novobanco

INTERIM REPORT AND ACCOUNTS

CONSOLIDATED & SEPARATE

FIRST HALF 2022

Abbreviations and Acronyms

ECB	European Central Bank
DGCOMP	Directorate-General | Competition
CCA	Contingent Capital Agreement
ESG	Environment, Sustainability and Governance
YTD	Year-to-date - change since the start of the year
YoY	Year-on-Year - change on a year earlier
NII	Net Interest Income
LCR	Liquidity Coverage Ratio
OCR	Overall Capital Requirement
P2G	Pillar 2 Guidance
€	euro
€mn	million euro
€bn	billion euro
bps	basis points
pp	percentage points

Novo Banco, S.A.
Head Office: Avenida da Liberdade, n.º 195, 1250-142 Lisbon, Portugal
Registered at Lisbon Commercial Registry, under the single registration and tax identification number 513 204 016
Share Capital: 6 054 907 314 Euros represented by 9 954 907 311 shares

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

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

CONTENT

MANAGEMENT REPORT

MANAGEMENT REPORT

INDEX

1 WHO WE ARE

1.1 Novo Banco Group

Novo Banco, S.A. ("novobanco" or "the bank") together with the subsidiaries and equity holdings that make up the Novo Banco Group ("Group" or "novobanco Group") is mainly active in the Portuguese banking sector, in both corporate and retail segments, also developing activity in asset management. In addition, the bank has equity stakes in companies operating in venture capital, real estate, renting and corporate services.

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

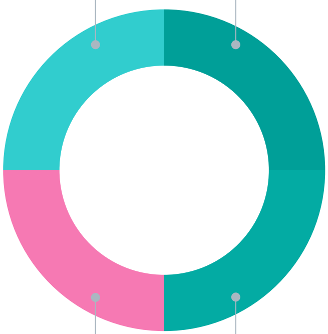
From 2017 to 2020, the bank has been focused to restore profitability by deleveraging of non-core business and non-performing assets, along with cost optimization. Profitability turnaround was achieved in 2021 delivering four consecutive quarters of profitability and, in that same year, novobanco initiated a new phase and is now geared towards commercial transformation.

In this new phase, novobanco's vision leverages its knowledge and strong presence in the corporate segment, defining its identity, principles and values.

A Portuguese, Professional, Partner and Proximate bank and is intrinsically anchored in the principles and values that guide the way to do business

Portuguese
A leading bank in Portugal, focused on national economic priorities, supporting families and businesses to thrive

Partner
Leveraging partnership ecosystems to support customers holistic needs to successfully face opportunities and challenges



A relentless focus on products, services and capabilities devised to serve all-sized businesses, including professional retail customers and households
Professional

Prioritizing omnichannel operating models to deliver convenience and easy-to-bank experience as the pillar of our customer relationships
Proximate

COLLABORATION	DYNAMISM	DIVERSITY	TRANSPARENCY	EMPATHY
Collaborating with all stakeholders to reach better outcomes for customers and society.	*Assuming continuous transformation, as expectations are evolving at exponential rates, and reinvention to remain relevant.*	*Reflecting the different needs of customers and employees in solutions and plans.*	*Remaining authentic and open exchanges of information across all stakeholders.*	*Incorporating the voice of customers and society into the way we do business.*

A purpose to serve the Portuguese economic growth, through relationship-led banking for individuals, families and all businesses, in a digital world.

The purpose guides and underpins everything novobanco does. It enables novobanco to build long-term value, to invest for growth, to remain focused on delivering a social dividend with a positive contribution to society and driving sustainable returns to shareholders.

A team of professionals committed…

PEOPLE

4,167 employees of novobanco Group, of which 54% women

19.2 years average seniority of employees at novobanco Group

17.5 training hours per employee (average)

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

BUSINESS

1.5 million clients

96.5% satisfied and very satisfied clients – Medium Enterprises

94.7% satisfied and very satisfied clients – Retail

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

FINANCIAL RESOURCES

€25.5bn Loans granted

€2.0bn Loans origination in the first half of 2022

€28.4bn Deposits

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

TECHNOLOGY & EXPERIENCE

14 multidisciplinary agile teams working on digital transformation

56.5% active clients in the digital channels

>65% of self-service transactions in the household's segments

to give back to community the support it has received.

SOCIETY

€622.5k in donations (72% Health Patronage; 16% Training & Research; 11% Cultural Patronage; 1% Social Patronage)

93 pieces of art on permanent exhibition in 36 Museums around the country

1.1.1 Business Model

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

novobanco business model is based on two main commercial banking segments: i) corporate; and ii) retail. In both segments, novobanco 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.

Corporate: a historical know-how in the sector

Retail: a partner for households, with a wide range of products

Highlights: Main Product and Services Offering

Cash Management
- Special Accounts and Cards
- Drafts, Factoring and Collection solutions
- Payment Management

Lending
- Working Capital financing and revenue anticipation solutions
- Lending and guarantees
- Leasing and Renting services

Insurance
- Property & Casualty insurance
- Credit insurance
- Small Business insurance

Human Capital Solutions
- Euroticket and payment cards
- Auto lending and renting
- Individual insurance

Helping clients to go Global
- International Trade
- Trade Finance
- Support to export

Advisory Service
- RRP and Portugal 2030 finance partner
- Sector specific solutions
- Special Initiatives and fairs

Accounts, Cards & Payments
- Accounts bundled for different needs; fully online opening
- Strong authentication system; functionalities incl: contactless, virtual cards, MB Way (…)

Housing Loans
- Acquisition & maintenance works
- Online loan submission
- Special conditions for young and non-resident

Savings and Investment
- Deposits & retirement accounts
- Investment Funds, Unit linked, structured deposits
- Discretionary mgmt & advisory

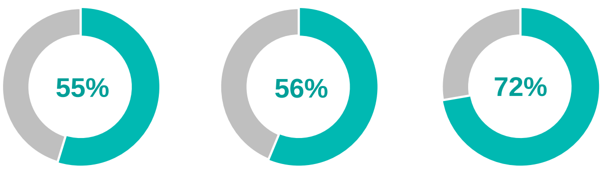
Insurance
- Life Protection
- Health and Property & Casualty
- Special solutions for self employed workers

Small Business
- Special small business accounts
- Cash and payments management solutions
- Multi-risk business insurance

Consumer Finance
- Online simