accordingly any legal action or proceedings arising out of or in connection with the Notes (including any legal action or proceedings relating to non-contractual obligations arising out of or in connection with them) ("**Proceedings**") may be brought in such courts. The Issuer has in the Instrument irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (other than in respect of Excluded Matters) and to the jurisdiction of the courts of Portugal in respect of any Proceedings relating to Excluded Matters.

(c) ***Service of Process***

The Issuer has in the Instrument irrevocably appointed Law Debenture Corporate Services Limited of 8th Floor, 100 Bishopsgate, London EC2N 4AG as agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

(d) ***Acknowledgement of Statutory Loss Absorption Powers***

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements or understanding between the Issuer and any Holder (which, for the purposes of this Condition 14(d), includes each Holder of a beneficial interest in the Notes), by its acquisition of the Notes, each Holder acknowledges and accepts that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

(1) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:

   (i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;

   (ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Holder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes, in which case the Holder agrees to accept in lieu of its rights under the Notes any such shares, other securities or other obligations of the Issuer or another person;

   (iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; or

   (iv) the amendment or alteration of the maturity date of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and

(2) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

No repayment or payment of Relevant Amounts in respect of the Notes will become due and payable or be paid after the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, amended or altered as a result of such exercise.

Neither a reduction or cancellation, in part or in full, of the Relevant Amounts, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Issuer, nor the exercise of the Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Notes will be an event of default.

Upon the exercise of the Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Notes, the Issuer will provide a written notice to the Holders in accordance with Condition 11 as soon as practicable regarding such exercise of the Statutory Loss Absorption Powers but any failure to provide such notice shall not affect the validity or enforceability of such exercise of the Statutory Loss Absorption Powers.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

16 Definitions

In these Conditions:

"**Additional Amounts**" has the meaning given to it in Condition 8;

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

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

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

(iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

"**Affiliate Member**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") for the purpose of holding individual Securities Accounts on behalf of Euroclear and Clearstream, Luxembourg;

"**Agency Terms**" has the meaning given to it in the preamble of these Conditions;

"**Agent Bank**" has the meaning given to it in the preamble to these Conditions;

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 4(i)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in euro.

"**Article 8-A**" means Article 8-A of Decree-Law 199/2006 of 25 October 2006, as amended or superseded (including by Law 23/2019 of 13 March 2019, which implemented Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017);

"**Benchmark Amendments**" has the meaning given to it in Condition 4(i)(iv);

"**Benchmark Event**" means:

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

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(v) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or

(vi) it has become unlawful for the Paying Agent, the Agent Bank, the Issuer or any other party to calculate any payments due to be made to any Holder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (a) in the case of (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (b) in the case of (iv) above, on the date of the prohibition of use of the Original Reference Rate and (c) in the case of (v) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Paying Agent and the Agent Bank. For the avoidance of doubt, neither the Paying Agent nor the Agent Bank shall have any responsibility for making such determination;

"**BRRD**" means Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as the same may be amended or replaced from time to time (including, without limitation, by Directive (EU) 2017/2399 and by Directive (EU) 2019/879);

"**Calculation Amount**" means €100,000 in principal amount;

"**Call Date**" means 23 July 2023;

"**Conditions**" means these terms and conditions of the Notes, as amended from time to time;

"**EEA Regulated Market**" means a market as defined by Article 4.1 (14) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;

"**euro**" or "**€**" means the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome establishing the European Communities as amended;

"**Euronext Dublin**" means the Irish Stock Exchange plc trading as Euronext Dublin;

"**Extraordinary Resolution**" has the meaning given to it in the Instrument;

"**Floating Interest Amounts**" has the meaning given to it in Condition 4(e);

"**Floating Interest Rate**" has the meaning given to it in Condition 4(d);

"**Group**" means the Issuer and its Subsidiaries;

"**Holder**" has the meaning given to it in Condition 1;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 4(i)(i);

"**Initial Fixed Interest Rate**" has the meaning given to it in Condition 4(c);

"**Initial Fixed Rate Interest Period**" means the period from (and including) the Issue Date to (but excluding) the Call Date;

"**Interest Determination Date**" means, in relation to each Interest Period from and including the Interest Period beginning on the Call Date, the second TARGET Business Day prior to the commencement of the relevant Interest Period;

"**Interest Payment Date**" means (i) in respect of the period from the Issue Date to (and including) the Call Date, 23 July in each year, starting on (and including) 23 July 2022 and (ii) after the Call Date, 23 October 2023, 23 January 2024, 23 April 2024 and 23 July 2024, provided that if any Interest Payment Date after the Call Date would otherwise fall on a day which is not a TARGET Business Day, it shall be postponed to the next day which is a TARGET Business Day;

"**Interest Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the Initial Fixed Interest Rate and/or the Floating Interest Rate, as the case may be;

"**Issue Date**" means 23 July 2021, being the date of the initial issue of the Notes;

"**Issuer**" means Novo Banco, S.A.;

"**Loss Absorption Compliant Notes**" means securities issued directly by the Issuer that:

(a) have terms which are not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer)) prior to the issue of the relevant securities or, as appropriate, variation of the Notes, and, subject thereto, which (1) contain terms which comply with the then current Loss Absorption Regulations in order to be eligible to qualify in full towards the Issuer's and/or the Group's minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity instruments; (2) provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes; (3) rank *pari passu* with the ranking of the Notes; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (5) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; (6) do not contain terms which provide for interest cancellation or deferral (provided that this paragraph (6) shall not preclude the inclusion of any provision analogous to Condition 14(d)); and (7) do not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares (provided that this paragraph (7) shall not preclude the inclusion of any provision analogous to Condition 14(d));

(b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other internationally recognised stock exchange as selected by the Issuer; and

(c) where the Notes which have been substituted or varied had a published rating from a Rating Agency immediately prior to their substitution or variation and such rating was solicited by or on behalf of the Issuer, each such Rating Agency has ascribed, or announced its intention to ascribe, a published rating to the relevant Loss Absorption Compliant Notes equal to or higher than (i) the solicited published rating of the Notes from the Rating Agency immediately prior to their substitution or variation or (ii) where the solicited published rating of the Notes was, as a result of Condition 14(d) becoming ineffective and/or unenforceable, amended prior to such substitution or variation, the solicited published rating of the Notes from the Rating Agency immediately prior to such amendment, save that this proviso shall not prevent any changes being made to the governing law of Condition 14(d) where such changes are needed to ensure the effectiveness or enforceability of Condition 14(d).

Any change to the governing law of Condition 14(d) in order to ensure the effectiveness or enforceability of Condition 14(d) shall, of itself, be deemed for the purposes of (a) above not to be materially less favourable to an investor.

"**Loss Absorption Disqualification Event**" shall be deemed to have occurred if, as a result of any amendment to, or change in, any Loss Absorption Regulations, or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective on or after the Reference Date, the entire principal amount of the Notes or any part thereof, is, or (in the opinion of the Issuer or the Relevant Regulator) is likely to be, excluded from the Issuer's and/or the Group's minimum requirements for (i) own funds and eligible liabilities and/or (ii) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer and/or the Group and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur (a) where the relevant exclusion is due to the remaining maturity of the Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer and/or the Group on the Reference Date; or (b) where the relevant exclusion is as a result of any applicable limitation on the amount of liabilities of the Issuer that may qualify as (i) own funds and eligible liabilities and/or (ii) loss absorbing capacity instruments, of the Issuer or the Group;

"**Loss Absorption Regulations**" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of Portugal, the Relevant Regulator and/or of the European Parliament or of the Council of the European Union then in effect in Portugal and applicable to the Issuer and/or the Group, including, without limitation to the generality of the foregoing, any applicable delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by any Relevant Regulator from time to time (whether such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer and/or the Group);

"**Margin**" means 3.964 per cent.;

"**Market**" means Euronext Dublin's EEA Regulated Market;

"**Notes**" has the meaning given to it in the preamble to these Conditions;

"**Official List**" means the official list of Euronext Dublin;

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Floating Interest Rate (or any component part thereof) on the Notes or, if applicable, any other successor or alternative rate (or any component part thereof) determined and applicable to the Notes pursuant to the earlier operation of Condition 4(i);

"**Paying Agent**" has the meaning given to it in the preamble to these Conditions;

"**Rating Agency**" means Moody's Investors Service España S.A. or its successor;

"**Reference Banks**" means five leading banks in the principal interbank market relating to euro selected by the Agent Bank in its discretion after consultation (if the Agent Bank is not the Issuer at the relevant time) with the Issuer;

"**Reference Date**" means the later of (i) the Issue Date and (ii) the latest date (if any) on which any further Notes have been issued pursuant to Condition 12;

"**Regulatory Permission**" means, in relation to any action, such notice, regulatory permission (and/or, as appropriate, consent, approval or waiver) as is required therefor under prevailing Loss Absorption Regulations (if any);

"**Relevant Amounts**" means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and Additional Amounts due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority;

"**Relevant Date**" means (i) in respect of any payment other than a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Holders that such payment will be made, provided that payment is in fact made, and (ii) in respect of a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the Winding-Up;

"**Relevant Jurisdiction**" means Portugal or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes;

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

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

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

"**Relevant Regulator**" means the Bank of Portugal, the Single Resolution Board, the European Central Bank or such other authority having primary supervisory authority with respect to prudential and/or resolution matters concerning the Issuer and/or the Group, as may be relevant in the context and circumstances;

"**Relevant Resolution Authority**" means the resolution authority with the ability to exercise any Statutory Loss Absorption Powers in relation to the Issuer;

"**Reuters Page EURIBOR01**" means the display page or screen so designated on Reuters (or such other page or screen as may replace that page on that service, or such other service as may be nominated as the information vendor);

"**Senior Higher Priority Liabilities**" means any unsecured, unsubordinated and unguaranteed obligations of the Issuer other than Senior Non Preferred Liabilities;

"**Senior Non Preferred Liabilities**" means any unsubordinated and unsecured senior non preferred obligations of the Issuer issued under Article 8-A and any other obligations which, by law and/or by their terms, and to the extent permitted by Portuguese law, rank *pari passu* with unsubordinated and unsecured senior non preferred obligations of the Issuer issued under Article 8-A;

"**Statutory Loss Absorption Powers**" means any write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Portugal, relating to (i) the transposition of the BRRD (including but not limited to the General Framework for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), established by Decree-Law No. 298/92 of December 1992, as amended or superseded (including by any banking activity code that may enter into force)) and (ii) the instruments, rules and standards created thereunder, pursuant to which any obligation of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period);

"**Subsidiaries**" means any entity of which the Issuer, from time to time (i) owns, directly or indirectly, more than 50 per cent. of the share capital or similar right of ownership, or (ii) owns or is able to exercise, directly or indirectly, more than 50 per cent. of the voting rights, or (iii) has the right to appoint the majority of the members of the board of directors, and in each case is within the consolidation perimeter of the Issuer;

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

"**TARGET Business Day**" means a day on which the TARGET System is operating;

"**TARGET System**" means the Trans European Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto);

"**Tax Event**" is deemed to have occurred if, as a result of a Tax Law Change:

(i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; or

(ii) the Issuer is no longer entitled to claim a deduction in respect of any payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced; or

(iii) the Issuer is not able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable Portuguese tax purposes (whether under the tax grouping system current as at the date of issue of the Notes or any similar system or systems having like effect as may from time to time exist), and, in any such case, the Issuer could not avoid the foregoing by taking measures reasonably available to it;

"**Tax Law Change**" means a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Notes, which change or amendment becomes public or becomes effective on or after the Reference Date; and

"**Winding-Up**" means:

(i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by an Extraordinary Resolution and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions); or

(ii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the General Framework for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), established by Decree-Law No. 298/92 of December 1992, as amended or superseded (including by any banking activity code that may enter into force).

FORM OF THE NOTES

General

The Notes will be cleared through Interbolsa and will be held through a centralised system (‘*sistema centralizado*’) composed of interconnected Securities Accounts, through which such securities (and inherent rights) are created, held and transferred, and which allows Interbolsa to control at all times the amount of securities so created, held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The CVM, managed and operated by Interbolsa, provides for all procedures required for the exercise of rights carried by the Notes held through Interbolsa, except for information and voting rights.

The CVM will comprise, *inter alia*, (i) the issue account, opened by the Issuer in the CVM and which reflects the full amount of the Note outstanding from time to time; and (ii) the control accounts opened by each of the Affiliate Members (as defined below) of Interbolsa, and which reflect at all times the aggregate nominal amount of the Notes held by such Affiliate Member by or on behalf of the Holders in individual Securities Accounts.

The Notes will be allocated an International Securities Identification Number (“**ISIN**”) through the codification system of Interbolsa. The Notes will be accepted and registered with CVM and settled by Interbolsa’s settlement system.

Form of the Notes

The Notes will be in book-entry form and title thereto will be evidenced by book entries in accordance with the provisions of the Portuguese securities code (*Código dos Valores Mobiliários*) enacted by Decree-Law No. 486/99 of 13 November 1999 (as amended and restated from time to time) (the “**Portuguese Securities Code**”) and the applicable CMVM and Interbolsa regulations. No physical document of title will be issued in respect of the Notes.

The Notes will be registered in the relevant issue account opened by the Issuer with the CVM and will be also recorded in control accounts by each Affiliate Member (as defined below) of Interbolsa. Such control accounts reflect at all times the outstanding amount of the Notes held in the individual Securities Accounts opened with each of the Affiliate Member of Interbolsa. Where used in this Prospectus, the expression “**Affiliate Member of Interbolsa**” means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding individual Securities Accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the Securities Accounts established in an Affiliate Member of Interbolsa as having title to the Notes shall be treated as the Holder of the principal amount of the Notes recorded therein.

Payment of principal and interest in respect of Notes

Payment of principal and interest in respect of the Notes will be subject to Portuguese laws and regulations, notably the regulations from time to time issued and applied by the CMVM and by Interbolsa.

The Issuer must give Interbolsa advance notice of all payments and provide all necessary information for that purpose.

Prior to any payment, the Paying Agent shall provide Interbolsa with a statement of acceptance of its role of Paying Agent.

Interbolsa must notify the Paying Agent of the amounts to be settled, which will be determined by Interbolsa on the basis of the account balances of the control accounts of each relevant Affiliate Member of Interbolsa.

On the date on which any payment in respect of the Notes is to be made, the corresponding entries and counter-entries will be made by Interbolsa in the TARGET2 System current accounts held by such Paying Agent and by the relevant Affiliate Members of Interbolsa.

Whilst the Notes are recorded at the CVM, payment of principal and interest in respect of the Notes will be (a) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) from the payment current account which the Paying Agent has indicated to, and has been accepted by, Interbolsa to be used on the Paying Agent's behalf for payments in respect of the Notes to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members of Interbolsa whose control accounts with the CVM are credited with such Notes and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current accounts to the accounts of the Holders of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

Transfer of the Notes

The Notes may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Notes. No Holder will be able to transfer the Notes, except in accordance with Portuguese law and the applicable procedures of Interbolsa.

Each purchaser of Notes and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) it understands that the Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Regulation S, in each case in accordance with any applicable securities laws of any State of the United States; and

(iii) the Issuer and the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

USE OF PROCEEDS

The Notes are being issued to raise funds (a) in order to purchase outstanding securities of the Issuer, acting through its Luxembourg branch, and of NB Finance Ltd., pursuant to concurrent tender offers which are being made pursuant to a separate Tender and Consent Solicitation Memorandum dated 9 July 2021, and (b) for general corporate purposes.

DESCRIPTION OF THE ISSUER AND OF THE GROUP

A. LEGAL AND COMMERCIAL NAME OF THE ISSUER

The legal name of the Issuer is Novo Banco, S.A. and its most frequently used commercial name is "NOVO BANCO".

B. CORPORATE INFORMATION OF THE ISSUER

Novo Banco, S.A. is a limited liability company (*sociedade anónima*) incorporated under the laws of Portugal with a registered and fully paid up share capital of €5,900,000,000.00, represented by 9,799,999,997 dematerialised registered shares with no nominal value, and registered in the Commercial Registry Office of Lisbon under the sole registration and taxpayer number 513204016. The Issuer's registered address is at Avenida da Liberdade, nº 195, 1250 - 142 Lisbon, Portugal, and the telephone number of its registered office is 213501000. The Issuer is a credit institution whose activities are regulated by the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*, hereinafter "**RGICSF**") and is subject to the Portuguese Companies Code (*Código das Sociedades Comerciais*), approved by Decree-Law No. 262/86, of 2 September 1986, as amended.

The Legal Entity Identifier (LEI) code of the Issuer is 5493009W2E2YDCXY6S81.

The Issuer's website is www.novobanco.pt. The information on the website does not form part of this Prospectus unless that information is expressly incorporated by reference into this Prospectus.

C. ORIGIN AND OVERVIEW

The Issuer is the main entity of the Group, with a focus on the banking business. The Issuer was incorporated by resolution of the Board of Directors of the Bank of Portugal dated 3 August 2014 (8 p.m.) (the "**Resolution of 3 August 2014**") under No. 5 of article 145-G of the RGICSF), approved by Decree-Law No. 298/92, of 31 December 1992 (as amended), following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. ("**BES**"), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF (in the version in force at the time) (together with the decisions adopted by the Bank of Portugal in connection with the Resolution of 3 August 2014, the "**Resolution Measure**"). Pursuant to the Resolution Measure, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the Resolution of 3 August 2014 (and clarified by the extraordinary meeting held by the Board of Directors of the Bank of Portugal on 11 August 2014 (5 p.m.)) were transferred to the Issuer.

As a result of the Resolution of 3 August 2014 applied, the Resolution Fund became the sole owner of the share capital of the Issuer, in the amount of €4,900 million, which was incorporated as a bridge bank.

On 29 December 2015, the Board of Directors of the Bank of Portugal approved a resolution (the "**Resolution of 29 December 2015**"), which resulted in a revised and consolidated version of Annex 2 to the Resolution of 3 August 2014, and consolidated the perimeter of assets, liabilities, off-balance sheet items and assets under management of the Issuer.

On 31 March 2017, the Resolution Fund signed the sale agreement of the Issuer.

On 18 October 2017 the sale process of the Issuer to Nani Holdings, S.G.P.S., S.A., a company indirectly held by investment funds managed by the Lone Star group, was concluded (the "**Lone Star Sale**"). Once the sale was concluded and after carrying out two capital increases, the first in the amount of €750 million (on the date of the sale), and the second in the amount of €250 million (on 21 December 2017), the share capital of the Issuer increased to €5,900,000,000.00, represented by 9,799,999,997 dematerialised registered shares with no nominal value, of which 75 per cent. were fully subscribed, paid up and held by Nani Holdings S.G.P.S., S.A. and 25 per cent. by the Resolution Fund.

With the conclusion of the Lone Star Sale, the Issuer ceased to be considered a bridge bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority (Directorate-General for Competition) in the context of the state aid process.

The Issuer develops its banking activity directly and through its subsidiaries Banco Eletrónico de Serviço Total S.A. ("**Banco Best**", fully owned) and NOVO BANCO dos Açores, S.A. ("**NBA**", of which it holds a 57.53 per cent. stake). Additionally, it also operates in asset management through its fully owned subsidiary GNB - Gestão de Ativos, S.G.P.S., S.A. ("**GNB GA**") that operates in mutual fund management, real estate fund management, pension fund management and wealth management. Finally, the Issuer has equity holdings in companies operating in venture capital, real estate, renting and corporate services. Through its 359 branches and its digital platforms, the Issuer serves around 1.4 million clients.

D. EUROPEAN COMMISSION COMMITMENTS

In the context of the Lone Star Sale, additional commitments by the Portuguese authorities have been adopted, which supersede those contained in the previous state aid decisions of 2014 and 2015 by the European Commission (the "**Commitments**"). The Commitments were approved by the European Commission ("**EC**") on 11 October 2017 and will remain in place until 31 December 2021 (the "**Restructuring Period**"). An independent monitoring trustee (the "**Monitoring Trustee**") has been appointed in order to monitor full compliance of the Commitments which have been undertaken by the Portuguese Government and which are binding on the Issuer.

For further information see the decision of the EC State Aid no. SA.49275 (2017/N).

See also, "*Risk Factors—Risks relating to the Issuer—Risks Relating to the Issuer's business— The Group is subject to the commitments undertaken by the Portuguese State to the EC, and a failure to achieve the commitments may result in further corrective measures being implemented*".

Structural Commitments

The Issuer segregated its existing activities into a core unit and a non-core unit. Those units are not separate legal entities, therefore funding, liquidity and solvency are shared across both units.

Particularly, with regard to the non-core unit, the Issuer is required, under the Commitments, during the Restructuring Period (with different deadlines depending on the assets), to divest or wind-down certain of its non-core assets in line with its strategy.

The Commitments impose certain targets for the deleveraging of the non-core assets throughout the Restructuring Period, which by the end of such period should not be greater than an established target. In addition, certain subsidiaries and business activities, including most international operations classified as non-core assets, must be divested, liquidated or wound-down before the end of the Restructuring Period, by specific pre-defined deadlines.

In relation to the structural commitments, as of the end of 2020, the Issuer has sold/closed:

- Non-Core International Units: London branch, Venezuelan branch, Banco Internacional de Cabo Verde, BES Vénétie, NB Ásia, Madeira Offshore Branch, the Cayman Branch and a liability management exercise executed in 2020 on the bonds issued by NB Finance Ltd., which retired 97 per cent. of the target bonds and ensured compliance with the best effort commitment to wind-down this unit.
- Legacy and non-core assets including non-performing loans (Project Nata I, Nata II and Carter), real estate (Project Viriato, Albatros and Sertorius) and other non-core assets, including GNB Vida, GNB Seguros and Novo Activos Financieros España, S.A.

Behavioural Commitments

In addition to structural commitments, certain behavioural commitments have been established. These include remuneration limits put in place until 30 June 2020 (or until the end of the Restructuring Period if the viability targets are not achieved), such that no employee, director or manager of the Issuer may be paid a total annual remuneration higher than ten times the average employee salary.

The Issuer must also enter into all new business using a return on equity ("**RoE**") pricing tool, such that any new business must meet pre-tax RoE pricing targets. The Issuer is also subject to a prohibition on acquisitions (with certain exceptions, such as the assets required for the ordinary course of business in the management of existing claims towards ailing borrowers, including the conversion of existing debt into equity instruments or any other work-out strategy which does not increase the exposure of the Issuer but results in equity ownership, the enforcement of collateral or where the purchase price paid by the Issuer for any acquisition is less than 0.01 per cent. of the balance sheet size of the Group at the effective date of the commitment and where the cumulative purchase prices paid by the Issuer for all such acquisitions as at the effective date of the commitment is less than 0.025 per cent. of the total balance sheet size of the Group at the effective date of the commitment), and a prohibition on the payment of dividends (a limitation which will continue to apply during the post-Restructuring Period, until 31 December 2025, or if the CCA Maturity Date (as defined below under "—*Contingent Capital Agreement*") is extended, until such date or until 31 December 2026 at the latest). Additionally, the Issuer shall refrain from any advertising which refers to state support during the Restructuring Period and from using commercial strategies that would not take place without governmental support.

Viability Commitments

The Issuer has also committed to progressively reduce the number of its employees and branches over the Restructuring Period and to reach the prescribed cost-to-income ratios and pre-provision income targets by specific dates within the Restructuring Period. Failure to comply with these targets, if not corrected in the subsequent year, will require the Issuer to comply with additional targets for reduction of the number of employees and branches.

The Issuer is required to comply with best lending practices, in particular to avoid preferential treatment of connected borrowers, and to ensure that certain exposures will undergo a regular credit (re-)rating process and set up risk management systems allowing for improved management reporting and risk management overview. Additionally, the Issuer shall refrain from proprietary trading beyond activities necessary for the normal operations of a commercial bank and set up specific value-at-risk limits for both treasury and market making activities.

The Issuer was required to change its auditor as part of its ordinary rotation procedures (this occurred with the appointment of Ernst & Young, Audit & Associados, SROC, S.A. in December 2017 and its reappointment in October 2020 for the period of 2021-2024) and to exercise prudence in its cumulative loan loss provisions and ensure that losses are provisioned. The Issuer is subject to a minimum amount for the cumulative loan loss provisions recorded by it. If the cumulative amount of the loan loss provisions (excluding CCA Assets (as defined below under "—*Contingent Capital Agreement*")) recorded up until an agreed date is lower than the reference minimum amount, the Issuer will register the difference as additional provisions, unless such additional provisions are not considered by the Issuer's auditor to be in accordance with the applicable IFRS framework.

At the end of 2020, the Issuer complied with the applicable viability commitments including full-time equivalent (22 per cent. reduction in workforce since 2017) and branch reduction targets (359 branches in 2020, a reduction of 90 since 2017), cost-to-income targets (46 per cent. using the methodology of the Directorate-General for Competition) and loan loss provisions on non-CCA assets (cumulative loan loss provisions of €1.35 billion since 2017).

In addition, if, following any Supervisory Review and Evaluation Process ("**SREP**") exercise carried out by the Single Supervisory Mechanism, the SREP total capital ratio of the Issuer falls below the SREP total capital requirement and the Issuer is not able to address such shortfall through payments to be made under the CCA, the Portuguese Government has agreed in the context of the Lone Star Sale and the related state aid measures to provide additional capital to the Issuer, provided that:

(a) routine capital measures implemented by the Issuer to make up the shortfall within the nine months following the breach are unsuccessful;

(b) Lone Star does not provide the necessary capital following a request by the Issuer; and

(c) the required capital cannot be raised from market sources.

The additional capital may take the form of a public capital injection or additional Tier 1 instruments that may be (i) issued to the market with a coupon guaranteed by the Portuguese State or (ii) fully underwritten by Portugal directly, in each case, with additional capital being raised in the amount necessary to ensure solvency of the Issuer in an adverse scenario. If public funds are used in the capital backstop, the Issuer will be obliged to further reduce the perimeter of the Issuer (branches and employees) and submit a new restructuring plan.

Given the impact of the Covid-19 pandemic on the banking sector and consequent need for closer monitoring, in 2020 the Directorate-General for Competition asked the Monitoring Trustee to perform a specific quarterly monitoring of the Issuer with a particular focus on its financial performance.

Although deeply marked by the adverse effects of the Covid-19 pandemic, the year 2020 stood out, for the second consecutive time, by the fulfilment of all the Commitments (pending the Monitoring Trustee's certification, which is currently pending authorisation from the Directorate-General for Competition) assumed by the Portuguese State before the EC.

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

The execution of the strategic plan and achievement of the Directorate-General for Competition's targets allowed, as expected, a positive evolution in the performance of the Issuer's recurrent banking activity.

The Issuer has already reduced, in accordance with its medium-term plan, both the number of full time equivalent and number of branches above the amount imposed by the penalties that might be imposed if the Issuer failed, in 2021, one or more of its viability commitments. Therefore, the Issuer believes that it is unlikely that further corrective measures would be applicable in case it fails to meet any of the viability commitments established for 2021 or that the Directorate-General for Competition extends the restructuring period.

E. CONTINGENT CAPITAL AGREEMENT

The CCA is the Contingent Capital Agreement entered into on 18 October 2017 by the Resolution Fund and the Issuer as part of the conditions of the Lone Star Sale. Under the CCA, in case (i) the Group's capital ratios decrease below the Minimum Capital Condition (as defined below) and (ii) losses are recorded in relation to the CCA Assets (as defined below) or other CCA covered losses (the "**CCA Losses**"), the Resolution Fund has undertaken, up to an aggregate maximum amount of €3,890 million, to make payments to the Issuer corresponding to the lower of the CCA Losses and the amount needed to restore the capital ratios to the Minimum Capital Condition, until 31 December 2025 (the "**CCA Maturity Date**"), which date can be extended until 31 December 2026 under certain conditions as mentioned further below in this section. This maximum amount shall be reduced by any amounts which the Resolution Fund provides in the underwriting of Tier 2 instruments (if any) pursuant to its underwriting commitment in respect of up to €400 million of Tier 2.

The "CCA Assets" comprise a pre-defined portfolio of assets which had an initial book value net of impairment, as of 30 June 2016, of approximately €7.9 billion, which included €5.9 billion of loans to customers, €1.1 billion of restructuring funds, €0.1 billion of securities and €0.8 billion of other assets. As at 31 December 2020, the CCA Assets had a net book value of €2.1 billion (2019: €3.2 billion), which included €1.0 billion of loans (2019: €1.4 billion), of which 52 per cent. were NPLs (2019: 58 per cent.), €0.5 billion of restructuring funds (2019: €0.8 billion) and €0.6 billion of other assets (2019: €1.0 billion) (the "**CCA Assets**"). In addition, CCA Assets also include undrawn exposures relating to guarantees, committed credit lines and other commitments, which amounted to €1.3 billion and €0.4 billion as at 30 June 2016 and 31 December 2020 (2019: €0.4 billion), respectively, and provisions recorded as liabilities which amounted to €0.1 billion as at 30 June 2016 and 31 December 2020 (2019: €0.1 billion), in relation to such exposures. As at 30 June 2016 and 31 December 2020, the impairment related to the CCA Assets amounted to €4.8 billion and €1.2 billion (2019: €1.4 billion), respectively.

The ability of the Issuer to claim payments under the CCA is subject to a capital ratio threshold (the "**Minimum Capital Condition**") and accumulated CCA Losses having been registered. The Minimum Capital Condition means that no payments shall be made unless (i) the Issuer's CET1 or Tier 1 ratio have fallen below the minimum required regulatory (SREP) CET1 or Tier 1 ratio plus a buffer, during the first three calendar years, 2017-2019; or (ii) the

Issuer's CET1 ratio has fallen below 12 per cent. Such threshold was 12.0 per cent. on 31 December 2020. Payments pursuant to the CCA are limited to the amount needed to restore the CET1 and Tier 1 ratios back to the relevant trigger level, provided that there are accumulated CCA Losses.

As a result of the CCA Losses recorded by the Issuer as at 31 December 2020, 31 December 2019, 31 December 2018 and 31 December 2017, and the resulting decrease of the capital ratios below the Minimum Capital Condition, the contingent capital mechanism of the CCA was triggered and payments by the Resolution Fund were made in the amount of €317.0 million, €1,035.0 million, €1,149.3 million and €791.7 million in relation to 2020, 2019, 2018 and 2017 accounts, respectively. Regarding the 2020 financial year, the Issuer requested €598.3 million under the CCA. The final amount received by the Issuer fell short by €281.3 million, as a result of divergences between the parties regarding: (i) €147.4 million of capital impact from the provisions made for the discontinuation of the Spanish operations; (ii) €18.0 million related to restructuring funds fair value; (iii) €3.9 million from 2019 and 2020 management bonus; and (iv) a retention of €112.0 million being subject to a further validation regarding the Issuer's hedging accounting policy on certain public debt exposures, which the Resolution Fund indicated as being subject to a further validation.

In relation to the divergences mentioned above, further arbitration and other proceedings may be submitted regarding the amounts that the Issuer believes are due and should have been paid by the Resolution Fund in accordance with the rules of the CCA.

In particular, in relation to the retained €112.0 million, the Issuer considers it to be a breach of the legal obligations of the CCA. The Issuer sought immediate injunctive relief and will take all legal and other measures in order to protect the integrity of the CCA as a capital instrument which is recognised by both regulators and the markets.

In connection with the CCA there is an ongoing dispute in arbitration regarding the implementation of IFRS9 from the phase-in to the fully-loaded regime and the impact of such implementation in the calculation of the amount due by the Resolution Fund under the CCA for 2019 financial year. The arbitration proceeding is still pending, and it was agreed not to change the implementation to the fully-loaded regime pending the result of this proceeding.

Additionally, the Issuer requested the ECB's authorization to apply the transitional arrangements (IFRS 9 dynamic approach), subject to arbitration, in the context of the Issuer and the Resolution Fund having recognised another divergence regarding the application of such regime.

The Articles of Association of the Issuer foresee a committee to function as a consulting body in the context of the CCA (the "**Monitoring Committee**"). The Monitoring Committee consists of three people, elected by the general meeting of shareholders of the Issuer, two of whom are appointed by the Resolution Fund, one of whom shall be a registered chartered accountant, and the third member shall be an independent member jointly appointed by the parties to the CCA. Either the Resolution Fund or the Issuer can request an opinion from the Monitoring Committee in respect of any relevant matter pertaining to the CCA Assets. The Resolution Fund has the right to take all decisions in respect of the CCA Assets, unless a pre-defined ratio of the then remaining aggregate net book value of the CCA Assets to the aggregate starting reference values is not verified (in which case the CCA Maturity Date may be extended to 31 December 2026), at which point the Issuer would need to inform the Resolution Fund in respect of most material management decisions with respect to these assets.

The powers of the Resolution Fund and delegation of powers to the Issuer (and the limits to such delegation) in respect of the CCA Assets are defined in a Servicing Agreement entered into on 14 May 2018 between the Resolution Fund and the Issuer, under which the Issuer acts as servicer in respect of the daily management of the CCA Assets.

F. STRATEGY

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

(i) optimising its core activity, by striving for improved and increasingly efficient processes, and for the deleveraging of its legacy assets;

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

(iii) continuing to build up factors of differentiation, notably products and services specifically designed for business and small companies.

The Issuer also continued to pursue its goal of reduction of the legacy assets, an essential factor to achieve the Issuer's viability in 2021, and in line with the 2019-2021 strategic plan. The implementation of the strategic plan and achievement of the targets of the Directorate-General for Competition allowed, as expected, a positive evolution in the performance of the Issuer's recurrent banking activity.

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

The 2019-2021 strategic plan has been built to enable the Issuer 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.

The Issuer's strategic plan relies on the following priorities to support its growth:

1. Purpose and Identity

The Issuer 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 Issuer has been implementing a culture that involves permanent monitoring of its impact on the surrounding ecosystem, training and raising the awareness of its employees, business partners and clients, and promoting the values of authenticity, transparency, integrity and consistency.

In order to support the local economies and its clients, the Issuer launched "NB Marketplace", a free-of-charge platform that, in the context of the Covid-19 pandemic, allows clients in the small business segment to open a new sales channel, and individual clients to buy from local suppliers without having to leave their homes.

At the same time, and from the onset of the Covid-19 pandemic, the Issuer strengthened its reference position as a proximity and present bank, developing initiatives to discuss the challenges that each sector and region are facing in the current context, and to support, promote and give voice to Portuguese companies and entrepreneurs that persevere and reinvent themselves.

2. Optimisation

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

In 2020, the Issuer developed a set of actions, with a strong impact on commercial network efficiency and customer experience, which allowed it to:

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

As a result of the divestment/liquidation of subsidiaries and international activity to focus on domestic activity, along with ongoing recalibration of the operating model and structure and through the implementation of innovative initiatives and processes, the Issuer has been optimising its cost structure, reaching in 2020 a cost-to-income ratio which was 11 per cent. lower than in 2018.

3. Digitalisation

With an aim to transform the organisation, the Issuer is focusing on its digital transformation to increase efficiency and meet customer expectations, ensuring compatibility between its current systems and a digital platform and responding to accelerating digital demand, supply digitalisation and digital ecosystem. The Issuer is focusing on lower production costs and greater commercial productivity, by simplifying processes, facilitating the transition to a more efficient business model and boosting service intelligence, in parallel with customer experience, service differentiation and innovation.

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

Digital transformation requires an organisational transformation. The Issuer therefore continues to implement certain key pillars to achieve this aim: a customer-centric strategy (over 150 clients interviewed), an agile organisation (over 200 people working agilely and 14 agile teams), a specific governance model (over 25 Board-led meetings in 2020), an adjusted working environment (over 1,000 square metres agile ready) and a deep technological transformation.

The objectives of the digital transformation strategy are to provide a leading service to clients in Portugal, to transition towards a highly efficient operational model and to develop new business models bringing in new revenue sources.

The workstreams implemented provide solutions aligned with the highest standards and satisfaction levels. This has resulted in over 4 per cent. active digital clients in 2020 compared to 2019 and an increase in digital sales of 41 per cent., an increase of 16 percentage points compared to 2019).

4. Differentiation

The Issuer develops differentiated proposals and new business lines that diversify revenue sources and seek to distinguish the Issuer from its competitors, increasing the Group's differentiation.

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

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

5. "Legacy"

The Issuer has concluded the clean-up of its legacy balance sheet, preparing the next cycle of focus on its core business.

As at 31 December 2020, legacy net assets totalled €3.1 billion, representing a decrease of 71 per cent. as compared to 2018. Mostly through asset revaluations and disposal processes, the share of legacy assets in the Issuer's balance sheet decreased from 22 per cent. in 2018 to 7 per cent. in 2020.

6. Risk Adjustment

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

The programme's defined aim is to ensure the alignment of risk management and control by continuously factoring in the new industry challenges, customer demands, new technological competitors, and the emerging risks, in compliance with the risk appetite rules defined by the Executive Board of Directors (the "**EBD**"), as follows:

Risks	Risk Management Programme results
Financial and non-Financial	• Permanent adaptation of risk policies to incorporate changes in the regulatory framework and innovation in business models and to continuously reinforce effective risk control. • Regular revision of risk models to incorporate new scenarios and the necessary regulatory adjustments. • Continuous strengthening of the risk control culture in the 1st and 2nd lines of defence.
Credit Risk	• Definition and timely adjustments of the risk appetite to the risks underlying macroeconomic conditions, particularly with regard to the industry sectors and professional activities more affected by the pandemic and the economic deterioration. • Compliance with the risk appetite metrics defined for the different credit portfolios.
Market Risk	• Once implementation is consolidated, control and maintenance of, and compliance with, a conservative risk appetite in the Issuer's trading activity and of an investment portfolio policy designed for liquidity management. • Strengthening of the mechanisms for monitoring risk appetite metrics as well as the implementation of mitigation measures to deal with the impacts of the pandemic crisis on the financial markets.
Liquidity Risk	• Continuous monitoring and control of liquidity risk, using indicators that permit prompt assessment of the liquidity position. • Compliance with regulatory limits and the liquidity risk appetite.
Operational Risk	• Reinforcement of the operational risk culture, namely in risk identification and control processes by the first lines of defence. • Strengthening/improving the management and control of risks with greater exposure, such as cyber risk, and continuous effort of adaptation to regulatory and strategic challenges (such as digitisation).

7. Talent and Merit

The Issuer 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 feedback, is structured in 3 journeys: Look & Join, Live & Grow and Transition & Depart, and aims to ensure a deep evolution in human capital management.

The main part of the strategy aims to respond to six challenges: (i) attracting and retaining talent; (ii) employee development; (iii) gender equality, equal opportunities and respect for diversity; (iv) conciliation of professional, personal and family life; (v) social responsibility; and (vi) health, well-being and safety at work.

Attracting and retaining talent

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

Employee development

The Issuer provides its employees with training with a special emphasis on regulatory and legal contents. It employs a mobility and meritocracy model that involves regular promotion and progression, where the criteria for appointment to new positions are focused on employee performance.

Gender equality, equal opportunities and respect for diversity

The Issuer is committed to giving back to society. The Issuer promotes diversity and gender equality as an integral part of its human capital management. One of the programmes developed with this aim in mind is NB Equal Gender, comprising a set of indicators to monitor the Issuer's performance in this area and push it towards greater gender equality and fairness, having contributed to increase the share of women in senior management from 41.5 per cent. in 2019 to 43.4 per cent. in 2020.

Health, well-being and safety at work

The pandemic significantly magnified the challenge of "Looking after health, well-being and safety at work". Besides resorting to telework whenever the functions in question allowed it and where there were appropriate conditions for it, the Issuer developed a package of benefits to address employees' households' financial needs, when such existed, including bringing forward the payment of 50 per cent. of the Christmas bonus, loans with special conditions, computer equipment and training, family coaching sessions and psychological support (psychology, psychiatry and nutrition consultations), and the "My Side B" programme focusing on 8 dimensions (health, food, physical exercise, emotional management, family and home, interpersonal relations, personal image, and culture and leisure).

8. IT, Data & Processes

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

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

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

9. Distribution Model

The Issuer's new distribution model emerges from the need to innovate and thus meet the expectations of its 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 Issuer and its clients, based on intelligent tools that will give its clients a unique, global and cohesive experience and contact with the Issuer throughout the different processes and through the different channels.

To execute the new distribution model, the Issuer 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 finalising the process with a remote or face-to-face account manager.

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

2021 will focus on the industrialisation of the processes implemented in 2020 with a view to transforming the Issuer.

G. BUSINESS OVERVIEW

Business Model

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

The Issuer focuses its business model on three main segments in domestic commercial banking: (i) retail, domestic commercial banking; (ii) corporate; and (iii) asset management. The Issuer 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.

As at 31 December 2020, the Issuer had a total market share of 11 per cent. in Portugal (Source: Bank of Portugal and *Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios*) and total assets of €44.4 billion.

- €26.1 billion in customer deposits, of which 72 per cent. were from retail clients
- €25.2 billion in customer loans, of which 55 per cent. to corporate clients

The strategy of permanently enhancing the quality of customer experience and of the services provided also entails an investment in a new distribution model and digitisation.

The Issuer's new distribution model was developed with an innovative functional layout focused on customer relationships, including a distinctive self-service, employee mobility and digital communication, in order to create an omnichannel experience, increase engagement with the community and customer activation. See also, "*Strategy—Distribution Model*" above.

In this context, the Issuer's digital transformation process was designed to leverage on current digital disruption, with ever higher customer expectations. In 2020, the Issuer prioritised addressing the needs created by the Covid-19 pandemic. With the Covid-related restrictions on mobility and economic impacts, new opportunities arose to better serve its clients, meet their needs and cement the commercial relationship. In 2020, 41 per cent. of sales to retail clients were digital.

The Issuer has started to provide a set of structural developments:

- **Onboarding**: Account opening remote solutions, through Digital Mobile Key/Video Call, for an all-inclusive and efficient onboarding experience. Accounts opened digitally in 2020 increased 25 per cent. (average monthly growth rate) along with a reduction in the average time to open an account by 80 per cent. as compared to the usual method. The Group received international recognition with an honourable mention in the 2020 Banking Tech Awards, on top of the accolades already received in 2019 (*Exame Informática*, Portugal Digital Awards)
- **NB Smarter:** Launch of a new app for individual clients in December 2020 with renewed design and customer experience, adaptable, customisable and predictive (based on data science), and offering a wide range of services and solutions, including the aggregation of accounts from other banks. It is a new generation app, better prepared to address the needs of the less digitally inclined. Includes a broad range of services and solutions plus new functionalities, like categorisation and automatic organisation of all transactions.
- **Homebuying:** Reinventing the home buying experience, from simulation to title deed. Now with a new branch platform that completes the omnichannel experience. A simpler, faster and more transparent

process. In 2020, the daily application increased by 55 per cent. and the title deeds with digital origin increased by 80 per cent as compared to 2019. Half of the online-sourced applications are from new clients, of which 25 per cent. from foreign clients. International recognition with a shortlist for Finovate Awards 2020.

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

- **NBnetwork+:** Digital financial management solution for companies, a pioneer in Portugal, that allows a combined view of bank accounts, permits payments initiation, and whose functionalities improves companies' operating efficiency: Financial calendar, categorisation of expenses and alerts and notifications. Based on analytic and predictive capabilities. This solution was launched in October 2020 and is available for all clients that use internet banking. It was the winner in the "Best Banking Project" category of the 2020 edition of the Portugal Digital Awards.

- **Small Business Finance:** Digital solution for loans to small business. Automated and integrated access to credit through the NBnetwork digital channel. Fully secure, with no need to deliver any documentation or go to the branch and with funds made available in less than 48 hours. Allows for greater efficiency with 80 per cent. to 100 per cent. reduction in process times and completely paperless. Honourable mention in the Banking Tech Awards 2020.

Corporate Segment

- Medium-sized companies served by a corporate account manager at one of the 20 corporate centres across the country.

- Large companies served by a corporate account manager at 2 corporate centres in Lisbon and Porto.

2020

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

(i) providing financial support to small and medium-sized enterprises in the Covid-19 context - by December 2020 it had granted €1.1 billion under Credit Lines with Mutual Guarantee Entities, covering more than 4,900 clients;

(ii) responding to requests for moratoria on loans which have reached approximately 7,700 corporate clients and amounting to a total of €4.6 billion;

(iii) maintaining its focus on the digital transformation of processes, investing in remote relationship and signature tools to continue to address the needs of its clients quickly while remaining in compliance with the social distancing restrictions imposed in the Covid-19 context.

The Issuer has remained faithful to its matrix of proximity to the business community, seeking, as always, and beyond financial support, to help companies adjust their strategies to the new realities, by recognising that it is more important than ever to share experiences, to learn more about distribution chains, to receive specialised advice and information on new opportunities, and to access international markets, among others.

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

- Regional and sector-specific events "Portugal que Faz" ("Portugal that Does"), an initiative under a partnership with Global Media, aimed at giving voice to the business associations representing the Portuguese business fabric, by identifying companies' needs across the board and discussing the necessary solutions to achieve a future of overcoming and resilience;

- PME Líder: Developed in partnership with Exame magazine, it aims to foster the role of SMEs in the Portuguese business fabric. In 2020 the newsletters and webinars focused, among others, on security inside and outside organisations, the acceleration of digital transformation and increasing competitiveness, the ability to adapt to new business models, the change of production processes, and financial aid; and
- Exports and internationalisation: Portugal Exportador, in partnership with the AIP Foundation and AICEP Portugal Global, is considered the biggest event for the promotion of exports and internationalisation.

Retail Segment

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

2020

During 2020, the Issuer remained open and available to serve its clients, and its response included, among others, the opening of branches and incentives and training on the use of remote and digital channels. The Issuer also supported its clients by setting in motion and making available credit lines to assist companies affected by the Covid-19 pandemic and taking part in the banking sector's global solution to help families experiencing difficulties due to the Covid-19 pandemic (Moratoria on Mortgage Loans and Personal Loans).

Accordingly, the following should be stressed in terms of the offer:

- The performance in the various lending components, which, after some months of slowdown, consolidated a recovery trajectory. Notwithstanding the economic downturn in the last quarter of 2020, mortgage loans production exceeded that of the third quarter of 2020, surpassing the established targets and consolidating the quality of the digital subscription process.
- Participation in the non-financial offer, through which the Issuer regularly launches thematic products, was significantly higher than in the previous year.
- Investment advisory service for NB360º clients, which seeks to provide the most appropriate investment propositions to fit the profile of each client.
- Process flexibility and digitisation to mitigate the impact of the Covid-19 pandemic on normal commercial activity, namely with regard to the remote subscription and formalisation of contracts.
- Redefinition of the risk insurance offer, including the launch of: life insurance for young adults, who require protection appropriate to their age and lifestyle, and insurance for older adults, with a significant increase in coverage for disability, and expansion of the array of protection for serious illnesses.
- Redefinition of the service-account offer, reflecting sustainability concerns. In the new service-account products, the Issuer offsets the non-avoided CO2 emissions of all the users of these accounts, making them carbon neutral.
- Regular launch of ESG (Environmental, Social and Governance) Structured Deposits, the remuneration of which is linked to the share performance of companies that stand out for their capacity to lead social and governance changes and change in environmental criteria.

Asset Management

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

In December 2020, the entire share capital of Novo Activos Financieros España, S.A. was sold as part of the strategy of focusing on the domestic banking business and consequent divestment of non-strategic assets.

As at 31 December 2020, GNB GA had €10.0 billion assets under management in Portugal and Luxembourg.

GNB GA's management remained focused on its mission of creating financial value, notwithstanding the disruption in the financial markets caused by the Covid-19 pandemic. In December 2020, in line with the strategy of focusing on the domestic banking business and divesting non-strategic assets, Novo Activos Financieros España, S.A. was sold.

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

Highlights in 2020

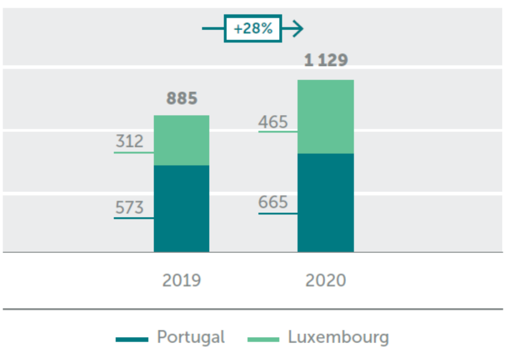
- Mutual Funds:

  Mutual Funds registered an increase of 28 per cent. to €1.1 billion in assets under management of all the funds domiciled in Portugal and Luxembourg.

  GNB GA earned 5 awards in 2020, relating to pension funds, bond mutual funds and flexible mutual funds. The main highlight was the Lipper award in the segment of euro bond funds sold in Europe. The NB Euro Bond fund won in this category for the second consecutive year in all three tenors: 3, 5 and 10 years.

  In terms of sustainability, GNB GA continues to take important steps to reinforce the incorporation of sustainability principles. Having formally adopted ESG criteria in the management of equity funds, the company went on developing other initiatives to include more products in its offer of funds considered socially responsible.

Mutual Funds - AuM
€mn



- GNB Real Estate:

  GNB GA's management remains focused on its mission of creating financial value, pursuing its main objective of reducing exposure to non-strategic real estate.

  The volume under management of real estate investment funds totalled approximately €1,066 million on 31 December 2020 (an increase of 2.7 per cent. compared to 2019).

  The implementation of the project to reorganise the portfolio of real estate funds managed by the company, involving the transfer in kind of properties, had its first phase started in December 2020.

- Wealth Management:

  The number of clients with discretionary management portfolios increased to 1,002 (compared to 985 in 2019). Including the remaining management contracts, the amount of assets under management totals €5.1 billion as at 31 December 2020.

NOVO BANCO DOS AÇORES ("NBA")

NBA is the result of a strategic alliance between the Issuer (57.5 per cent.) and Santa Casa da Misericórdia de Ponta Delgada (30 per cent.), which was joined by the Bensaude Group (10 per cent.) and 13 other Santa Casa da Misericórdia institutions from all the Azores islands (2.5 per cent.).

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.

NBA had a positive performance in 2020 compared to the previous year, with banking income and net interest income increasing by 3.8 per cent. and 1.8 per cent., respectively. NBA reported a net profit of €2.8 million, compared to €4.0 million in 2019. This reduction was mainly due to the reinforcement of impairments, mainly for credit risks, as a result of the Covid-19 pandemic, and for real estate.

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

As to customer funds, at the end of 2020, customer deposits totalled €392.7 million (an increase of 7.0 per cent. compared to 2019).

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 Issuer.

Banco 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, Banco 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.

In 2020 the financial markets recorded historically high levels of volatility, with a significant impact on the assets under management of Banco Best's clients, which, despite this, increased by 6 per cent. year on year to €2,193 million. The volume of customer loans (of which 94 per cent. are collateralised by financial assets as at 31 December 2020) contracted by 17 per cent. year on year to €123 million, of which only a small amount in moratoria (€0.3 million). On the other hand, the volume of customer deposits reached €694 million, showing a significant increase of 27 per cent. year on year.

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

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

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

H. LIQUIDITY AND FUNDING

Highlights

- Liquidity remains at comfortable levels and well above regulatory requirements.
- Stable funding structure, relying mainly on customer deposits.
- Cost optimisation continues to be one of the main focuses of the Issuer, without incurring undesirable liquidity risks.

Liquidity Management

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

Short-term liquidity is monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which allows the Issuer to make an early detection of any signals of crisis with potential impacts on the Issuer, namely through idiosyncratic risk, contagion risk (due to market tensions) or the risk of repercussions of an economic crisis on the Issuer. The report monitors the evolution of the liquidity position, including eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the evolution of the treasury gap (net interbank deposits), as well as several warning indicators established for the purpose.

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

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

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

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

Additionally, the Issuer prepares a monthly liquidity report, considering not only the effective maturity but also behavioural maturity of the various products, which allows the Issuer to determine the structural mismatches for each maturity profile. Based on this information and the Issuer's medium-term plan, the annual activity funding plan is prepared considering the established budget targets. This plan, which is regularly reviewed, favors, as much as possible, stable funding instruments.

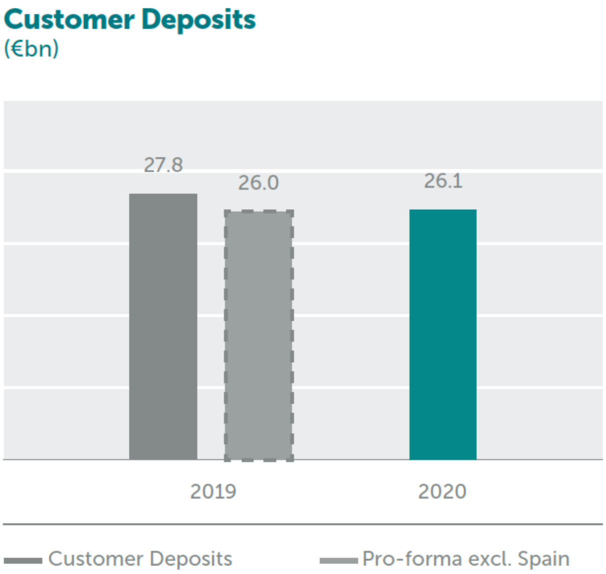
The Issuer also has in place a contingency liquidity plan, which comprises a set of measures that, if triggered, would allow the Issuer to manage and/or minimise the effects of a severe liquidity crisis. These measures aim to address additional liquidity needs and boost the resilience of the Issuer in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

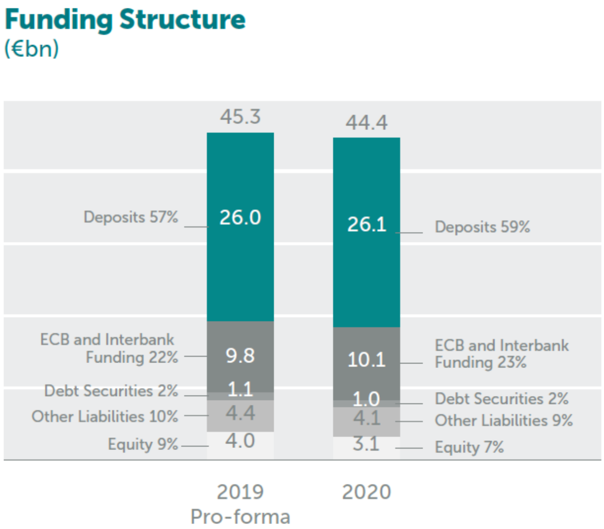
Finally, the Issuer also performs, on an annual basis, an internal liquidity adequacy assessment process (ILAAP), which evaluates the liquidity position of the Issuer in a normal and stress scenario. The results of this process, which is approved by the EBD, must be sent to the regulatory authorities and concluded that the Issuer's funding and liquidity structure and internal processes are sound and that the Issuer could withstand a stress scenario.

Funding structure and liquidity in 2020

The Issuer maintained a comfortable liquidity position in 2020, with deposits at the ECB having increased by €0.9 billion to €2.3 billion. During the year, liquidity management continued to involve the rationalisation of funding sources and improvement of profitability.

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

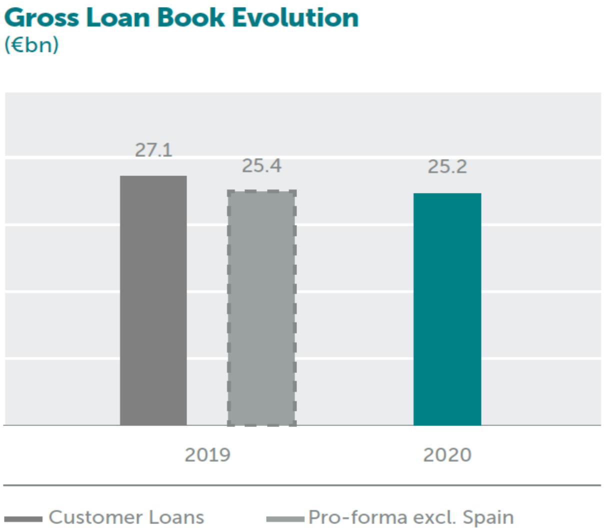


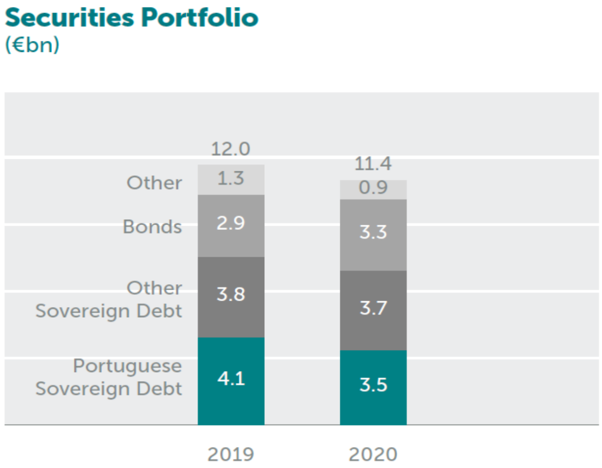


At the end of 2020, customer deposits remained the Issuer's main funding source, accounting for 59 per cent. of its funding structure (61 per cent. at the end of 2019, or 57 per cent. excluding the effect of the Spanish Branch), of which 72 per cent. were deposits from the retail segment.

In terms of loan portfolio, the Issuer's core business continued to grow both on the retail and corporate segment, reflecting the moratorium in place and the Covid-19 credit lines for the corporate segment. However, given the continuous effort to reduce non-strategic and non-productive assets, either through write-offs, outright sales and/or other deleveraging strategies, the total loan book, remained fairly stable standing at €25.2 billion at 31 December 2020, a year on year decrease of €0.2 million, excluding the effect of the Spanish Branch.

As at 31 March 2021, the Issuer's corporate loan book totalled €13.7 billion, of which 32 per cent. were in moratoria (excludes grace period under Decree-Law No 22-C/2021 of €0.6 billion). In light of the expected Covid-19 impact on borrowers, 40 per cent. of the corporate moratoria loans were, as at 31 March 2021, classified as Stage 2 (27 per cent. as at 31 March 2020) and 12 per cent. as Stage 3 (10 per cent. as at 31 March 2020). Impairment coverage for Stage 2 and Stage 3 was 10 per cent. and 43 per cent., respectively. As at 31 March 2021, the Issuer's mortgage loan book totalled €10.0 billion (with an average loan to value ("**LTV**") of 46 per cent.), of which 21 per cent. were in moratoria (with an average LTV of 51 per cent.). From the €2.1 billion moratoria, as at 31 March 2021, 17 per cent. was classified as Stage 2 and 5 per cent. as Stage 3 (with 11 per cent. impairment coverage). From the €0.9 billion of loans in moratoria which expired since 31 March 2021 (and until 18 June 2021), about €0.6 billion were mortgage, €0.2 billion corporate and €0.1 billion consumer. As of mid-June 2021, from the €0.6 billion mortgage, €576 million were classified as Stages 1 and 2 (staging as of May 2021), with such amount increasing by €14 million (since March 2021) from migration of mortgages to Stages 1 and 2 from Stage 3 and a decrease of €2 million from migration of mortgages from Stages 1 and 2 to Stage 3, resulting in €34 million of mortgages under Stage 3 post moratorium.



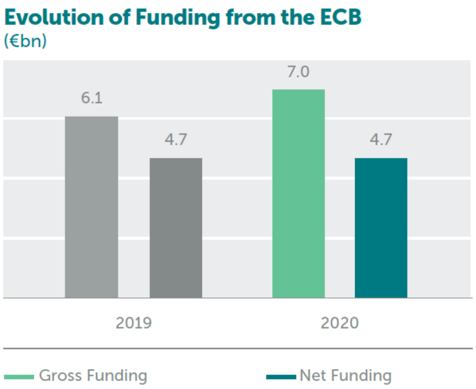


Conversely, the Issuer's securities portfolio reduced by €0.6 billion, largely due to the de-risking strategy followed by the Issuer as a result of the Covid-19 outbreak and the market disruption it caused at the time. The Issuer's security portfolio remained substantially composed of high-quality liquid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

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

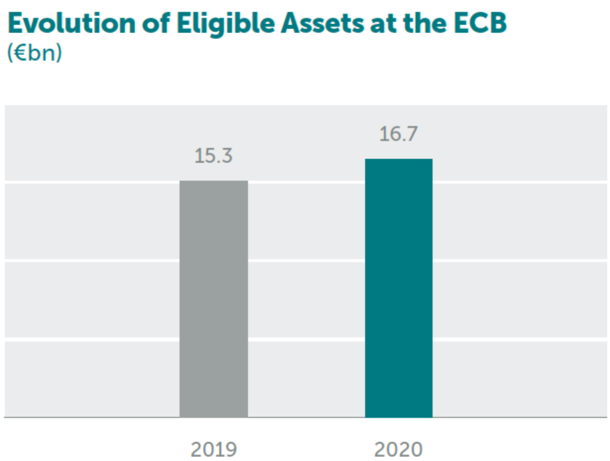
In terms of medium- and long-term funding, the Issuer performed a liability management exercise at the end of 2020. This exercise consisted of a tender offer and consent solicitation on all the outstanding bonds issued by NB Finance Ltd., the Issuer's debt issuing vehicle based in the Cayman Islands. As foreseen in the Commitments, the Issuer should, on a best-effort basis, unwind NB Finance Ltd. by the end of 2021. However, given the long maturity dates of the outstanding bonds and the voluntary nature of any transaction that attempted to substitute or exchange the existing bonds, the execution of the transaction on economically favourable terms to the investors was enough to ensure compliance with the said commitment. The transaction was successful, and it allowed the Issuer to redeem 97 per cent. of the target bonds (€370 million in nominal amount, or €160 million in book value).

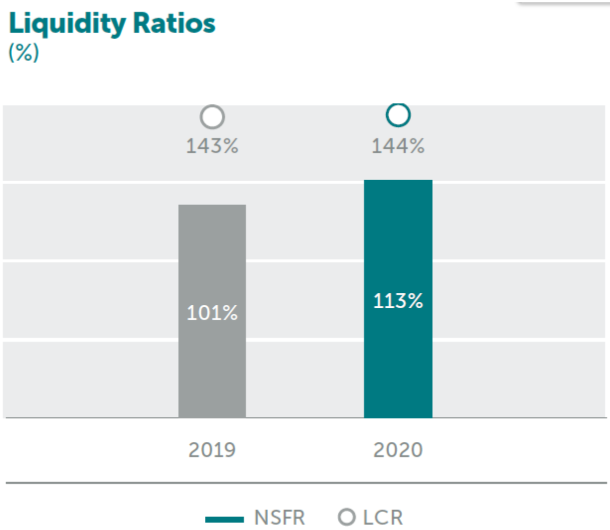
Regarding medium- and long-term funding, the substitution of some credit lines for longer and cheaper financing including, but not limited to, the TLTRO III will also improve the funding profile of the Issuer in the coming years. As at the end of 2020, gross funding from the ECB increased €0.9 billion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



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

The Issuer thus maintained a comfortable liquidity position, with regulatory LCR standing at 140 per cent. at the end of 2020 and NSFR at 112 per cent., well above the regulatory requirements.





I. Risk Management

The definition of a risk management framework with standards, patterns, objectives and responsibilities established for all areas of the Group, seeks to allow the Issuer to follow the Issuer's strategic direction in compliance with the established risk appetite.

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

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

Risk Management Framework

THE RISK CULTURE OF THE GROUP

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

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

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

- Independence vis-à-vis the Issuer's other units.
- Universality, through application across the whole Group.
- Integration of the risk culture, through a holistic and pre-emptive approach to risk.
- Specialisation.
- Three lines of defence model, viewing the adequate detection, measurement, monitoring and control of all material risks to which the Group is exposed. This Model implies that all employees, in their sphere of activity, are responsible for the management and control of risks.

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

RISK MANAGEMENT FUNCTION

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

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

(i) credit risk, which includes default, counterparty and concentration risk;

(ii) liquidity risk;

(iii) market risk in the trading book and banking book, which includes interest rate risk (IRRBB), equities risk, credit spread risk, real estate risk and pension fund risk;

(iv) operational risk, which includes operations risk, information systems risk, compliance risk, and reputational risk; and

(v) business risk.

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

RISK MANAGEMENT IS CONSIDERED VITAL FOR THE GROUP

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

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

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

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

The Risk Appetite framework defines:

Risks	Concept	Management	Risk Appetite	Focus in 2021
Credit	The risk of financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with the Issuer within the scope of its lending activity	Management and control of risks of this nature are based on an internal risk identification, assessment and quantification system, and also the processes for the use of internal rating and scoring for portfolios and their continuous monitoring in specific decision-making forums	Conservative risk appetite	Reinforcement of the Issuer's operational capacity to manage credit exposures under moratoria by identifying early signs of financial deterioration and defining strategies for timely action with viable debtors in need of debt service support to avoid potential "cliff effects" at the end of the moratoria Reinforcement of remote service models and creation of automated credit assessment and decision tools Reinforcement of continuous monitoring processes of credit portfolios
Liquidity	The current or future risk deriving from an institution's inability to satisfy its commitments as they mature, without incurring excessive losses	Based on the measurement of liquidity outflows from contractual and contingent positions in normal or stress situations, the management and control of this risk consists, on the one hand, in determining the size of the liquidity pool available at any given time and, on the other hand, in planning for stable sources of funding in the medium and long term	Funding of medium- and long-term assets through stable liabilities Withstanding liquidity stresses for a minimum of 12 months Always respect the limits imposed by the regulations	Permanent alignment to regulatory framework Increasing risk management support to the commercial and management areas, ensuring the Issuer's overall alignment Compliance with the established risk appetite
Market	The risk of a potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, real estate prices, volatility and credit spreads	A GRD expert team centralises the Group's market risk management and control, in line with applicable regulations and good risk practices	Market investments of cash and liquidity surpluses in accordance with conservative risk appetite pre-defined rules	Incorporation of the new reference interest rates (short-term rates and interbank offer rates) into market risk models, namely market risk control models, IRRBB and economic capital calculations within the scope of the ICAAP exercise
Operational	The risk of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures or information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: Operations, Information	A GRD expert team defines the Operational Risk Policies, with other units, namely the Compliance Department and the Information Security Office issuing specific risk policies; The implementation of operational risk identification and control methodologies is	The operational risk appetite defined for the Group covers the various categories under this risk, reflecting the infeasibility of eliminating it, from a cost-benefit perspective, along with the Group's ethical and conduct values.	Strengthen the Fraud Risk framework in light of the increasingly sophisticated fraud typologies Reinforcement of compliance with the established risk appetite Reinforcement of the risk culture as the basis for the activity and decision-taking at the various levels of the organisation Due to the change in customers'

Risks	Concept	Management	Risk Appetite	Focus in 2021
	Systems, Compliance and Reputational	carried out through the operational risk management Representatives appointed for each organisational unit, promoting the risk culture in the first line of defence in continuous collaboration with the GRD		behaviour and the Issuer's digitisation strategy, further strengthening of cyber risk prevention and control mechanisms

Capital Management

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

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

The Issuer's CET1 is protected at pre-established levels up to the amounts of losses already recorded on the assets protected by the CCA. The compensation amount requested from the Resolution Fund with reference to 2020, taking into account the losses incurred on the assets protected by the CCA, as well as the regulatory requirements for capital ratios defined for 2020, was €598.3 million.

The Issuer received on 4 June 2021 an amount of €317.0 million under the CCA with relation to 2020 accounts.

The final amount received by the Issuer fell short by €281.3 million (compared to €598.3 million) as a result of divergences between the parties regarding: (i) €147.4 million of capital impact from the provisions made for the discontinuation of Spanish operations; (ii) €18.0 million related to restructuring funds fair value; (iii) €3.9 million from management bonus; and (iv) a retention of €112.0 million being subject to a further validation regarding the Issuer's hedging accounting policy on certain public debt exposures, which the Resolution Fund indicated as being subject to a further validation.

In relation to the divergences mentioned above, further arbitration and other proceedings may be submitted regarding the amounts that the Issuer believes are due and should have been paid.

In particular, in relation to the retained €112.0 million, the Issuer considers it to be a breach of the legal obligations of the CCA. The Issuer sought immediate injunctive relief and will take all legal and other measures in order to protect the integrity of the CCA as a capital instrument which is recognised by both regulators and the markets.

In addition, the Issuer and the Resolution Fund have also agreed to take to arbitration the application of (i) fully loaded impact of IFRS 9 rules in the Issuer's financial statements in the financial year 2019 (currently pending) and (ii) the transitional arrangements (IFRS 9 dynamic approach).

The ECB disclosed during March 2020 several measures that allow banks to operate temporarily below the required capital level. In the context of these measures and subject to arbitration, the Issuer opted for the IFRS9 dynamic approach upon the Issuer and the Resolution Fund having recognised another divergence regarding the application of such regime. 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.

As at 31 December 2020, and reflecting the CCA call and provision of €317.3 million, the Issuer's CET1 and total capital reached 10.9 per cent. and 12.8 per cent., respectively.

		With €429mn CCA		With €317mn CCA		SREP Requirement [2]	COVID temporary relief
		31-Dec-20	31-Mar-21	31-Dec-20	31-Mar-21		
		(Phased-in)	*(Phased-in)*[1]	*(Phased-in)*	*(Phased-in)*[1]		
CAPITAL RATIOS (CRD IV/CRR)							
Risk Weighted Assets (€mn)	(A)	26,719	26,660	26,719	26,660		
Own Funds (€mn)							
Common Equity Tier 1	(B)	3,029	3,022	2,902	2,895		
Tier 1	(C)	3,030	3,023	2,904	2,897		
Total Own Funds	(D)	3,541	3,536	3,415	3,409		
Common Equity Tier 1 Ratio	(B/A)	11.3%	11.3%	10.9%	10.9%	8.7%	6.2%
Tier 1 Ratio	(C/A)	11.3%	11.3%	10.9%	10.9%	10.8%	8.3%
Total Capital Ratio	(D/A)	13.3%	13.3%	12.8%	12.8%	13.5%	11.0%

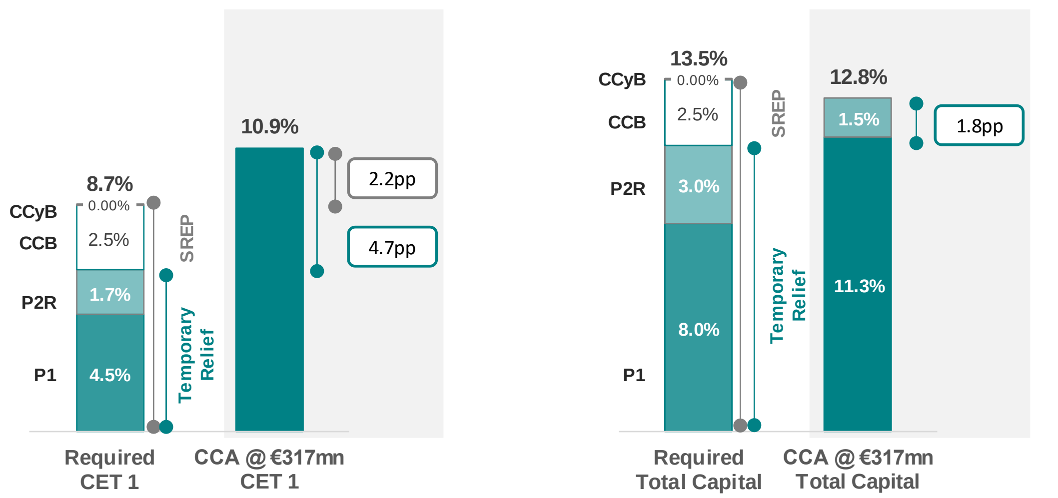
Notes:

(1) preliminary

(2) excludes P2G

(December – 2020; Phased-in[1]; %)

CET 1 **Total Capital**



(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.

Main risks and uncertainties

2021 will continue to be marked by the Covid-19 pandemic which, despite the progress being made in terms of vaccination, continues to exert acute pressure on the economy due to the imposition of successive states of emergency, with potential impacts in terms of credit and liquidity risk.

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

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

J. OWNERSHIP STRUCTURE (INCLUDING GOVERNMENT RELATIONSHIP)

As at the date of this Prospectus, the Issuer's share capital is €5,900,000,000, represented by 9,799,999,997 nominative and dematerialised shares with no nominal value, fully subscribed and paid up.

Holdings in the Issuer's share capital as at the date of this Prospectus are as follows:

Shareholder	**Number of shares**	**% of share capital**
Nani Holdings S.G.P.S., S.A.	7,349,999,998	75%
Fundo de Resolução (Resolution Fund).......	2,449,999,999	25%

Following the Lone Star Sale, the Resolution Fund and Nani Holdings S.G.P.S., S.A. entered into, on 31 March 2017, a shareholders agreement (the "**Shareholders Agreement**"), which was amended and restated on 24 July 2017, under which Lone Star committed to inject €750 million in capital at the moment of sale, and an additional €250 million over a 3 year period. In the context of the Lone Star Sale and the execution of the Shareholders Agreement, the CCA was created, under which, in case the Issuer's capital ratios decrease below the regulatory requirements, and cumulatively, losses are recorded in a delimited portfolio of assets, the Resolution Fund shall make a payment corresponding to the lower of the losses recorded and the amount needed to restore the capital ratios at the relevant level, up to a maximum of €3,890 million. For further details on the CCA, see "*–Contingent Capital Agreement*" above.

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

It should also be noted that the Issuer adhered to the special regime applicable to Deferred Tax Assets ("**DTAs**") approved by Law No. 61/2014, of 26 August. The regime applies to DTAs related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. The 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 DTAs into tax credits was made according to the proportion of the amount of 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 per cent.

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 Portuguese State the right to demand of the Issuer the respective share capital increase, through the incorporation of the amount of the special reserve and the consequent issue and delivery of ordinary shares at no cost. The shareholders of the Issuer have the unilateral right to acquire the conversion rights from the Portuguese State.

In accordance with the DTA legal regime, conversion rights have been or will be issued by the Issuer in favour of the Portuguese State in respect of the financial years from 2015 to 2020. Such conversion rights allow the Portuguese State to convert them into ordinary shares of the Issuer and will confer a stake of approximately 16.6 per cent. of the share capital of the Issuer, subject to the confirmation of the tax authorities.

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 per cent. 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 by 31 December 2021.

In accordance with the agreements on the sale of the Issuer to Nani Holdings, S.G.P.S., S.A., the shareholding of Nani Holdings, S.G.P.S., S.A. in the Issuer shall not be reduced as a consequence of the DTA legal regime and shall remain at 75 per cent.

K. GOVERNANCE MODEL

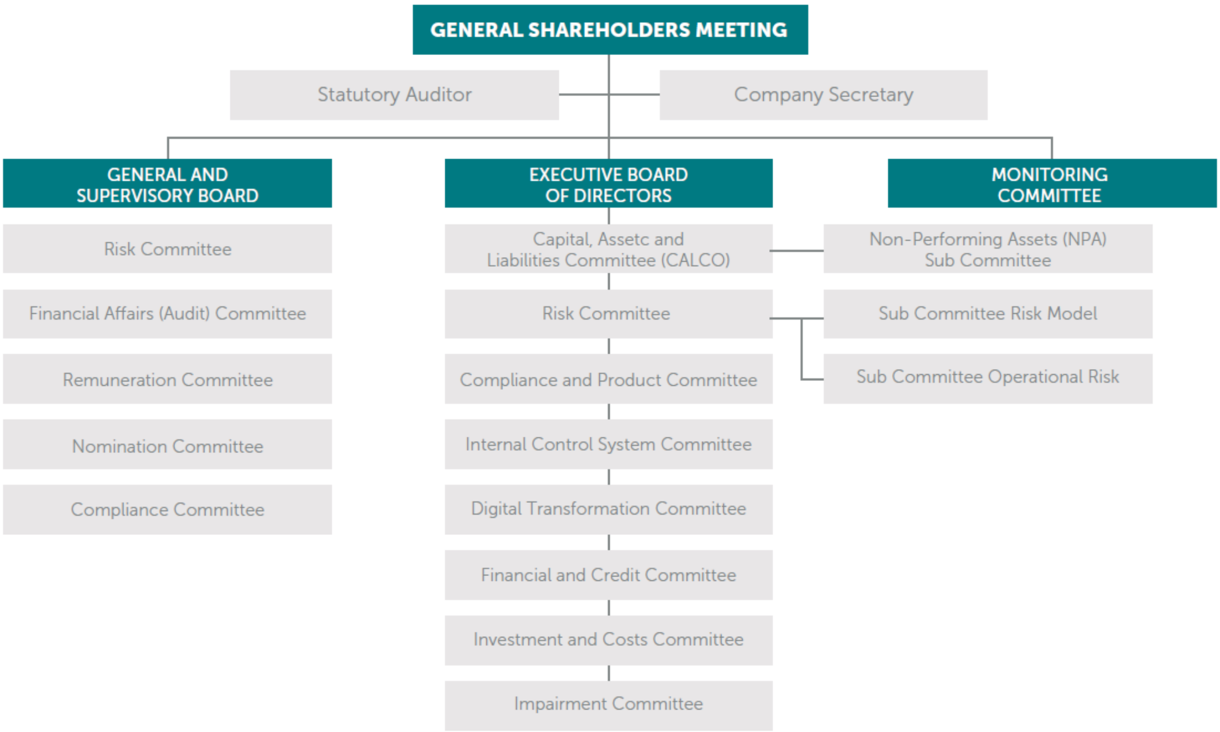
There are no specific mechanisms in place to ensure that exercise of control over the Issuer is not abused. Risk of abusive control is, in any case, mitigated by the existence of a governance model that is unique within the Portuguese financial sector. In line with international best practices in management, and under the new shareholder structure, since 18 October 2017 the Issuer has in place the GSB and the EBD, each of its members being bound by duties of care and loyalty in order to optimise the interests of all relevant stakeholders (in accordance with Article 64 of the Portuguese Commercial Companies Code and, in relation to directors, Article 75 of the RGICSF), as well as a consultative Monitoring Committee and an Auditor.

Furthermore, risk of abusive control is also mitigated by the legal and regulatory provisions and supervision of the Issuer by the Bank of Portugal, which, among other regulatory areas, supervises the acquisition and disposal of qualified holdings in the Issuer.

The GSB is responsible for regular monitoring, advising and supervising the management of the Issuer and the Group subsidiaries, as well as for supervising the EBD relating to compliance with the relevant regulatory requirements of banking activity. The GSB meets on a monthly basis, and its chairperson maintains regular communication and dialogue with the Chief Executive Officer ("**CEO**"). The GSB is supported by committees to which it delegates some of its powers: the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee. These committees are composed of and chaired by independent members of the GSB and their meetings may be attended by the members of the EBD responsible for the matters that are dealt with by the relevant committees.

The GSB has the responsibilities and powers that are granted to it by law and by the Articles of Association and in its internal regulations, including the supervision of all matters related to risk management, compliance and internal audit, and prior approval on relevant matters detailed in the Articles of Association.

The EBD is responsible for the management of the Issuer, for the definition of the general policies and strategic objectives, as well as ensuring the management of the business in accordance with the rules and good banking practices.



For further details see "*Management and Supervisory Corporate Bodies*" below.

L. MANAGEMENT AND SUPERVISORY CORPORATE BODIES

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

Under the terms of the Issuer's Articles of Association, the corporate and statutory bodies of the Issuer are the General Meeting, the GSB, the EBD, the Monitoring Committee, the Statutory Auditor and the Company Secretary.

The members of the corporate bodies are elected for four-year terms of office and they may be re-elected once or more than once.

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

Changes to the Issuer's Articles of Association are the responsibility of the General Meeting. In 2020 there were no changes to the Issuer's Articles of Association.

Board of the General Meeting

The composition of the Board of the General Meeting of the Issuer for the 2021-2024 term of office, at the date of this Prospectus, is as follows:

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

General and Supervisory Board

The GSB is the supervisory body of the Issuer and its members are elected by the General Meeting.

In October 2020, the General Meeting of the Issuer appointed the members of the GSB for the 2021-2024 mandate, which authorisation was already issued by the competent regulatory authorities.

As at the date of this Prospectus, six of the ten members of the GSB, including its Chairperson, are independent.

The GSB has the powers vested upon it by law and by the Articles of Association, having as main functions to regularly monitor, advise and supervise the management of the Issuer and of the Group companies, as well as to supervise the EBD with regard to compliance with the relevant regulatory requirements of banking activity. Additionally, the GSB has specific powers to elect the members of the EBD and responsibilities in granting previous consents for approval by the EBD of certain matters established in the Articles of Association, namely the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of headquarters, closing or changing of representation structure abroad; (iv) capital expenditure, debt or refinancing, sales or acquisitions, creation of liens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the CCA; and (vi) hiring of employees with annual remunerations above certain limits.

The GSB holds meetings on a monthly basis. The Chairperson of the GSB and the CEO maintain regular, and at least weekly, dialogue and communication between them.

The following table sets out the members of the GSB for the 2021-2024 term of office, as at the date of this Prospectus, with an indication of name, position and principal activities of the directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
Byron James Macbean Haynes	Chairman	- Chairman of the audit committee at Nani Holdings SGPS, S.A. - Non-executive director at Saffron Brand Consultant
Karl-Gerhard Eick	Vice-Chairman	- Chairman of the Supervisory Board of IKB Deutsche Industriebank AG - Member of Audit Committee of Nani Holdings - Non-Executive Director of GHC Global Health Care GMBH
Donald John Quintin	Member	- President of Lone Star Europe Acquisitions Limited
Kambiz Nourbakhsh	Member	- Senior Managing Director at Lone Star Europe Acquisitions - Member of the Audit Committee at Nani Holdings - Non-Executive Director at LSF10 Wolverine Bidco Aps
Mark Andrew Coker	Member	- Member of the Supervisory Board of IKB Deutsche Industriebank AG - Managing Director at Lone Star Europe Acquisitions
Benjamin Friedrich Dickgiesser	Member	- Member of the Supervisory Board of IKB Deutsche Industriebank AG - Managing Director for Hudson Advisors Portugal, Lda
John Ryan Herbert	Member	- Director at Caliber Home Lones, Inc - Director of DFC Corp

Name	Position	Principal activities outside of the Group
		- Director of Quintain Limited
Robert Alan Sherman	Member	- Non-Executive Director at Opportunity Network - Senior Counsel of Greenberg Traurig - Member of the Advisory Board of Rasky Partners
Carla Antunes da Silva	Member	- Director at Lloyds Banking Group - Non-Executive Director at Lloyds Bank Corporate Markets
William Henry Newton	Member	- Director at AVIN Consulting Ltd

To the best of the Issuer's knowledge, none of the abovementioned members of the GSB has any external activity relevant for the Issuer other than the ones listed above.

For all the purposes resulting from the functions of the members of the GSB, their professional domicile is at Avenida da Liberdade, nº 195, 1250 - 142 Lisbon, Portugal.

Committees of the GSB

The GSB is directly supported by 5 (five) Committees, namely the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, the latter holding some powers delegated by the GSB.

These committees are composed of and chaired by members of the GSB. Their meetings may also be attended by members of the EBD responsible for the matters that are dealt with by the relevant committees.

- **Financial Affairs (Audit) Committee**

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

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

  In addition, this committee supports the GSB in overseeing the effectiveness of the internal control system, risk management system and internal audit system of the Issuer and the financial companies within its scope of prudential consolidation.

  The members of the Financial Affairs (Audit) Committee are as follows:

  Chairman: Karl-Gerhard Eick
  Byron Haynes
  Kambiz Nourbakhsh

- **Risk Committee**

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

  This committee also has the powers provided for by law and the delegated powers of the GSB with regard to certain credit transactions and changes in risk policies.

The members of the Risk Committee are as follows:

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

- **Compliance Committee**

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

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

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

The members of the Compliance Committee are as follows:

Chairman: Robert Sherman
John Herbert
Mark Coker

- **Nomination Committee**

The Nomination Committee supports the GSB in overseeing the EBD's action in the establishment of, and in ensuring compliance with, consistent and well-integrated nomination policies at the Issuer and the following financial subsidiaries: Banco Best, NOVO BANCO Açores and companies of GNB Gestão de Ativos (Asset Management).

The members of the Nomination Committee are as follows:
Chairman: John Herbert
Robert Sherman
Donald Quintin
Mark Coker
Carla Antunes da Silva

- **Remuneration Committee**

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

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

The members of the Remuneration Committee are as follows:
Chairman: Byron Haynes
Karl-Gerhard Eick
Benjamin Dickgiesser

Executive Board of Directors

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

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

The members of the EBD are appointed by the GSB, which also appoints the CEO.

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

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

The following table sets out the members of the EBD for the 2021-2024 term of office, as at the date of this Prospectus, with an indication of name, position and principal activities of the directors outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
António Manuel Palma Ramalho	Chief Executive Officer (CEO)	- Member of the Board of APB - Associação Portuguesa de Bancos;
Mark Bourke	Chief Financial Officer (CFO)	-
Rui Miguel Dias Ribeiro Fontes	Chief Risk Officer (CRO)	-
Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal and Compliance Officer (CLCO)	-
Luís Miguel Alves Ribeiro	Chief Commercial Officer (CCO - Retail)	- Non-Executive Board Member at UNICRE - Non-Executive Board Member at SIBS SGPS, SA - Non-Executive Board Member at SIBS Forward Payment Solutions, SA
Andrés Baltar Garcia	Chief Commercial Officer (Corporate)	-

To the best of the Issuer's knowledge, none of the abovementioned members of the EBD has any external activity relevant for the Issuer other than the ones listed above.

For all the purposes resulting from the functions of the members of the EBD, their professional domicile is at Avenida da Liberdade, nº 195, 1250 - 142 Lisbon, Portugal.

Committees of the EBD

In accordance with its rules of procedure, the EBD may establish committees to complement its own management activity, ensuring the monitoring of the Issuer's activity in areas that are considered relevant. As at the date of this Prospectus, the following committees exist:

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

  Rui Fontes (Chairman)

- **Financial and Credit Committee.** Responsible for deciding the main credit operations in which the Group participates, in line with the risk policies defined for the Group.

  António Ramalho (Chairman)

- **Capital, Assets and Liabilities Committee ("CALCO").** Responsible for the definition of the balance sheet management policies (capital, pricing and interest rate, liquidity and foreign exchange risk) and for monitoring their impact at the Group level.

  Mark Bourke (Chairman)

- **Internal Control System Committee.** This committee monitors all issues related to the Group's internal control system, without prejudice to the responsibilities attributed in this regard to the EBD and other committees in place at the Group, namely the Risk Committee, the Operational Risk Committee and the Compliance Committee.

  Rui Fontes (Chairman)

- **Compliance and Product Committee.** Addresses issues related to compliance with laws, regulations and best practices, in particular in relation with anti-money laundering and counter-terrorist financing prevention, behavioural conduct, conflicts of interest, transactions with related parties control or customer claims. Further, responsible for approving, from a compliance standpoint, own or third party products and services developed and/or distributed by the Issuer, issuing an opinion on all of them within the scope of the products' signoff process in force, as well as monitor the issues related to compliance with the above issues, without prejudice of competences of other governing bodies and GSB Committees.

  Luísa Soares da Silva (Chairwoman)

- **Digital Transformation Committee.** Responsible for defining and driving digital transformation at the Issuer.

  António Ramalho (Chairman)

- **Costs and Investments Committee.** Responsible for approving the execution of expenses, within the limits of the powers conferred upon it. Its objectives include the definition of an annual expenditure plan and the revision of the acquisition strategy.

  Mark Bourke (Chairman)

- **Impairment Committee.** Responsible for defining the amount of impairment to be allocated to each client, when the Issuer has an exposure above €100 million to that client or group of clients.

  Rui Fontes (Chairman)

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

Monitoring Committee

The Monitoring Committee is a statutory advisory body ruled by the Articles of Association and deriving from the CCA composed of three members elected by the General Meeting, one of whom to act as Chairperson. The composition of the Monitoring Committee shall respect the following criteria: one of its members shall be independent from the parties to the CCA, and another shall be a registered charter accountant, as the Resolution Fund is responsible for appointing two of its members.

The Monitoring Committee has as main responsibilities to discuss and issue (non-binding) opinions on relevant issues concerning the CCA upon which it is requested to issue an opinion. The members of the Monitoring Committee are entitled to attend as observers and speak (but not vote) at all meetings of the GSB.

The following table sets out the members of the Monitoring Committee for the 2021-2024 term of office, as at the date of this Prospectus, with an indication of name, position and principal activities of its members outside of the Group:

Name	**Position**	**Principal activities outside of the Group**
José Bracinha Vieira	Chairman	President of the Liquidation Committee of Banif – Banco Internacional do Funchal, S.A.
Carlos Miguel de Paula Martins Roballo	Member	-
Pedro Miguel Marques e Pereira	Member	-

Company Secretary

The Issuer’s Company Secretary for the 2021-2024 term of office, as at the date of this Prospectus are as follows:

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

Conflicts of Interest

To the best of the Issuer’s knowledge and in its understanding, based on legal requirements and internal governance for such cases, there are no potential conflicts of interests between the duties of any member of the management and supervision bodies identified above towards the Issuer or towards any other Group company and his/her personal interests and duties, that have not been identified and adequately disclosed and settled.

Statutory Auditor

Supervision is in part the responsibility of the GSB and the Statutory Auditor.

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

The Statutory Auditor and Alternate Statutory Auditor are elected and removed by the GSB, under a proposal of the GSB, and they have the powers and responsibilities provided for in the law.

There are no potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interest or duties.

M. LEGAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

Save as disclosed below, neither the Issuer nor any other member of the Group, is, or during the 12 months preceding the date of this Prospectus has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have significant effects on the Group's financial position or profitability.

As a large financial institution, the Group is the subject of actual and threatened litigation and other proceedings in the ordinary course of its banking and financial intermediary business.

Furthermore, the Group is the subject of actual and threatened litigation and other proceedings related to its incorporation.

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

Where the Group is subject to threatened or ongoing proceedings, management determines on the basis of applicable accounting principles and in accordance with the perimeter of assets and liabilities arising from the Resolution Measure and subsequent decisions of the Bank of Portugal the level of provisions to be recorded in its accounts regarding such proceedings. As at 31 December 2020, no provisions have been made at the level of the Issuer with respect to proceedings related to the Resolution Measure.

In addition, as regulated entities, the Issuer and the Group are, from time to time, the subject of supervisory and administrative inquiries, inspections and investigations by regulators in the jurisdictions in which they operate. So far as the Issuer is aware, and except as disclosed below, none of the Issuer or other Group entities is, as at the date of this Prospectus, subject to any such inquiries, inspections or investigations that may have a significant effect on the Group's financial position or profitability. See also "*Risk Factors—Risks relating to the Issuer—Legal and regulatory risks—Risks relating to regulatory requirements*".

Proceedings relating to the Resolution Measure

The Issuer was incorporated by resolution of the Board of Directors of Bank of Portugal dated 3 August 2014 (8 p.m.) (the "**Resolution of 3 August 2014**") under no. 5 of article 145-G of the RGICSF (the version in force at the time), following the resolution measure applied by Bank of Portugal to BES, under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF.

Pursuant to the Resolution of 3 August 2014, the assets, liabilities, off-balance sheet items and assets under management of BES defined in Annex 2 to the Resolution of 3 August 2014 (and clarified by the extraordinary meeting held by the Board of Directors of the Bank of Portugal on 11 August 2014 (5 p.m.)) were transferred to the Issuer.

The Resolution of 3 August 2014 and the decisions of the Bank of Portugal related or in connection with the Resolution of 3 August 2014, including the application and impacts of the Resolution Measure and the incorporation of the Issuer are being and may continue to be publicly and judicially challenged by several parties and creditors. These proceedings include also the challenges to the transfer of certain assets and liabilities to the Issuer as a result of the Resolution Measure and the decisions of the Bank of Portugal, as well as proceedings requesting the set-off of liabilities that were not transferred to the Issuer against credits transferred and held by the Issuer. Several judicial proceedings have been initiated against the Bank of Portugal, the Resolution Fund and/or the Issuer and it is likely that other similar proceedings will be submitted within the applicable legal time limits.

Despite the fact that the Resolution Measure expressly determines that "*any liabilities or contingencies related to the trading, financial intermediation and distribution of debt instruments issued by entities integrating Grupo Espírito Santo*" have not been transferred to the Issuer and determines as well that a number of other liabilities and contingencies have not been transferred to it, there are several legal proceedings related with the placing, by BES, of debt instruments of Espírito Santo group entities (including, commercial paper) and preference shares issued by special purpose vehicles, which have been submitted by clients who are arguing that any such liability has been transferred to the Issuer.

There are also cases outside of Portugal that are somehow connected with the non-recognition of the Resolution Measure and its effects and/or related decisions of the Bank of Portugal, such as legal proceedings brought against the Issuer related with the placement of debt instruments of Espírito Santo Group in Venezuela (where, notably, two proceedings with the nominal amount of US$37 million and US$335 million have been filed) and an arbitration in the International Chamber of Commerce which is being challenged in the French Civil Courts.

Two proceedings were filled in the Superior Court of Venezuela in early 2016, by Banco de Desarrollo Económico y Social ("**BANDES**") and by Fondo de Desarrollo Nacional ("**FONDEN**"), against the Issuer and BES regarding the subscription in 2014 by BANDES and FONDEN of debt instruments issued by Espírito Santo International ("**ESI**") in the nominal amount of US$37 million and US$335 million, and total amounts claimed in March 2016 of US$871 million and US$96 million, respectively. These entities are claiming: (i) the nullity of the sale of the debt instruments and the payment by BES and the Issuer (jointly) of the amount of principal, together with costs, interests and inflation rate; or (ii) the payment by BES and the Issuer (on a joint basis) of such amounts as a result of the obligations assumed in the comfort letters allegedly issued by BES for the benefit of FONDEN and BANDES in June 2014. In both proceedings, and despite the opposition of the Issuer, the Superior Court of Venezuela has considered that the Venezuelan courts have jurisdiction to decide on these proceedings. In addition, the claimants have requested the Superior Court of Venezuela to apply a preliminary injunction over certain assets of BES and the Issuer. The Issuer has submitted its opposition in both proceedings on the basis that any liability that could have existed regarding the sale of debt instruments issued by Grupo Espírito Santo entities was not transferred to the Issuer in accordance with the Resolution Measure and the separation of assets and liabilities contained in such decision.

There are still relevant litigation risks, notably regarding the various disputes relating to the US$835 million loan made by Oak Finance to BES, the placement of BES and Grupo Espírito Santo debt instruments directly and indirectly in BES retail clients and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain where there are several unfavourable decisions) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to the Issuer.

Similar proceedings relating to the retransfer of senior bonds have also been filed against the Bank of Portugal. All of these proceedings are still pending or awaiting final decision (*caso julgado*).

Indemnification Mechanism Relating to the Resolution Measure

Pursuant to the indemnification mechanism established in connection with the Lone Star Sale (the "**Indemnification Mechanism**"), which was preceded by a similar mechanism established by decision of the national resolution authority in the Decisions of 29 December 2015, in accordance with the resolution framework, the Resolution Fund is responsible, upon the fulfilment of certain conditions (including, defending the legal proceedings with the diligence of a prudent defendant), for compensating the Issuer, at any time and with no limitation of amount, for losses arising from non-appealable judicial decisions in the Portuguese courts or any other courts on the validity, implementation, effectiveness or enforcement of the Resolution Measure in any jurisdiction, including, but not limited to, the perimeter of the assets, liabilities, off-balance-sheet items, and assets under management of the Issuer or holding the Issuer responsible for any liability of BES, thereby not respecting the Resolution Measure. While the Indemnification Mechanism may help mitigate economic risks arising from certain litigation relating to the Resolution Measure, there can be no assurance that it will be applied or, if applied, upheld. In addition, even if the Indemnification Mechanism is successfully applied, this may result in an adverse reputational impact on the Issuer and/or the Group or be highly disruptive to the Issuer and a significant distraction for management.

Proceedings relating to the sale of the Issuer

Following the conclusion of the Lone Star Sale, certain legal suits have been lodged, related to the conditions of the sale, notably the administrative action brought by Banco Comercial Português, S.A. ("**BCP**") against the Resolution Fund, of which the Issuer is not a party, and according to the public disclosure made by BCP on the website of the CMVM on 1 September 2017, it requested the legal assessment of the contingent capitalisation obligation assumed by the Resolution Fund within the CCA. An additional proceeding was initiated with the General Court by BCP and other entities of the group seeking the annulment of the EC's decision C(2017/N) of 11 October 2017 which considers the CCA agreed between the Resolution Fund and the Lone Star Group in connection with the sale of the Issuer, compatible with the internal market, On 9 September 2020, BCP informed that it had decided not to continue the legal proceeding.

Other proceedings

There are two pending proceedings regarding the sale of the shares of Tranquilidade by the Issuer in enforcement of a pledge agreement:

(1) Lawsuit brought by Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. and Massa Insolvente da Espírito Santo Financial (Portugal), S.A. against the Issuer and Calm Eagle Holdings, S.A.R.L. through which it is intended that the pledge of the shares of Companhia de Seguros Tranquilidade, S.A. is declared invalid and, secondarily, that said pledge is annulled or declared ineffective;

(2) Lawsuit brought by the Issuer challenging the cancellation decided in favour of the insolvent estate in respect of the creation and subsequent enforcement of the pledge on the shares of the company Companhia de Seguros Tranquilidade, S.A., declared by the insolvency administrator of Partran, SGPS, S.A. The Issuer considers that there are no grounds for the cancellation of these acts and the corresponding requests from the insolvency administrator for the payment of the amount received by way of price (€25,000,000.00, subject to positive adjustments set out in the agreement) on the sale of the shares of Companhia de Seguros Tranquilidade, S.A.. The Issuer challenged judicially the cancellation, with this process running its course attached to the insolvency proceedings of Partran, SGPS, S.A.

The Issuer was notified of an order by the Central Court of Criminal Investigation that requires the provision of a guarantee by the Issuer in the approximate amount of €51 million due to an alleged failure to comply with a bank accounts seizure order, having used the respective means of reaction to oppose the application of the aforementioned asset guarantee measure due to the absence of a legal basis.

N. MATERIAL CONTRACTS

As part of the conditions of the Lone Star Sale, the Resolution Fund and the Issuer entered into the CCA on 18 October 2017. In light of the circumstances in which the CCA was concluded, it may be considered that the CCA has not been entered into in the ordinary course of the Issuer's business. For further details on the CCA see "—*Contingent Capital Agreement*" above.

O. SUPERVISION AND REGULATION

The Issuer is subject to EU regulation, to the Portuguese Companies Code which comprises commercial laws applicable to joint-stock companies (*sociedades anónimas*) and, in particular, to the RGICSF, to the Portuguese Securities Code ("**CVM**") and to other related legislation. Such regulations relate to, amongst others, liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices.

Membership in the EU subjects Portugal to compliance with European legislation which may either be in the form of regulations, which are directly enforceable in any member state, or directives addressed to the member states, which may require the enactment of implementing legislation or which, as established by the European Court of Justice in several decisions, may be deemed to be directly enforceable in a member state in the event that they are clear, precise and unconditional. In addition, the EC and the Council of Ministers issue non-binding recommendations to member states. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

Generally, the Issuer's activity is under the supervision of the ECB and of the Bank of Portugal, as a credit institution, of the CMVM, as an issuer and as a financial intermediary, and the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)*), as an insurance agent.

European Central Bank

In order to ensure financial stability and lay foundations for sustained economic growth, the EU Member States have created a banking union. This union provides that, from November 2014 onwards, the ECB becomes responsible for the prudential supervision of the credit institutions considered significant which operate in the European Union (the "**SSM**"). Behavioural supervision of these credit institutions shall remain with their respective national regulators. Credit institutions from European Union countries outside of the Eurozone may elect to be supervised by the ECB, under the banking union, having to ensure that their national regulator cooperates closely with the ECB.

Single Supervisory Mechanism

Council Regulation (EU) No 1024/2013 of 15 October 2013 established the SSM for Eurozone banks and other credit institutions. The SSM maintains an important distinction between significant and non- significant entities, which are subject to different supervisory regimes. The ECB carries out the prudential supervision of significant entities and the Issuer has been included in the list of significant supervised entities published by the ECB on 4 September 2014 and as last updated on 6 April 2020 (as of 1 March 2020). As a result, the ECB has been granted certain supervisory powers as from 4 November 2014, which include:

- the authority to grant and revoke authorisations regarding credit institutions;
- with respect to credit institutions incorporated in a participating Member State establishing a branch or providing cross border services in Member States that are not part of the Eurozone, to carry out the tasks of the competent authority of the home Member State;
- the power to assess notifications regarding the acquisition and disposal of qualifying holdings in credit institutions;
- the power to ensure compliance with requirements relating to own funds, securitisation, large exposure limits, liquidity, leverage, as well as reporting and public disclosure of information on those matters;

- the power to ensure compliance with respect to corporate governance, including fit and proper requirements for the persons responsible for the management of credit institutions, risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings-based models);
- the power to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests, which may lead to the imposition of specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
- the power to supervise credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the Member States; and
- the power to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The SSM framework Regulation (EU) No 468/2014 of the ECB of 16 April 2014 sets out the framework for cooperation within the SSM between the ECB and the relevant national authorities, while Regulation (EU) No 1163/2014 of the ECB of 22 October 2014, as amended, lays down the calculation methodology and the collection procedure regarding the annual supervisory fees which are born by the supervised credit institutions.

The ECB directly supervises significant banks, including the Issuer, whereas each national competent authority ("**NCA**", as is the case of the Bank of Portugal in Portugal) is in charge of supervising other banks within its jurisdiction. The ECB has the right to impose pecuniary sanctions and set binding regulatory standards. Notably, the relevant entities are subject to continuous evaluation of their capital adequacy by the SSM and can be requested to operate with higher than minimum regulatory capital and/or liquidity ratios.

As regards the monitoring of financial institutions, the NCAs, in addition to supporting the ECB in day-to-day supervision of significant banks and supervising directly other banks, is responsible for supervisory matters not conferred on the ECB, such as consumer protection, money laundering, payment services, and branches of third country banks. The ECB, on the other hand, is exclusively responsible for prudential supervision of credit institutions with the abovementioned supervisory powers.

In order to foster consistency and efficiency of supervisory practices across the Eurozone, the EBA is continuing to develop the EBA rulebook, a single supervisory set of rules applicable to the Eurozone Member States (the "**EBA Rulebook**").

CRD IV (as defined below) contains specific mandates for the EBA to develop draft regulatory or implementing technical standards as well as guidelines and reports, in order to enhance regulatory harmonisation in Europe through the EBA Rulebook. A series of regulations concerning regulatory or implementing technical standards have been published.

Single Resolution Mechanism

The EC established the Single Resolution Mechanism through Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014, which came into effect on 1 January 2016 and establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund. Amendments to the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 entered into force in the course of June following the adoption on 14 May 2019 of a comprehensive legislative package to reduce risks in the banking sector and further reinforce banks' ability to withstand potential shocks, by the European Council (although most of the new rules will start applying in mid-2021). The Single Resolution Mechanism is responsible for coordinating the application of resolution tools within the Eurozone and, from 1 January 2016, is responsible for the resolution of credit institutions, which shall be funded through the Single Resolution Fund and not by any national resolution fund, such as the Resolution Fund. However, in Portugal the Resolution Fund will remain responsible for funding decisions, taken by the Bank of Portugal as the national resolution authority, that occurred until 31 December 2015, including those relating to the Resolution Measure applied to BES and the resolutions regarding Banif – Banco Internacional do Funchal, S.A., as well as for funding resolution decisions of certain financial institutions that fall outside the scope of the Single Resolution Fund.

The Commission Delegated Regulation (EU) 2017/2361 of 14 September 2017 further establishes the final system of contributions to the administrative expenditures of the Single Resolution and the Commission Delegated Regulation (EU) 2017/747 of 17 December 2015 establishes the criteria relating to the calculation of contributions (*ex ante* and *ex post* contributions).

Bank Recovery and Resolution Directive

The Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, as amended, establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") was transposed into Portuguese law by Law no. 23-A/2015, of 26 March 2015, as amended, and Law no. 66/2015, of 6 July 2015. BRDD was amended by Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017, as amended, and by Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017, which was transposed into Portuguese law by Law no. 23/2019, of 13 March 2019. Amendments to the BRRD entered into force in the course of June following the adoption on 14 May 2019 of a comprehensive legislative package to reduce risks in the banking sector and further reinforce banks' ability to withstand potential shocks, by the European Council (although most of the new rules will start applying in mid-2021).

The provisions of the BRRD aim to harmonise the resolution procedures of, among other things, credit institutions of European Union Member States and provide the authorities of such Member States with tools that aim to prevent insolvency or, when insolvency occurs, to mitigate its adverse effects, by maintaining the systemically key functions of said institutions.

The BRRD, implemented into Portuguese law through Law no. 23-A/2015, of 26 March 2015, as amended, and Law no. 66/2015, of 6 July 2015, provides among others for the following:

(i) **Preparation and planning stage**: Preparation for adopting measures of recovery and resolution, including (a) drawing up and submitting recovery plans by credit institutions to the Competent Authority for evaluation, which shall provide for the measures to be taken for restoring their financial position following a significant deterioration of their financial position and (b) drawing up of a resolution plan for each credit institution or group;

(ii) **Early intervention stage**: If an institution breaches the applicable legal requirements governing its activity or is likely to breach them in the near future, the competent authority is conferred with the power to:

   (a) require that the board of directors of the credit institution draws up an action plan, with a specific timeline;

   (b) require that the chair of the general meeting of the credit institution convenes a general meeting of its shareholders or, in case the chair of the general meeting does not comply, promptly convene itself a general meeting of the shareholders of the credit institution;

   (c) require that one or more members of the board of directors or the supervisory board be removed or replaced if they are considered unsuitable in light of the applicable provisions to perform their duties;

   (d) require that the credit institution draws up and submits for consultation a plan for debt restructuring with its creditors according to the recovery plan;

   (e) require changes in the legal or business structures of the credit institutions; and

   (f) collect (including through on-site inspections) all necessary information for the update of the resolution plan and the preparation of the potential resolution of the credit institution and the valuation of its assets and liabilities for the resolution purposes.

In case of significant deterioration of the financial condition of an institution due to significant infringements of the law, regulatory acts or the constitutional documents of the institution or in case the competent authority believes that significant administrative irregularities have taken place, that the current shareholders and board of directors of the institution are unable to ensure its prudent management or its financial recovery or that there are other reasons to suspect of irregularities that put into serious risk the interests of depositors and creditors, and provided that the above early intervention measures listed above in subparagraph (ii) are not sufficient to reverse the deterioration of the institution, the competent authority may require the removal of the board of directors of the institution. When the competent authority considers the removal of the management body as insufficient for addressing any of the above-mentioned situations, one or more temporary directors may be appointed to the institution.

(iii) **Resolution measures**: The resolution authority shall take action only if it considers that all of the following conditions are met:

(a) The competent authority or the resolution authority considers that the institution is failing or is likely to fail;

(b) having regard to timing and other relevant circumstances, no alternative private sector measures or supervisory action, including early intervention measures or the exercise of the powers to write-down or convert own funds instruments, would prevent the failure of the institution within a reasonable timeframe;

(c) a resolution action is necessary for public interest reasons, as it is required for the achievement of and is proportionate to one or more of the resolution objectives established by law; and

(d) winding up the institution under normal insolvency proceedings would not meet those resolution objectives more effectively.

The resolution measures that may be implemented by the resolution authority, either individually or in conjunction, are the following:

(i) **Sale of business tool**: transfer to a purchaser, by virtue of a decision of the resolution authority, of shares or other instruments of ownership or of some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution, without the consent of the shareholders of the institution under resolution or of any third party other than the acquirer.

(ii) **Bridge institution tool**: establishment of a bridge institution by the resolution authority, to which shares or other instruments of ownership or some or all of the rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of the institution under resolution are transferred without the consent of the shareholders of the institution under resolution or of any third party.

(iii) **Asset separation tool (to be used only in conjunction with another resolution measure)**: transfer, by virtue of a decision of the resolution authority, of rights and obligations, corresponding to assets, liabilities, off-balance sheet items and assets under management, of an institution under resolution or of a bridge institution to one or more asset management vehicles, without the consent of the shareholders of the institutions under resolution or of any third party other than the bridge institution. The asset management vehicles are legal persons wholly or partially owned by the relevant resolution fund.

(iv) **Bail-in tool**: write-down or conversion by the resolution authority of any obligations of an institution under resolution, except for the following obligations, as defined under the applicable law:

(a) covered deposits;

(b) secured obligations;

(c) obligations arising from holding of clients' assets or money;

(d) obligations to credit institutions and investment firms, excluding the members of the group, with an original maturity of less than seven days;

(e) obligations with a remaining maturity of less than seven days towards payment and securities settlement systems, to its administrators or to its participants, arising from the participation in said systems;

(f) obligations towards (i) employees, except for the variable component of their remuneration which is not regulated by a collective agreement, (ii) commercial or trade creditors, connected to the provision of goods and services to the institution which are critical for its daily operation, (iii) tax authorities and social security authorities, provided that these obligations are privileged according to the applicable law, and (iv) deposit guarantee schemes arising from contributions due to those schemes; and

(g) obligations towards a beneficiary in the context of a fiduciary relationship, provided that such beneficiary is protected under the application insolvency or civil law.

In exceptional circumstances, when the bail-in tool is implemented, the resolution authority may exclude or partially exclude certain liabilities from the application of the write-down or conversion powers. This exception shall apply in case it is strictly necessary and proportionate and shall fall under the specific requirements provided by law.

Further to the above resolution measures, the resolution authority shall exercise the write-down or conversion powers in respect of own funds instruments of the institution, either independently from the resolution measures implemented by the resolution authority or in combination with those resolution measures, under the circumstances provided under the applicable law, when for example it is established that the conditions for resolution are met or when the resolution authority establishes that if said power is not exercised, the institution will cease to be viable.

The application of the resolution measures shall ensure that the shareholders of the institution bear losses first, followed by creditors of the institution in accordance with the order of priority of their claims under normal insolvency proceedings. Additionally, creditors of the same class should be treated in an equitable manner and covered deposits should be fully protected. In any case, no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings in accordance with the "no creditor worse off" principle.

To ensure the effective application of the resolution tools, the resolution authority may use financing arrangements, notably for the following purposes:

(i) to guarantee the assets or the liabilities of the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(ii) to grant loans to the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle;

(iii) to purchase assets of the institution under resolution;

(iv) to make contributions to a bridge institution and an asset management vehicle;

(v) to pay compensation to shareholders, creditors of the institution under resolution or the Deposit Guarantee Fund; and

(vi) to contribute to the institution under resolution in lieu of the write down or conversion of liabilities of certain creditors, when the bail-in tool is applied and the resolution authority decides to exclude certain creditors from the scope of bail-in.

In addition to the resolution tools (such as the general bail-in tool), the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**").

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity or its group other than, where the relevant entity is an institution, for the purposes of remedying a serious disturbance in the economy of a Member State of the EEA and to preserve financial stability.

On 3 September 2016, the EC adopted Delegated Regulation (EU) 2016/1450, of 23 March 2016, supplementing the BRRD regulatory technical standards, which entered into force on 23 September 2016, specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities ("**MREL**"). This required that institutions meet the MREL to avoid excessive reliance of forms of funding that are excluded from bail-in or other resolution measures and prevent the risk of contagion to other institutions and "bank run" situations, since failure to meet the MREL would negatively impact the institutions' loss absorption and recapitalisation capacity and the overall effectiveness of the resolution.

Non-exhaustive summary of recent regulatory developments following the Covid-19 pandemic

Following the Covid-19 outbreak, the ECB announced, on 12 March 2020, a first set of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy as the economic effects of Covid-19 become apparent.

The ECB will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance, the capital conservation buffer and the LCR. The ECB also clarified that capital buffers may be used in full and that no negative judgment will be attached to those making use of these relief measures. Once this period of financial distress is over banks will be granted sufficient time to build up the buffers again.

Banks will also be allowed to partially use capital instruments that do not qualify as CET1 capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R. This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the CRD V.

In addition, the ECB has taken individual measures, such as adjusting timetables, processes and deadlines (e.g. rescheduling on-site inspections and extending deadlines for the implementation of remediation actions stemming from recent on-site inspections and internal model investigations; extending deadlines for certain non-critical supervisory measures and data requests). the Bank of Portugal clarified some of these measures through Carta Circular 2020/00000017 and 2020/00000021.

The ECB has supported the decision by the EBA to postpone the 2020 EBA EU-wide stress test.

Banks are expected not to increase dividend distributions or variable remuneration.

On 16 April 2020, the ECB Banking Supervision provided temporary relief for capital requirements for market risk by allowing banks to adjust the supervisory component of these requirements.

On 20 March 2020, the ECB announced a new statement, providing additional flexibility to banks. This statement was also accompanied by a more comprehensive FAQ page.

The measures announced on 20 March 2020 include:

- introduction of supervisory flexibility regarding the treatment of non-performing loans, in particular to allow banks to fully benefit from guarantees and moratoria put in place by public authorities to tackle the current distress;
- ECB recommends that all banks avoid procyclical assumptions in their models to determine credit impairments; and
- for the banks, that have not done this so far, opt for the implementation of IFRS 9 transitional arrangements.

On 28 April 2020, the EC adopted a banking package to help mitigate the economic impact of the Covid-19 pandemic. The banking package includes several measures, summarised below:

- CRR:

  In this regard, the following set of amendments to the CRR have been proposed:

(i) transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital, namely the extension of the current transitional arrangements in the CRR by two years, in line with the international agreement of the Basel Committee. Only provisions incurred as of 1 January 2020 would be eligible;

(ii) date of application of the leverage ratio buffer for G-SIIs is proposed to be deferred by one year to 1 January 2023; and

(iii) more favourable treatment of publicly guaranteed loans under the NPL prudential backstop, notably by temporarily extending preferential treatment to NPLs guaranteed by the public sector in the context of measures aimed at mitigating the economic impact of the Covid-19 pandemic in accordance with EU State aid rules.

- IFRS 9:

  The banking package also includes an Interpretative Communication on the EU's accounting and prudential frameworks which has clarified:

  (i) the flexibility available in IFRS 9 in regards to (i) the Expected Credit Loss ("**ECL**") approach under IFRS 9; (ii) the assessment of a "Significant Increase in Credit Risk" ("**SICR**"); and (iii) the use of moratoria and SICR;

  (ii) that individual or corporate loans that benefit from moratoria should not automatically be considered to have suffered a SICR if they have become subject to private or public moratoria. As such, if they fulfil a number of conditions (as specified in the EBA guidelines of 2 April 2020 on payment moratoria, EBA/GL/2020/02) they are not considered as forbearance measures and therefore do not affect the classification of the loans concerned; and

  (iii) how the prudential rules on the classification of NPLs (definition of default and loan forbearance under the CRR) can accommodate government guarantees and payment moratoria in line with the statements and guidance by the EBA and the ECB.

- Other measures:

  The banking package also envisages the following measures:

  (i) advancing the date of application of the revised supporting factor for SME and the new supporting factor for infrastructure finance, the preferential treatment of certain software assets, and the preferential treatment of certain loans backed by pensions or salaries; and

  (ii) a proposal for the modification of the offsetting mechanism associated with competent authorities' discretion to allow credit institutions to temporarily exclude exposures in the form of central bank reserves from the calculation of the leverage ratio.

Bank of Portugal

The Bank of Portugal is part of the European system of Central Banks ("**ESCB**"), which was created in connection with the European Monetary Union ("**EMU**"). The EMU implements a single monetary policy, the main features of which are a single currency – the euro – and the creation of the ECB and the ESCB. According to the EU Treaty, the primary objective of the ESCB is to maintain price stability through monetary policy.

The Bank of Portugal is committed to providing for the stability of the domestic financial system and performs for this purpose the function of lender of last resort (as set forth in Law 5/98, 31 January 1998, as amended). This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal, as mentioned below.

According to the RGICSF, and subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, the Bank of Portugal authorises the establishment of credit institutions and financial companies based on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches should they occur and possesses the ability to take extraordinary measures of reorganisation.

The Bank of Portugal has established and/or is responsible for supervising and monitoring, subject to the powers conferred upon the ECB in the context of the SSM and to the cooperation between the ECB and the Bank of Portugal where applicable, rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. Subject to the same terms, it monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to regulate, oversee and promote the smooth operation of payment systems within the scope of its participation in the ESCB.

Capital and capital ratios

In the wake of the financial crisis and due to insufficiencies in existing regulatory capital structures, as well as the lack of adequate capital reserves in systemically important financial institutions, the issue of capital requirements has been subject to numerous national and international initiatives. In December 2010, the Basel Committee published two recommendations to reform the global regulatory framework applicable to credit institutions ("Basel III: A global regulatory framework for more resilient credit institutions and banking systems", and "Basel III: International framework for liquidity risk measurement, standards and monitoring", both of which have been subsequently updated). These recommendations, known as "Basel III", revised certain aspects of the recommendations contained in Basel II which introduced new rules on capital and liquidity. In the EU, these recommendations were implemented through new banking regulations adopted on 26 June 2013:

(a) Directive 2013/36/EU of the European Parliament and of the European Council, as amended, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**"), which has been transposed into Portuguese law by Decree-Law No 157/2014 of 24 October 2014, and

(b) Regulation (EU) no 575/2013 of the European Parliament and of the Council, as amended, on prudential requirements for credit institutions and investment firms (the "**CRD IV Regulation**" or "**CRR**" and, together with the CRD IV Directive, "**CRD IV**"), which is legally binding and directly applicable in all EU Member States. Implementation began on 1 January 2014, while particular elements being phased in over a period of time, to be fully effective by 2024.

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

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

- a leverage ratio requirement for all institutions as well as a leverage ratio buffer for all global systemically important institutions;
- a net stable funding requirement;
- a new market risk framework for reporting purposes, including measures reducing reporting and disclosure requirements and simplifying market risk and liquidity rules for small non-complex banks in order to ensure a proportionate framework for all banks within the EU;
- a requirement for third-country institutions with significant activities in the EU to have an EU intermediate parent undertaking;

- a new total loss absorbing capacity ("**TLAC**") requirement for global systemically important institutions;
- enhanced MREL subordination rules for global systemically important institutions (G-SIIs) and other large banks; and
- a new moratorium power for the resolution authority.

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

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

Capital Requirements

CRD IV amended existing regulatory capital items which are divided as described below, subject to certain further deductions as described in CRD IV:

- Common Equity Tier 1 ("**CET1**"): This category includes share capital, share premiums, eligible reserves and the net profit for the year retained when certified and non-controlling interests adjusted in proportion to the risk of entities that give rise to them; goodwill, intangible assets, negative actuarial deviations arising from liabilities related to post-employment benefits to employees and, when applicable, the negative results for the year are also deductible;
- Additional Tier 1 ("**AT1**", together with CET1 items, "**Tier 1**"): This category includes certain preferred shares and hybrid capital instruments;
- Tier 2 ("**Tier 2**"): essentially incorporates subordinated eligible debt; and
- Total Own Funds is Tier 1 and Tier 2 ("**Total Own Funds**").

Subject to any applicable transitional periods, the CRD IV general Total Own Funds requirement is 8 per cent. of the total risk-weighted assets, while at least 6 per cent. and 4.5 per cent. of the minimum Total Own Funds shall be composed by Tier 1 and CET1, respectively. Accordingly, the maximum eligible capital that can be covered through Tier 2 instruments is 2 per cent. The above may be subject to additional capital requirements as a result of the SREP and is subject to capital conservation and other buffers, as indicated below and which, where applicable, need to be covered by CET1 amounts.

Regulatory Notice ("*Aviso*") 6/2013 issued by the Bank of Portugal regulated the transition provided in CRD IV and had determined a minimum CET1 ratio of 7.0 per cent., calculated under the transitional periods requirements, to be complied with from 1 January 2014 onwards. Regulatory Notice ("*Aviso*") 6/2013 has since been revoked and replaced by the Regulatory Notice ("*Aviso*") 10/2017 issued by the Bank of Portugal that entered into force in 1 January 2018 and which regulates the exercise of a range of options available within the prudential framework established by the CRD IV Regulation and Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 following the publication of Guideline (EU) 2017/697 (ECB/2017/9) of 4 April 2017 and Recommendation ECB/2017/10 of 4 April 2017, both of the ECB.

CRD IV required credit institutions to hold additional CET1 capital buffers as fixed by the relevant supervisory authorities:

- A "conservation buffer" of 2.5 per cent. In case of non-compliance, the regulator will impose the constraints on dividends distribution and executive bonuses inversely proportional to the level of the actual CET1 ratio;

- A "countercyclical capital buffer" which varies by jurisdiction. The buffer is being phased in and, when fully phased-in, is expected to range between 0 per cent. and 2.5 per cent. depending on macroeconomic factors. In Portugal, at its most recent revision, pursuant to the decision of the Bank of Portugal of 23 March 2021, the countercyclical buffer rate is at 0.00 per cent. of the total risk exposure amount, with effect from 1 April 2021;

- A "systemic risk buffer" of at least 1 per cent. set at the discretion of national authorities of EU Member States to be applied to institutions at consolidated or individual level, or even at the level of exposures in certain countries at which a banking group operates. Currently no systemic risk buffer has been set by the Bank of Portugal;

- Additional buffers are applied to O-SIIs. For global systemically important institutions, the additional buffer ranges between 1 per cent. and 3.5 per cent., whereas for O-SIIs it could reach 2 per cent. The Bank of Portugal, through Regulatory Notice 4/2015 on 29 December 2015, regulated the disclosure of the identification of O-SIIs in Portugal and of the common equity tier 1 buffer applicable to each identified O-SII. In the case of the Issuer, through the holding company LSF Nani Investments S.à r.l., the applicable buffer for O-SIIs shall be 0.375 per cent. from 1 January 2021 until 31 December 2021, 0.5 per cent. from 1 January 2022 until 31 December 2022 and 0.5 per cent. from 1 January 2023 onwards;

- According to Council Regulation (EU) no. 1024/2013 of 15 October 2013 and based on the SREP conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, the ECB communicated to the Issuer in 27 March 2017 that the Group should comply with an own funds requirement of 3 per cent. to be held in excess of the minimum own funds requirement, to be made up entirely of CET1 capital.

As at 31 December 2020, the Issuer's CET1 ratio was 11.3 per cent. (phased in) and 10.0 per cent. (fully phased in) (13.5 per cent. (phased in) and 12.8 per cent. (fully implemented) as at 31 December 2019).

Local capital requirements

In addition, members of the Group, which are subject to local supervision in their respective countries of incorporation may, on an individual and on a consolidated basis, be required to comply with applicable local Regulatory Capital Requirements. It is therefore possible that individual entities within the Group or sub-groups require additional own funds, even though the own funds of the Group on a consolidated basis are sufficient.

Leverage ratios

With respect to leverage requirements, CRD IV also introduced a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoiding excess leverage through a simple calculation. This ratio is calculated by dividing the total Tier 1 capital by the total exposure measure of all assets and off-balance sheet items not deducted when determining the Tier 1 capital, and shall be expressed as a percentage, as defined in CRD IV. Stricter requirements may be demanded only from G-SIIs.

Following the adoption of the Reforms on 14 May 2019 by the European Council, a minimum of 3 per cent. Tier 1 leverage ratio for all CRR firms in the EU should be endorsed. The Reforms have entered into force in the course of June 2019, although most of the new rules will start applying in mid-2021.

Risk weighted assets

Risk-weighted assets ("**RWAs**") is a metric used to reflect components of risk in an asset, including credit, market and operational risk. RWAs are used to calculate key capital adequacy ratios, including CET1 ratio and Tier 1 Ratio.

Under CRD IV, credit institutions in Portugal may calculate the risk weighting of their assets, insofar as credit risk is concerned, according to a standard-based approach or based on their own internal risk-management models, in the latter case subject to authorisation by the banking supervisor. However, in March 2016, the Basel Committee proposed standards to prohibit credit institutions from using internal risk management models to calculate credit risk with respect to, amongst others, large corporations, requiring, instead, the use of the standard-based approach.

Supervisory Review and Evaluation Process

In December 2014, the EBA published its final guidelines on the procedures and methodologies that will form its SREP assessments. The Issuer is subject to an annual SREP assessment by the SSM to determine the adequacy of its capital, to identify risks that are not covered by its own funds requirements and to identify the need for Pillar 2 capital requirements. The SREP assessments include capital assessment, business model analysis, assessment of internal governance and control, liquidity assessment and broader stress testing. The purpose of these SREP assessments is to evaluate whether institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of risks, to which they are or might be exposed, including those revealed by stress testing. Where the results of a SREP assessment identify areas of risks which are not adequately covered by the Pillar 1 capital requirements or the combined buffer requirement, competent authorities can determine the appropriate level of the institution's own funds requirement under CRD IV and assess whether additional own funds shall be required.

Liquidity Requirements

With respect to liquidity requirements, there is in place a provision for near term liquidity and from June 2021 there will be in place a medium/long term financing requirements referred to as the liquidity coverage requirement (the "**LCR**") and net stable funding ratio ("**NSFR**") respectively.

The LCR seeks to ensure that institutions maintain levels of liquidity buffers which are adequate to face possible imbalances between liquidity inflows and outflows under gravely stressed conditions, and does so by defining an amount of unencumbered, high quality liquid assets that must be held by a credit institution to offset estimated net cash outflows over a 30 day stress scenario. The liquidity coverage requirement is 100 per cent. In relation to the liquidity coverage requirement, the EU regulation:

- Defined assets as "extremely high" and of "high" quality;
- Put in place operational requirements for the holdings of liquid assets;
- Defined that all types of bonds issued or guaranteed by Member States' central governments and central banks in local currency as well as those issued or guaranteed by supranational institutions should be considered transferrable extremely high quality assets;
- Stated that the credit quality standards and eligibility of covered bonds, bonds, RMBS and bonds issued by local government entities should be considered highly liquid and credit quality assets; and
- Defined that common equity shares that form part of a major stock index should be considered high quality liquid assets.

As at 31 December 2020, the Group had an LCR of 140 per cent. (143 per cent. as at 31 December 2019).

As for the NSFR, the implementation of which is expected for June 2021, also with a requirement of 100 per cent., aiming that institutions maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities over a one-year period. Moreover, the regulator establishes minimum provisioning requirements regarding loans, non- performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies.

Own Funds and Large Exposures

Credit institutions are required by Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds are determined by the Bank of Portugal.

As per the CRD IV Regulation and the Bank of Portugal Notice ("*Aviso*") no. 10/2017, a credit institution shall not have exposure to a customer or group of connected customers exceeding 25 per cent. of its own funds. In terms of the exposure to the economic group on which a credit institution is incorporated, this limit is not applicable to the exposure assumed by an institution to entities included within the scope of the supervision of the Bank of Portugal on a consolidated basis and which all have their head offices located in Portugal. Under prior authorisation of the Bank of Portugal, this exemption may be extended to other entities that have the same characteristics as those described above but whose head office is located in a third country.

Similarly, the Bank of Portugal Notice ("*Aviso*") no. 10/2017, as amended, permits the exemption limit of 25 per cent. of a credit institution's own funds for exposures to certain assets, including assets constituting credits and other risks on central governments, central banks (as minimum reserve requirements expressed in the relevant central bank's currency) or the risks over well-established stock exchanges (whenever the risks in question have a duration which is no longer than the following business day), among other exemptions.

Minimum Reserve Requirements

Credit institutions are required to maintain mandatory deposits with national central banks in order to comply with minimum reserve requirements. According to the ECB Regulation (EC) no. 1358/2011, of 14 December 2011 (ECB/2003/9) that changes the ECB Regulation (EC) no. 1745/2003, of 12 September 2003 (ECB/2003/9), minimum cash requirements kept as deposits with the Bank of Portugal earn interest and correspond to 1 per cent. of deposits and issued debt certificates with a maturity of less than two years, excluding responsibilities towards the ECB, national central banks and other institutions subject to minimum cash reserves requirements as further set out in Regulation (EU) 2016/1705 of the ECB of 9 September 2016.

The failure of a bank to maintain adequate liquidity may result in (i) an increase in the cash amount required (of up to three times the original amount) or (ii) payment of interest over the amount of deposits not made up to double the rediscount rate or up to five percentage points over the market rate.

Deposit Guarantee Fund

The Deposit Guarantee Fund was established in 1992 and started operating in December 1994 and has administrative and financial autonomy. Credit institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU, as amended from time to time providing for the establishment of deposit guarantee schemes and the harmonisation of such deposit guarantee systems throughout the EU (the "**recast DGSD**"), which was implemented into Portugal through Law no. 23-A/2015, of 26 March, as amended, that amended the RGICSF.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the repayment to depositors of up to €100,000 per depositor, subject to certain statutory exceptions, as mentioned below. The deposits made on Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the deposit guarantee scheme, such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds, pension fund management companies, and central or local administration bodies, among others, in their own name and for their own account, with exception of those made by (i) pension funds whose associates are small and medium enterprises and (ii) local authorities with an annual budget equal to or less than €500,000.

Also excluded from the guarantee scheme are certain deposits relating to anti-money laundering criminal convictions or where its holder has not been properly identified in accordance with the anti-money laundering and prevention of terrorism law. Finally, deposits of persons and entities that, in the two years before the date on which deposits become unavailable, or a resolution has been adopted, held, directly or indirectly, 2 per cent. or more of the share capital of the credit institution or have been members of its corporate bodies are also excluded, unless it is clearly established that they did not cause the financial difficulties of the credit institution, through act or omission, and did not contribute through act or omission to the worsening of the situation.

The annual contributions to the Deposit Guarantee Fund are calculated according to the monthly average of the deposits balance accepted in the previous year. An annual contributions rate is determined annually by the Bank of Portugal. The rate plus a multiplicative factor is determined in accordance with the solvency situation of each institution (the higher an institution's average solvency ratio, the lower its contribution). The factor is defined in Notice 11/94 of the Bank of Portugal, as amended. The basic contribution rate set for 2021 is 0.0003 per cent.

The Bank of Portugal may determine that the payment of up to 75 per cent. of the annual contributions may be partly replaced by an irrevocable undertaking to make full or partial payment upon request from the fund at any moment, guaranteed where necessary by securities having a low credit risk and high liquidity. The Bank of Portugal issued Instruction no. 31/2020 which established the annual contribution rate (0.0003 per cent. for all territory) and the minimum contribution (€235.00) for 2021, and it also established that in 2021 the participating credit institutions cannot replace their annual contributions by irrevocable undertakings.

Without prejudice to the foregoing, account may in the future need to be taken of EBA's guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2015/10), dated 22 September 2015 and last amended on 13 June 2016.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending used takes the form of advances and overdrafts against collateral. For this purpose, the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now set by the ECB.

Investment in Non-Financial Companies

The RGICSF (article 101) also provides that no credit institution may directly or indirectly own more than 25 per cent. of voting rights in any single non-financial company for a continuous or non-continuous period of more than three years (five years for shareholdings held through venture capital companies and holding companies). These limitations are not applicable to holdings in other credit institutions, financial companies and ancillary services companies.

Conduct Supervision

The Bank of Portugal has supervisory powers relating to the conduct of credit institutions. These powers are supported by supervision, decision-making and sanction powers relating to the rules on the conduct of business, customer relationships, professional secrecy, conflicts of interest and competition, to which credit institutions are subject. The conduct supervision rules on customer relationships consist of information obligations, rules relating to the management of customer complaints, a requirement to adopt a code of conduct and rules relating to the publicity of credit institutions.

Granting Credit to Members of the Corporate Bodies

In general, credit institutions are not authorised to grant credit in any way, including the granting of guarantees, to members of their board of directors or supervisory board or people and entities related to them, or to companies or other legal entities directly or indirectly controlled by them.

This limitation does not apply to (i) operations with a social nature or purpose or those deriving from personnel policy; (ii) credit granted as a result of the use of credit cards associated with deposit accounts, in conditions similar to the ones applicable to other customers with a similar profile and risk; and (iii) the credit granting operations of certain entities within the supervisory ambit of the relevant credit institution.

The members of the board of directors or supervisory body of a credit institution cannot participate in the analysis and decision-making process relating to operations where they may have a conflict of interest.

Breach of Rules under the Bank of Portugal's Supervision

Breaches of rules under the Bank of Portugal's supervision constitute misdemeanours and may result in the Bank of Portugal imposing fines of up to approximately €5 million. In certain cases, the maximum amount of the fine applicable is increased to 10 per cent. of the total net annual turnover for the financial year preceding the date of the decision, including gross income consisting of interest and similar income, income from shares and other variable or fixed income securities and commissions. If the double of the economic benefit obtained by the offender is determinable and exceeds the maximum limit of the applicable fine, such fine is raised to that value. Ancillary sanctions may also be imposed, such as, among others, disgorgement of the proceeds obtained through the offence, public censure, prohibition against exercising management functions in credit institutions and the suspension of voting rights of the shareholders of credit institutions.

Other Controls

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

CMVM Supervision

The regulation and supervision of the securities markets and financial intermediation activities in Portugal are carried out by the central government, acting through the Ministry of Finance and the CMVM.

The CMVM is the regulatory entity in charge of the supervision and regulation of the securities markets and financial intermediation services. This includes the supervision of a wide range of activities and entities that fall under the scope of a number of EU Directives and Regulations, including Directive 2014/65/EU of 15 May 2014 (MiFID II), as amended, and Regulation (EU) No. 600/2014 of 15 May 2014 ("**MiFIR**"), as amended, and supplementary acts.

The CMVM is an autonomous administrative entity overseen by the Ministry of Finance, and by law and regulations not subject to direct intervention by the Ministry of Finance. Its Directors are appointed by the Minister of Finance for a 6-year, non-renewable term. In particular, the responsibilities of the CMVM include the supervision of certain conduct of business rules relating to financial intermediation activities and markets in financial instruments and the prudential supervision of certain entities.

For this purpose, the CMVM may issue regulations on matters within the scope of its powers of supervision, including the conduct of business rules for providers of investment services, the recognition of markets for financial instruments and the establishment of rules for the operation of such markets as well as rules on public offers and prospectus requirements. The CMVM has also the responsibility to evaluate claims presented by investors, regarding the misconduct of financial intermediaries, and may determine compensations to an investor or group of investors.

The CMVM may, within the course of its supervision activities, carry out inspections, issue information requests, conduct hearings, require the collaboration of other persons or entities, including police authorities, disclose information, including in substitution of supervised entities, conduct investigations and organise a registration system, carry out enforcement actions and impose administrative sanctions.

The Issuer is subject to the CMVM's supervision both as a financial intermediary and an issuer of securities admitted to trading on a regulated market.

The Ministry of Finance may establish policies relating to markets in financial instruments, investor protection, financial intermediation activities and generally any matters regulated by the Portuguese Securities Code. The Ministry of Finance also oversees the CMVM and coordinates the supervision and regulation relating to financial instruments when powers have been delegated to more than one public entity. When a disturbance in the markets in financial instruments puts the national economy at serious risk, the Ministry of Finance may, by means of a joint Ministerial Order by the Prime Minister and the Minister of Finance, impose necessary measures. These may include the temporary suspension of: (i) the regulated markets and certain categories of transactions or activities of their management entities; (ii) multilateral trading facilities; (iii) settlement systems; (iv) clearing houses or central counterparties; and (v) central securities depositaries.

Supervisory Rules Applicable to the Issuer as a Financial Intermediary

The Issuer and some of its Portuguese subsidiaries are authorised as financial intermediaries. They are subject to the supervision by the CMVM in relation to their performance of financial intermediation and asset management activities.

The conduct of business rules applicable to financial intermediaries are laid out in the Portuguese Securities Code, CMVM regulations and legislation applicable to specific financial intermediation activities.

Conduct of Business Rules

For the provision of regulated activities, financial intermediaries such as the Issuer must comply with conduct of business rules set out in the Legal Framework of Credit Institutions and Financial Companies and the Portuguese Securities Code, as well as those which may be established by CMVM regulation or special legislation.

As a general principle, financial intermediaries must conduct their activity in a manner which protects the legal interests of their customers and the efficiency of the market. In their dealings with other market parties, financial intermediaries must observe the dictates of good faith, in accordance with high standards of diligence, loyalty and transparency.

The main conduct of business rules applicable to financial intermediaries carrying out financial intermediation activities relate to: (i) "know your customer" obligations and suitability requirements; (ii) the financial intermediaries' human, material and technical resources; (iii) complaint procedures; (iv) segregation of customers' assets; (v) recordkeeping and reporting; (vi) conflicts of interest policy; (vii) information duties; and (viii) product governance.

CMVM's Powers

As stated above, the CMVM supervises the activities and participants in the financial markets in Portugal. The CMVM has the power to issue binding regulations, take appropriate enforcement measures in respect of these regulations and the Portuguese Securities Code, and to sanction such breaches.

In the exercise of its powers, the CMVM has the right, without limitation, to request non-public information, including information otherwise subject to professional confidentiality obligations, hold hearings, undertake investigations and summon people to cooperate with such investigations, and to provide information to the market on behalf of the supervised entities.

The CMVM also operates an information disclosure system which can be used by parties subject to disclosure rules as a cheap and efficient means of complying with information rules.

Breach of Rules under the CMVM's Supervision

A breach of the rules laid out in the Portuguese Securities Code may constitute a crime or misdemeanour.

Portuguese Insurance and Pension Funds Supervisory Authority

The Issuer is also subject to the supervision of the ASF insofar as it is registered as an insurance agent, for both Life and Non-Life segments. NOVO BANCO dos Açores, S.A. and Banco Best are also subject to ASF's supervision as they are registered as an insurance agent, for both Life and Non-Life segments.

ASF is the national authority responsible for the regulation and supervision of insurance, reinsurance, pension funds and their management companies and also insurance mediation activity, both from a prudential and a market conduct perspective.

Insurance Distribution

The Directive on Insurance Distribution (Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, as amended) (commonly known as the Insurance Distribution Directive or IDD), which revokes and replace the Directive 2002/92/EC, was designed to improve EU regulation in the insurance market. The IDD came into force on 22 February 2016 and was transposed into the Portuguese jurisdiction by Law no. 7/2019, of 16 January ("**Insurance Distribution Law**").

The objective of the IDD and of its implantation legislation is to ensure a level playing field among all participants involved in the sale of insurance products, to make it easier for firms to trade cross-border, and to strengthen policyholder protection. The Insurance Distribution Law, as the IDD itself, is based on the principle that the consumers should benefit from the same level of protection regardless of the differences between distribution channels. To guarantee that the same level of protection applies, and that the consumer can benefit from comparable standards, in particular in the area of disclosure of information, a level playing field between distributors is deemed to be essential.

The Insurance Distribution Law, among other modifications, revokes and replaces the legal regime set out in Decree-Law no. 144/2006, of 31 July, establishing a new insurance and reinsurance distribution legal regime.

Anti-money laundering

The Group is subject to extensive regulation on anti-money laundering and terrorism financing due to the Group entities' activities as credit institutions, financial intermediaries and insurance companies and insurance intermediaries brokers and relating to asset management. Compliance with anti-money laundering and anti-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences.

Under Law 83/2017, of 18 August 2017, as amended, which implemented Directives 2015/849/EC of 20 May 2015, as amended, and 2016/2258/EC of 6 December 2016 in Portugal ("**Law 83/2017**"), focus has been placed on the prevention of the use of the financial system and specially designated activities and professions for the purposes of money laundering and terrorist financing. Law 83/2017 comprises the following compliance duties: (i) duty of identification of the customer and of its representative; (ii) a general obligation of due diligence, according to which entities subject to it are required to take adequate measures to understand the ownership and control structure of the client ("know your customer"), obtain information about the purpose and nature of its business, as well as the source and destination of funds moved in the context of that business; (iii) duty to refuse to execute any operation, or begin any business relation or any specific transaction whenever the client information duty has not been fully complied with; (iv) duty to keep records of the documentation and information provided; (v) duty to examine with special caution and care any conduct, activity or operation which, according to the professional experience of the financial institution, bear elements that are liable to raise suspicion on its relation with a money-laundering operation; (vi) entities subject to Law 83/2017 shall refrain from executing any operation whenever they are aware or suspect it is related with money-laundering; (vii) cooperation duty, under which entities subject to Law 83/2017 are required to cooperate with the General Attorney of the Portuguese State (*Procurador Geral da República*) and the Financial Information Unit (*Unidade de Informação Financeira*), as so requested; (viii) duty of professional secrecy, which determines that the fact that information requested by the competent authorities has been so given is not disclosed to the client; (ix) control duty, which requires that such entities shall implement adequate internal procedures so as to ensure compliance with anti-money duties; and (x) duty to provide adequate anti-money laundering training to its employees and managers.

In addition to the aforementioned duties, according to the applicable reporting obligations, entities subject to Law 83/2017 have a reporting duty, under which the General Attorney of the Portuguese State and the Financial Information Unit shall be promptly informed, on their own initiative, when an operation likely to constitute a money laundering or terrorism financing offense that is being or has been committed or attempted comes to its knowledge or raises a suspicion. Moreover, a special reporting duty is applicable to transactions which present a special risk of money laundering or terrorist financing when they are related to a specific country or jurisdiction subject to additional counter measures decided by the Council of the European Union. In such cases, the competent supervisory authorities may determine the obligation of immediately reporting those transactions to the General Attorney of the Portuguese State and the Financial Information Unit, when they amount to €5,000 or more.

Applicable measures and sanctions for breach of rules on anti-money laundering prevention include the application of fines ranging between €50,000 and €5,000,000 and, in the case of credit institutions, of up to 10 per cent. of the total annual turnover (according to the latest accounts approved by the management body) if such amount is higher than €5.0 million and, always depending on the seriousness of the infraction and the degree of fault involved, ancillary penalties, including the interdiction from exercising the activity in question for a period of up to three years, prohibition from holding management, direction, leadership or supervisory roles in the entities subject to Law 83/2017, and the publication of the penalty.

Notice 2/2018 of the Bank of Portugal establishes the conditions of exercise, procedures, instruments, mechanisms, enforcement formalities, reporting obligations and other aspects necessary to ensure compliance with the anti-money laundering and terrorist financing.

Regulation 10/2005-R ("**Regulation 10/2005-R**") of ASF lays down anti-money laundering rules applicable to insurance intermediaries carrying out activity in the life insurance segment. Consequently, companies within group´s providing services within the life insurance branch shall comply with the comprehensive set of compliance requirements established by Regulation 10/2005-R.

Regulation 2/2020 of the addresses anti-money laundering and terrorist financing with specific rules applicable to entities subject to its supervision, regulating over the framework set by Law 83/2017.

Overall, the fact that a very significant portion of the Portuguese legal framework on anti-money laundering is a result of the implementation of EU legal frameworks, mitigates regulatory differences across various EU member states where Group operates or may operate in the future. However, more significant differences may apply in respect of non-EU jurisdictions, entailing the applicable regulatory and co-related compliance costs.

Additionally, Law no. 89/2017 approved in Portugal the legal framework of the Central Register of Beneficial Ownership, implementing the Chapter III of EU Directive 2015/849, as amended, which consists of a database managed by the Institute for Registrations and Notaries with updated information on the natural person(s) who, directly or indirectly, own or control entities subject to registration.

Evolution of the Regulatory Environment

As part of the EU's internal market programme, the EC and the European Council have proposed and adopted a number of regulations, directives and recommendations relating to the provision of banking and financial services. These include existing and proposed legislation concerning capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, shareholders' rights, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. Such legislation promotes greater competition in the provision of financial services, including areas in which the Issuer operates, such as securities brokerage, dealing and underwriting, and the provision of investment advice.

MiFID II

Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**"), which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation (Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014, as amended); and (iii) secondary legislation in the form of Delegated Acts made thereunder. The implementation of MiFID II in Portugal was concluded with the enactment of Law no. 35/2018 of 20 July, amending the rules on the marketing of financial products and on the organisation of financial intermediaries.

MiFID II sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use 'passports' to conduct MiFID investment services in other EU Member States.

MiFID II is more wide ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

PRIIPs Regulation

Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 (as amended, the "**PRIIPs Regulation**") relates to consumer protection and aims to establish a common standard for key information documents for packaged retail and insurance-based investment products (PRIIPs) and became applicable in EU member states on 1 January 2018. The EU Commission adopted amended regulatory technical standards (RTS) on key information documents (KIDs) during the first half of 2017 and like the regulation itself, the delegated regulation has applied since 1 January 2018.

Payment Services

On 12 November 2018, Portugal implemented Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015, as amended, (the Directive on Payment Services ("**PSD 2**")) through Decree-Law no. 91/2018. PSD 2 creates new types of payment services and enhances customer protection and security. Banks are required to provide free access to customer data and account information to be licensed third-party businesses, in cases where the customer has given explicit consent. Decree-Law no. 91/2018 further details the access to the activity of payment institution and the provision of payment services, as well as access to the activity of digital currency institutions and the provision of digital currency-issuing services.

STS Regulation

Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017, which establishes a general securitisation framework ("**STS Regulation**") entered into force on 17 January 2018 and is applicable to securitisation products from 1 January 2019 onwards. In Portugal, 2018 Law No. 69/2019, of 28 August, enabled the execution under Portuguese law of the rules set out in the STS Regulation, thus amending Decree-Law 453/99, of 5 November, which establishes the legal framework for credit securitisation and governs the setting up and activity of securitisation funds, their management companies and of securitisation companies. The latter was further modified by Decree-Law No. 144/199, of 23 September, which transferred the supervision of securitisation funds' management companies to the CMVM, and by Law No. 25/2020, of 7 July, which amended the rules governing sanctions.

Benchmarks Regulation

Regulation (EU) No. 2016/1011 of the European Parliament and of the Council of 8 June 2016, as amended, ("**Benchmarks Regulation**") was published in the Official Journal of the European Union on 29 June 2016 and has applies, subject to certain transitional provisions, since 1 January 2018. The Benchmarks Regulation applies to the provision of "benchmarks", the contribution of input data to a "benchmark" and the use of a "benchmark" within the European Union. It, among other things, (i) requires "benchmark" administrators to be authorised or registered (or, if non-European based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by European Union supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed).

Interest rates and indices which are deemed to be "benchmarks" (such as LIBOR or EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, to disappear entirely or to have other consequences which cannot be predicted.

Data protection and privacy

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

Failure to comply or inadequate compliance with data protection and privacy obligations may result in several types of liabilities, ranging from tort liability in relation to the data subject, to significant administrative fines.

P. RATINGS

The Issuer's current long-term senior ratings are caa2 with stable outlook by Moody's and B (high) with Trend Negative by DBRS.

Q. ORGANISATIONAL STRUCTURE

Group Structure

The Issuer develops its banking activity directly and its subsidiaries Banco Best and NBA. Additionally, it also operates in asset management, through its fully owned subsidiary GNB GA that operates in mutual fund management, real estate fund management, pension fund management and wealth management. The Issuer has equity holdings in companies operating in venture capital, real estate, renting and corporate services. As the main entity and parent company of the Group, the Issuer's activity and financial results are affected by the performance of its subsidiaries.

Group companies in which the Issuer has a direct or indirect holding higher or equal to 20 per cent., over which the Issuer exercises control or significant influence, and that were included in the consolidation perimeter, are presented below.

Companies directly consolidated into the Issuer, as at 31 December 2020:

	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	Electronic Bank	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
GNB - Gestão de Ativos. SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures. S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB - Recuperação de Credito, ACE (GNBREC)	1998	1998	Portugal	Debt Collection	99.15%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100.00%	Full consolidation
GNB - Serviços de Suporte Operacional, ACE (GNB ACE)	2006	2006	Portugal	Provision of various services	97.86%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture Capital Fund	100.00%	Full consolidation

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
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 - Findo de Investimento Imobiliário Fechada	2006	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Invesfundo VII - Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real Estate Investment Fund	91.22%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real Estate Investment Fund	55.90%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real Estate Investment Fund	95.24%	Full consolidation
ASAS Invest - Fundo Especial de Investimento Imobiliário Fechado	2010	2013	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Novimove - Fundo de Investimento Imobiliario Fechado	2004	2019	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Febagri-Actrvidades 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 Agricola 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

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
Herdade da Boina – Sociedade Imobiliária	1999	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf Course Exploration	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Imoascay - Promoção Imobiliária, SA	2011	2012	Portugal	Real estate promotion	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real Estate Investment Fund	100.00%	Full consolidation
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering sector	95.28%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	2003	2003	Portugal	Renting	50.00%	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Financial credit company	17.50% (a)	Equity method
Ijar Leasing Algerie	2011	2011	Algeria	Leasing	18.85%	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Provision of various services	50.00% (b)	Equity method

Notes:

(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:[1]

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Management of shareholdings**	**100.00%**	**Full Consolidation**
GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1987	1987	Portugal	Investment fund management	100.00%	Full Consolation
GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1992	1992	Portugal	Investment fund management	100.00%	Full Consolation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full Consolation
Espírito Santo International Asset Management, Ltd.	1998	1998	English Virgin Islands	Investment fund management	50.00%(b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full Consolation

[1] Since 31 December 2019, GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, SA has changed its corporate denomination to "GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA" and GNB - Sociedade Gestora de Fundos de Investimento Imobiliário, SA has changed its corporate denomination to "GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA".

	Year incorporated	Year acquired	Registered office	Activity	% Economic Interest	Consolidation method
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100.00%	Simplified integral
ES Tech Ventures S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Management of shareholdings**	**100.00%**	**Full Consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture Capital Fund**	**100.00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services Provider	100.00%	Full Consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Management of shareholdings	100.00%	Full Consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate investment management	100.00%	Full Consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate investment management	100.00%	Full Consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate investment management	100.00%	Full Consolidation
UR3 Investimentos Imobiliànos, Ltda	2007	2013	Brazil	Real estate investment management	100.00%	Full Consolidation
Fundo FCR PME *1* NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture Capital Fund**	**56.78%**	**Full Consolidation**
LOGI C - Logística Integrada, SA	2014	2016	Portugal	Logistic	20.74%[a]	Equity method
Epedal - Indústria de Componentes Metálicos, S.A.	1981	2015	Portugal	Management of shareholdings	12.22%[a]	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	38.99%	Equity method
Cristalmax - Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18.96%[a]	Equity method
Ach Brito & Ca, SA	1918	2015	Portugal	Soap manufacture	8.77%[a]	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engineering	8.11%[a]	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Management of shareholdings**	**100.00%**	**Full Consolidation**
Lineas - Concessões de Transportes, SGPS, SA	2008	2010	Portugal	Management of shareholdings	40.00%	Equity method

Notes:

(a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities.

(b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders.

The 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

Note:

(*) Structured entities set up in the scope as 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 39 of the consolidated financial statements of the Group for the financial year ended 31 December 2020)

R. FINANCIAL STATEMENTS OF NOVO BANCO, S.A.

Consolidated Income Statement as at 31 December 2020 and 2019

	As at 31 December		
	2020	**2019(1)**	**2019**
		thousands of Euros	
Interest Income	743,707	720,519	753,087
Interest Expenses	(188,573)	(208,087)	(212,474)
Net Interest Income	**555,134**	**512,432**	**540,613**
Dividend income	16,478	9,866	9,909
Fees and commissions income	313,823	352,136	367,400
Fees and commissions expenses	(47,305)	(49,254)	(53,456)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	88,472	61,553	61,554
Gains or losses on financial assets and liabilities held for trading	(91,611)	(59,945)	(59,223)
Gains or losses on financial assets mandatorily at fair value through profit or loss	(364,000)	(253,729)	(253,720)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	—	106	4
Gains or losses from hedge accounting	(11,641)	(1,924)	(1,740)
Exchange differences	(2,414)	38,716	38,829
Gains or losses on derecognition of non-financial assets	(3,416)	11,516	3,954
Other operating income	120,732	132,574	139,802
Other operating expenses	(230,294)	(364,505)	(368,592)
Operating Income	**343,958**	**389,542**	**425,334**
Administrative expenses	(398,769)	(408,323)	(444,840)
Staff expenses	(245,606)	(246,393)	(265,350)
Other administrative expenses	(153,163)	(161,930)	(179,490)
Cash contributions to resolution funds and deposit guarantee schemes	(35,048)	(34,707)	(34,707)
Depreciation	(33,072)	(30,341)	(33,664)
Provisions or reversal of provisions	(186,423)	(41,407)	(21,297)
Commitments and guarantees given	(22,116)	56,596	60,776
Other provisions	(164,307)	(98,003	(82,073
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(755,070)	(540,437)	(627,294)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	(4,192)	337	333

	As at 31 December		
	2020	2019(1)	2019
	thousands of Euros		
Impairment or reversal of impairment on non-financial assets	(245,778)	(273,634)	(287,159)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	9,430	—	1,470
Lucros ou prejuízos com ativos não correntes e grupos para alienação classificados como detidos para venda não elegíveis como unidades operacionais descontinuadas	—	1,470	—
Profit or loss before tax from continuing operations	**(1,304,964)**	**(937,500)**	**(1,021,824)**
Tax expense or income related to profit or loss from continuing operations	(1,082)	(45,790)	(45,769)
Current tax	8,639	(8,815)	(8,804)
Deferred tax	(9,721)	(36,975)	(36,965)
Profit or loss after tax from continuing operations	**(1,306,046)**	**(983,290)**	**(1,067,593)**
Profit or loss from discontinued operations	(33,345)	(83,175)	1,128
Profit or loss for the period	**(1,339,391)**	**(1,066,465)**	**(1,066,465)**
Attributable to Shareholders of the parent	**(1,329,317)**	**(1,058,812)**	**(1,058,812)**
Attributable to non-controlling interests	(10,074)	(7,653)	(7,653)
	(1,339,391)	**(1,066,465)**	**(1,066,465)**

Note:

(3) Pro-forma considering the transfer of the Spanish Branch to discountinued operations, which occurred in the third quarter of 2020

Consolidated Balance Sheet as at 31 December 2020 and 2019

	As at 31 December	
	2020	**2019**
	thousands of Euros	
ASSETS		
Cash, cash balances at central banks and other demand deposits	2,695,459	1,854,081
Financial assets held for trading	655,273	748,732
Financial assets mandatorily at fair value through profit or loss	960,962	1,314,742
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	7,907,587	8,849,896
Financial assets at amortised cost	25,898,046	27,141,460
Securities	2,229,947	1622,545
Loans and advances to banks	113,795	369,228
(*dos quais: Operações com acordo de revenda*)	—	—
Loans and advances to customers	23,554,304	25,149,687
Derivatives – Hedge accounting	12,972	7,452
Fair value changes of the hedged items in portfolio hedge of interest rate risk	63,859	52,540
Investments in subsidiaries, joint ventures and associates	93,630	92,628
Tangible assets	779,657	889,152
Tangible fixed assets	187,052	188,408
Investment properties	592,605	700,744
Intangible assets	48,833	26,378
Tax assets	775,498	900,095
Current Tax Assets	610	1,628
Deferred Tax Assets	774,888	898,467
Other assets	2,944,292	3378,492
Non-current assets and disposal groups classified as held for sale	1,559,518	40,255
TOTAL ASSETS	**44,395,586**	**45,295,903**
LIABILITIES		
Financial liabilities held for trading	554,791	544,825
Financial liabilities designated at fair value through profit or loss	—	102,012
Financial liabilities measured at amortised cost	37,808,767	39,673,649
Deposits from central banks and other banks	10,102,896	9,849,623
(*dos quais: Operações com acordo de recompra*)	1,625,724	2,168,488
Due to customers	26,322,060	28,400,127

	As at 31 December	
	2020	2019
	thousands of Euros	
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1,017,928	1,065,211
Other financial liabilities	365,883	358,688
Derivatives – Hedge accounting	72,543	58,855
Fair value changes of the hedged items in portfolio hedge of interest rate risk	—	—
Provisions	384,382	307,817
Tax liabilities	14,324	17,980
Current Tax liabilities	9,203	11,873
Deferred Tax liabilities	5,121	6,107
Capital social reembolsável à vista	—	—
Other liabilities	417,762	586,066
Liabilities included in disposal groups classified as held for sale	1,996,382	1,942,
TOTAL LIABILITIES	**41,248,951**	**41,293,146**
EQUITY		
Capital	5,900,000	5,900,000
Accumulated other comprehensive income	(823,420)	(702,311)
Retained earnings	(7,202,828)	(6,115,245)
Other reserves	6570,153	5,942,501
Profit or loss attributable to Shareholders of the parent	(1,329,317)	(1,058,812)
Minority interests (Non-controlling interests)	32,047	36,624
TOTAL EQUITY	**3,146,635**	**4,002,757**
TOTAL LIABILITIES AND EQUITY	**44,395,586**	**45,295,903**

S. RECENT DEVELOPMENTS

On 4 April 2021, in accordance with and for the purposes of article 248-A of the Portuguese Securities Code, the Issuer announced that following a competitive bidding process, the Issuer signed an agreement with ABANCA CORPORACIÓN BANCARIA, S.A. for the sale of its Spanish branch business. The conclusion of the sale is expected to occur by the end of 2021 and will have a positive impact on the Issuer's capital ratios (+55 basis points in CET1 ratio), driven by a reduction of the RWAs resulting from the conclusion of the sale. With this agreement, the Issuer divested its retail, private banking and SME operations in Spain, including all 10 branches and employees.

On 5 June 2021, the Issuer released its consolidated results for the first quarter of 2021, which include the following highlights:

FIRST QUARTER OF POSITIVE PROFITABILITY

- The Issuer announced a net profit of €70.7 million in the first quarter of 2021 (compared to -€179.1 million in the first quarter of 2020) with the conclusion of the restructuring plan in 2020 leading to a turn-around in profitability, despite the current pandemic;
- Net interest income increased 12.0 per cent. year on year, contributing to an improvement in commercial banking income (€208.5 million in the first quarter of 2019, representing an increase of 5.3 per cent. compared to the first quarter of 2019), as a result of the measures to reduce average deposit rates, lower cost of long-term financing and maintaining pricing discipline;
- The Issuer's core operating income (commercial banking income - operating costs) increased to €105.8 million (an increase of 17.8 per cent. (€16.0 million) year on year), driven by improved commercial banking income and lower operating costs (-5.1 per cent.; -€5.5 million year on year);
- Cost to income, excluding markets and other operating results, maintained its trajectory of improvement reaching 49.3 per cent. in the first quarter of 2021 (for the financial year 2020: 52.2 per cent.; the first quarter of 2020: 54.7 per cent.);
- Impairments for credit totalled €54.9 million, including €21.8 million impairments for Covid-19-related risks, a year on year reduction of 60.5 per cent. or €84.0 million; and
- The cost of risk, excluding the impairments related with Covid-19 accounted in the first quarter of 2021, was 53 basis points.

SOLID BUSINESS MODEL WITH RESILIENT LENDING AND DEPOSITS GROWTH

- Net customer loans at €23.5 billion, broadly stable across corporate (adjusted for NPL disposal), mortgage and consumer books;
- Total customer funds increased by €356 million (+1.1 per cent. YTD), with customer deposits increasing by 0.5 per cent. (€141 million), reflecting the continued confidence of clients in the Issuer;
- Growth in the digital segment with 51 per cent. of active digital customers (+5 per cent. year on year) and a significant increase in product units sold in digital, reaching 9 per cent. share of digital sales (excluding deposits); and
- Continued reduction of the NPL ratio to 8.0 per cent. as at 31 March 2021 (Dec 2020: 8.9 per cent.), as a result of the sale of Project Wilkinson, a portfolio of non-performing loans and related assets with a gross value of €210.4 million, signed in the first quarter of 2021, while increasing a coverage ratio of 77.0 per cent. (Dec 2020: 74.1 per cent.), 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 Issuer is well positioned to support retail and corporate customers, with CET1 ratio at 11.3 per cent. (total solvency ratio at 13.3 per cent.), LCR of 140 per cent. and NSFR of 111 per cent.

On 7 June 2021, the Issuer announced that it received on 4 June 2021 an amount of €317.0 million under the CCA with relation to its 2020 accounts, representing a shortfall of €112 million compared to the amount that the Resolution Fund deemed payable having completed the verification process. Given that the Issuer considers it to be a breach of the legal obligations of the CCA, the Issuer also informed it will take all legal and other measures and is seeking immediate injunctive relief, and therefore the immediate payment of €112.0 million in order to protect the integrity of the CCA as a capital instrument which is recognised by both regulators and the markets. The Issuer noted that including a CCA of €317.0 million, as of 31 March 2021 and 31 December 2020, phased-in CET1 and total capital ratio are 10.9 per cent. and 12.8 per cent., respectively.

TAXATION

Prospective purchasers of Notes are advised to consult their tax advisers as to the tax consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of receipts of interest and sale or redemption of Notes.

The following descriptions are general summaries of certain taxation matters based on applicable law and practice currently in effect in Portugal. Nothing in this section constitutes tax, legal or financial advice, and the summaries contained herein are of a general nature and do not cover all aspects of taxation in the relevant jurisdictions that may be relevant to any particular Holder of Notes. Prospective investors in the Notes should consult their professional advisers on the tax implications for them of an investment in the Notes.

Portugal

This chapter summarises the Portuguese tax rules applicable to the acquisition, ownership and disposal of the Notes, in force as at the date of this Prospectus. This chapter does not analyse the tax implications that may indirectly arise from the decision to invest in the Notes, such as those relating to the tax framework of financing obtained to support such investment or those pertaining to the counterparties of the potential investors, regarding any transaction involving the Notes.

This chapter is a general summary of the relevant features of the Portuguese tax system. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular Holder, including tax considerations that arise from rules of general application or that are generally assumed to be known to any Holder. It also does not contain in-depth information about all special and exceptional regimes, which may entail tax consequences at variance with those described herewith.

The tax treatment of each type of potential investor described in each section applies exclusively to that type of potential investor. No analogy regarding the tax implications applicable to other type of potential investors should be drawn. Potential investors should seek individual advice about the implications of the acquisition, ownership and disposal of Notes, in light of their specific circumstances.

This chapter does not include any reference to the tax framework applicable in countries other than Portugal. The rules of a Convention to prevent Double Taxation ("**Convention**") may have a bearing on Portuguese tax implications. Furthermore, the domestic provisions of other countries may exacerbate or alleviate such implications.

The meaning of the terminology adopted in respect of every technical feature, including the qualification of the securities issued as "Notes", the classification of taxable events, the arrangements for taxation and potential tax benefits, among others, is the one in force in Portugal as at the date of this Prospectus. No other interpretations or meanings, potentially employed in other countries, are considered.

The tax framework described in this chapter is subject to any changes in law and practices (and the interpretation and application thereof) at any moment. Although according to the Portuguese Constitution legislative amendments which increase taxation cannot have retroactive or retrospective effect, there is no general prohibition of amendments with such effect.

General tax regime

Where no specific tax regime is applicable, e.g. the special debt securities tax regime further described below, the tax regime summarised in this section should generally apply.

Portuguese tax resident individuals (income obtained outside the scope of business or professional activities) or individuals with a permanent establishment in Portugal to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Economic benefits derived from interest, amortisation, reimbursement premiums and other instances of remuneration arising from the Notes (including, upon a transfer of the Notes, the interest accrued since the last date on which interest was paid), are generally classified as "investment income" for Portuguese tax purposes.

Such investment income arising to the Holders is liable for Personal Income Tax (*Imposto sobre o Rendimento das Pessoas Singulares* or "**IRS**"). IRS is generally withheld, at a 28 per cent rate, when the income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable). This represents a final withholding, releasing the Holder from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRS.

Alternatively, the Holders may opt for declaring such income in their tax returns, together with the remaining items of income derived. In that event, income arising from the ownership of Notes shall be liable for tax at the rate resulting from the application of the relevant progressive tax brackets for the year in question, currently up to 48 per cent., plus a solidarity tax (*taxa adicional de solidariedade*) of up to 5 per cent. on income exceeding €250,000 (2.5 per cent. on income below €250,000, but exceeding €80,000). The progressive taxation under the IRS rules may then go up to 53 per cent., being the tax withheld deemed as a payment on account of the final tax due.

Investment income paid or made available (*colocado à disposição*) to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed in which case general rules apply.

Capital gains and capital losses arising from the disposal of Notes for consideration

The annual positive balance between capital gains and capital losses arising from the disposal of Notes (and other assets set forth in law) for consideration, deducted of the costs necessary and effectively incurred in the acquisition and disposal, is taxed at a special 28 per cent. IRS rate. Alternatively, Holders of the Notes may opt to include the capital gains and losses in their taxable income, together with the remaining items of income derived. In that event, the capital gains shall be liable for tax at the rate resulting from the application of the relevant progressive tax brackets for the year in question, currently up to 48 per cent., plus a solidarity tax (*taxa adicional de solidariedade*) of up to 5 per cent. on income exceeding €250,000 (2.5 per cent. on income below €250,000, but exceeding €80,000). The progressive taxation under the IRS rules may then go up to 53 per cent.

Losses arising from disposals for consideration in favour of counterparties subject to a clearly more favourable tax regime in the country, territory or region where such counterparty is a tax resident, listed in the Ministerial Order no. 150/2004 of 13th February, as amended from time to time ("**Blacklisted Jurisdictions**") are disregarded for purposes of assessing the positive or negative balance referred to in the previous paragraph.

If the gains are obtained in the context of a professional or entrepreneurial activity any capital gains and losses on the transfer of Notes for a consideration should be included in the computation of corporate and professional income and are taxable according to the rules as set forth in the PIT Code for income of business and professional nature.

Where the Portuguese resident individual chooses to include the capital gains or losses in their taxable income subject to the marginal PIT rates, any capital losses which were not offset against capital gains in the relevant tax period may be carried forward for five years and offset future capital gains.

Gratuitous acquisition of Notes

The gratuitous acquisition (per death or in life) of Notes by Portuguese tax resident individuals is liable for Stamp Tax at a 10 per cent. rate. Spouses or couples under the civil partnership regime, ancestors and descendants avail of an exemption from Stamp Tax on such acquisitions.

Non-Portuguese tax resident individuals without a permanent establishment in Portugal to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Investment income arising to the Holders from the Notes is liable for IRS. IRS is withheld, at a 28 per cent rate, when the investment income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable), unless in certain circumstances the transfer is made between two IRS taxpayers and the income is not imputable to an entrepreneurial or professional activity. This represents a final withholding, releasing the Holders from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRS.

The above rate may be reduced pursuant to a Convention in force between Portugal and the country where the owner of the Notes is a resident for tax purposes, provided that both substantial and formal conditions on which the application of such benefit depends are duly observed. In broad terms, according to Portuguese tax law the formalities consist in a non-certified specific official form (*Modelo 21-RFI*) supplemented with a document issued by such tax authorities that attests both the tax residency of the beneficiary entity and that this entity is subject to tax in accordance with the Convention. Such specific official form shall be deemed valid for 1 year.

If the Holder is subject to a clearly more favourable tax regime in a Blacklisted Jurisdiction, the applicable withholding tax rate is 35 per cent. Similarly, the withholding tax rate is increased to 35 per cent. in case of payments made to accounts opened in the name of one or more accountholders on behalf of undisclosed third parties, unless the beneficial owner of such income is identified, in which case the general rules apply.

In any event, please refer to the section below entitled "*—Special debt securities tax regime"* in order to assess whether a tax exemption is available.

Capital gains and capital losses arising from the disposal of Notes for consideration

Capital gains arising from the disposal of Notes for consideration should be exempt from taxation as long as they qualify as "securities" (*valores mobiliários*), unless the alienator is resident for tax purposes in a jurisdiction listed in a Blacklisted Jurisdiction. Furthermore, capital gains arising from the disposal of Notes for consideration by an alienator resident for tax purposes in a country with which there is a Convention in force with Portugal may be excluded from taxation, depending on the specific provisions of the Convention. In case the taxable event cannot be prevented, the annual positive balance between capital gains and capital losses arising from the disposal of Notes (and other assets set forth in the law) for consideration, deducted of the costs necessary and effectively incurred in such disposal, is taxed at a special 28 per cent. IRS rate. Losses arising from disposals for consideration in favour of counterparties subject to a clearly more favourable tax regime in the country, territory or region where it is a tax resident, listed in a Blacklisted Jurisdiction are disregarded for purposes of assessing the positive or negative balance referred above.

If resident in a member state of the EU or of the European Economic Area with which, in the latter case, there is exchange of tax information, the Holders may opt for declaring such income in their tax returns, together with the remaining items of income derived (even if outside the Portuguese territory, in the latter case for purposes of ascertaining the relevant tax bracket). In that event, the capital gains shall be liable for tax at the rate that would result from the application of the relevant progressive tax brackets for the year in question, currently up to 48 per cent., plus a solidarity tax (*taxa adicional de solidariedade*) of up to 5 per cent. on income exceeding €250,000 (2.5 per cent. on income below €250,000, but exceeding €80,000). The progressive taxation under the IRS rules may then go up to 53 per cent.

In any event, please refer to the section below entitled "—Special debt securities tax regime" in order to assess whether a tax exemption is available.

Gratuitous acquisition of Notes

The gratuitous acquisition (per death or in life) of Notes by non-Portuguese tax resident individuals is not liable for Portuguese Stamp Tax.

Corporate entities resident for tax purposes in Portugal or non-Portuguese tax resident entities with a permanent establishment to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Investment income arising to Holders from the Notes is liable for Corporate Income Tax (*Imposto sobre o Rendimento das Pessoas Colectivas* or "**IRC**"). IRC is withheld, at a 25 per cent. rate, when the investment income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable), except where the Holder is either a Portuguese resident financial institution (or a non-resident financial institution having a permanent establishment in the Portuguese territory to which income is imputable) or otherwise benefits from a reduction or a withholding tax exemption as specified by current Portuguese tax law.

This withholding represents an advance payment on account of the final IRC liability. IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of 21 per cent., 17 per cent. on the first €25,000 in the case of small or medium-sized enterprises as defined by law and subject to the *de minimis* rule of the EU. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3 per cent., for a taxable income from €1,500,000.00 to €7,500,000.00, of 5 per cent., for a taxable income from €7,500,000.00 to €35,000,000.00, or of 9 per cent. for a taxable income exceeding €35,000,000.00.

Investment income paid or made available (*colocado à disposição*) to accounts in the name of one or more accountholders acting on behalf of undisclosed third parties is subject to a final withholding tax at the rate of 35 per cent., unless the beneficial owner of the income is disclosed, in which case general rules apply.

There is no obligation to withhold tax, partially or entirely, on investment income of the issuer made available to taxpayers globally exempt from IRC (for instance: the Portuguese State and other corporate entities subject to administrative law; corporate entities recognised as having public interest and charities; pension funds; retirement savings funds, education savings funds and retirement and education savings funds; and venture capital funds, provided that, with respect to all the above funds, they are organised and operate in accordance with Portuguese law) or which benefit from a total or partial exemption on the investment income made available by the Issuer, assuming that proof of such exemption is presented to the entity responsible for the payment.

Capital gains and capital losses arising from the disposal of Notes for consideration

Capital gains and capital losses are taken into consideration for purposes of computing the taxable profit for IRC purposes. IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of 21 per cent.,17 per cent. on the first €25,000 in the case of small or medium-sized enterprises as defined by law and subject to the *de minimis* rule of the EU. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5 per cent. of the taxable profit may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3 per cent., for a taxable income from €1,500,000.00 to €7,500,000.00, of 5 per cent., for a taxable income from €7,500,000.00 to €35,000,000.00, or of 9 per cent. for a taxable income exceeding €35,000,000.00.

Gratuitous acquisition of Notes

The positive net variation in worth (*variação patrimonial positiva*), not reflected in the profit and loss account of the financial year, arising from the gratuitous transfer of Notes to Portuguese tax resident corporate entities liable for IRC, even if exempt therefrom, or to permanent establishments to which it is imputable, is taken into consideration for purposes of computing the taxable profit for IRC purposes.

IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of 21 per cent., 17 per cent. on the first €25,000 in the case of small or medium-sized enterprises as defined by law and subject to the *de minimis* rule of the EU. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5 per cent. of the taxable profit, may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3 per cent., for a taxable income from €1,500,000.00 to €7,500,000.00, of 5 per cent., for a taxable income from €7,500,000.00 to €35,000,000.00, or of 9 per cent. for a taxable income exceeding €35,000,000.00.

Corporate entities not resident for tax purposes in Portugal and without a permanent establishment to which income associated with the Notes is imputable

Acquisition of Notes for consideration

The acquisition of Notes for consideration is not subject to Portuguese taxation.

Income arising from the ownership of Notes

Investment income arising to the Holders from the Notes is liable for IRC. IRC is withheld, at a 25 per cent. rate, when the investment income becomes due and payable, or upon a transfer of the Notes (in this last case, on the interest accrued since the last date on which the investment income became due and payable). This represents a final withholding, releasing the Holders from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRC. If the Holder is an entity with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in a Blacklisted Jurisdiction, the withholding tax rate is increased to 35 per cent.

The 25 per cent. withholding tax rate referred above may be reduced pursuant to a Convention in force between Portugal and the country where the owner of the Notes is a resident for tax purposes, provided that both substantial and formal conditions on which the application of such benefit depends are duly observed. In broad terms, according to Portuguese tax law the formalities consist filling out a specific official form (*Modelo 21-RFI*) supplemented with a document issued by the local tax authorities of the country of residence of the owner of the Notes attesting both the tax residency of the beneficiary entity and that this entity is subject to tax in accordance with the Convention. Such specific official form shall be deemed valid for 1 year.

In any event, please refer to the section below entitled "—*Special debt securities tax regime*" in order to assess whether a tax exemption is available.

Capital gains and capital losses arising from the disposal of Notes for consideration

Capital gains arising from the disposal of Notes for consideration should be exempt from taxation as long as they qualify as "securities" (*valores mobiliários*), unless the alienator is a tax resident, listed in a Blacklisted Jurisdiction, or more than 25 per cent. of the non resident entity's capital is held by a resident person (except if the disposing entity complies with the legally established conditions and requirements). Furthermore, capital gains arising from the disposal of Notes for consideration by an alienator resident for tax purposes in a country with which there is a Convention in force with Portugal may be excluded from taxation, depending on the specific provisions of the Convention.

In case the taxable event cannot be prevented, capital gains and capital losses are taken into consideration for purposes of computing the taxable profit for IRC purposes. The profit will be taxed at a 25 per cent. IRC rate, but a deduction of the costs necessary and effectively incurred in the relevant disposals is available.

Losses arising from disposals for consideration in favour of counterparties with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in a Blacklisted Jurisdiction, are disregarded for purposes of assessing the positive or negative balance referred to in the previous paragraph.

In any event, please refer to the section below entitled "—*Special debt securities tax regime*" in order to assess whether a tax exemption is available.

Gratuitous acquisition of Notes

The positive variation in worth (*variação patrimonial positiva*) arising from the gratuitous acquisition of Notes by corporate entities not resident for tax purposes in Portugal and without a permanent establishment to which they are imputable is taxed at a 25 per cent. rate.

Special debt securities tax regime

Overview

Decree-Law No. 193/2005, of 7 November 2005, as amended from time to time, introduced a special tax regime applicable to income arising from debt securities ("**STRIDS**").

Under the STRIDS investment income arising from and capital gains obtained on the disposal of the Notes, as securities integrated in a centralised system managed by Portuguese resident entities such as the Central de Valores Mobiliários, managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e Sistemas Centralizados de Valores Mobiliários, S.A., may be exempt from tax, provided that the following requirements are cumulatively met:

(a) the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and

(b) the beneficial owners are either (i) central banks and government agencies; or (ii) international organisations recognised by the Portuguese state; or (iii) entities resident in a country or jurisdiction with which Portugal has entered into a Convention or a Tax Information Exchange Agreement ("**TIEA**") currently in force; or (iv) other non–resident entities which are not resident in a country, territory or region subject to a clearly more favourable tax regime, as listed in a Blacklisted Jurisdiction. Beneficial owners resident in a Blacklisted Jurisdiction may still qualify if a Convention or a TIEA between Portugal and such jurisdiction is in force (which is the case of some of the most commonly used offshore jurisdictions).

In order to apply, the STRIDS requires completion of certain procedures and certifications providing evidence of the non-resident status of the beneficial owner of the Notes. Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity entitled to the exemption. As a general rule, the proof of non-residence should be provided to, and received by, the direct register entities prior to the relevant date of payment of any interest (or prior to the redemption date, as applicable), or prior to their transfer, as the case may be.

A general description of the rules and procedures on the evidence required for the exemption to apply at source is set out below with respect to domestic cleared notes such as the Notes.

The beneficial owner of the Notes must provide proof of non-residence in the Portuguese territory substantially in the following terms:

(i) If the beneficial owner of the Notes is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese state, a declaration of tax residence issued by the beneficial owner itself, duly signed and authenticated or evidenced pursuant to paragraph (ii) or (iv) below;

(ii) If the beneficial owner is a credit institution, a financial company, pension fund or an insurance company domiciled in any OECD country or in a country or jurisdiction with which Portugal has entered into a Convention, and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (a) its tax identification; or (b) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the beneficial owner and its domicile; or (c) proof of non-residence, pursuant to the terms of paragraph (iv) below;

(iii) If the beneficial owner of the Notes is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a Convention or TIEA, certification shall be provided by means of any of the following documents: (a) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of its incorporation; or (b) proof of non-residence pursuant to the terms of paragraph (iv) below;

(iv) In any other case, confirmation must be made by way of (a) a certificate of residence or equivalent document issued by the relevant tax authorities; or (b) a document issued by the relevant Portuguese consulate certifying residence abroad; or (c) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules on the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the beneficial owner of the Notes must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up until three months after the date on which the withholding tax would have been applied and will be valid for a three-year period, counting from the date such document is issued. The beneficial owner of the Notes must inform the register entity immediately of any change that may preclude the tax exemption from applying. For the cases mentioned in paragraphs (i) to (iii) above, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

No Portuguese exemption shall apply at source under the STRIDS, if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the STRIDS, whereby the refund claim is to be submitted to the direct or indirect register entity of the Notes within six months from the date the withholding took place.

The refund of withholding tax after the above six-month period is to be claimed to the Portuguese tax authorities within two years from the end of the year in which the tax was withheld. The refund is to be made within three months, after which interest is due.

The form currently applicable for the above purposes were approved by Order (*Despacho*) no. 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, 2nd series, No. 37, of 21 February 2014 and may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Portugal) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and instruments characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding ("grandfathered instruments") unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional instruments that are not distinguishable from previously issued grandfathered instruments are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all instruments, including the grandfathered instruments, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay Additional Amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Credit Suisse Securities Sociedad de Valores S.A, Deutsche Bank Aktiengesellschaft, J.P. Morgan AG and Nomura Financial Products Europe GmbH (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 20 July 2021, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount, subject to the provisions of the Subscription Agreement. Subject thereto, the Issuer has also agreed in the Subscription Agreement to pay a fee to the Joint Lead Managers and will reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

The Notes have not been and will not be registered under the Securities Act and are not being offered or sold except to non-U.S. Persons in offshore transactions in reliance on Regulation S thereunder. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

The Joint Lead Managers have agreed that, except as permitted by the Subscription Agreement, they will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each dealer to which they sell Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the UK.

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available the Notes to any retail investor in the UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Prospectus or any other document relating to the Notes in Italy except:

(i) to qualified investors (*investitori qualificati*), pursuant to Article 2 of Regulation (EU) No. 1129 of 14 June 2017 (the "**Prospectus Regulation**") and any applicable provision of Italian laws and regulations; or

(ii) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations, including any limitation or requirement imposed by CONSOB or other Italian authority.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

General

No action has been taken by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Joint Lead Managers have undertaken that they will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by a resolution of the Executive Board of Directors of the Issuer passed on 7 July 2021 further to the prior consent of the General and Supervisory Board by a resolution passed on 7 July 2021.

Listing

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to be admitted to trading on the Market.

The Issuer estimates that the total expenses related to the admission to trading will be approximately €4,790.

Indication of yield

Based upon a re-offer price of 100 per cent. of the principal amount of the Notes, the yield of the Notes for the period from (and including) the Issue Date to (but excluding) the Call Date, is 3.500 per cent. per annum on an annual basis. The yield is calculated at the Issue Date and is not an indication of future yield.

Clearing systems

The Notes have been accepted for settlement and clearing through the CVM, managed and operated by Interbolsa and may be held indirectly through direct or indirect accounts with Euroclear and Clearstream, Luxembourg. The ISIN of the Notes is PTNOBIOM0014 and the Common Code is 236681688. The address of Interbolsa is Avenida da Boavista, 3433 4100-138 Porto, Portugal.

The Classification of Financial Instrument (CFI) code and the Financial Instrument Short Name (FISN) code for the Notes are set out on the website of the Association of National Number Agencies (ANNA). The Legal Entity Identifier (LEI) of the Issuer is 5493009W2E2YDCXY6S81.

No significant change

There has been no significant change in the financial or trading position of the Group since 31 March 2021.

Save as disclosed in "*Risk Factors—Risks relating to the Issuer—Risks relating to the Issuer's business—The Resolution Fund may fail to make or be prevented from making payments under the Contingent Capital Agreement*" in relation to the shortfall of €112 million of the amount received by the Issuer under the CCA in relation to the 2020 accounts, there has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2020.

Litigation

Save as disclosed above in "*Description of the Issuer and of the Group—Legal, Administrative and Arbitration Proceedings*" the Group is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Group.

Auditors

The financial statements of the Issuer for the financial periods ended 31 December 2019 and 31 December 2020 have been audited in accordance with IFRS and have been reported on without qualification by Ernst & Young Audit & Associados – SROC, S.A. Ernst & Young Audit & Associados – SROC, S.A. is a member of Institute of Certified Public Accountants ("**OROC**") and registered with the CMVM with number 20161480.

Listing agent

Maples and Calder is acting solely in its capacity as listing agent for the Issuer in relation to the listing of the Notes on the Official List and is not itself seeking admission of the Notes to the Official List.

Documents available

Copies of the following documents will be available from the date hereof (in the case of the Instrument, from the Issue Date) and for so long as the Notes remain outstanding at the website of the Issuer: https://www.novobanco.pt/site/images/inst/ARTICLES_OF_ASSOCIATION.pdf and https://www.novobanco.pt/senior_preferred_due2024

(a) the Instrument;

(b) the Memorandum and Articles of Association of the Issuer; and

(c) a copy of this Prospectus.

This Prospectus (together with any supplement to this Prospectus or further Prospectus) will be published on the website of Euronext Dublin (https://live.euronext.com/en/markets/dublin/bonds/list).

Information included on any website referred to above does not form part of this Prospectus, unless it is specifically incorporated by reference in this Prospectus.

Conflicts of interest

The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Where the Joint Lead Managers or their affiliates have a lending relationship with the Issuer and/or its affiliates they may routinely hedge their credit exposure to those entities consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Joint Lead Managers and/or their respective affiliates will act as dealer managers and solicitation agents in connection with the concurrent tender offers and associated consent solicitations.

Language of this Prospectus

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Prospectus.

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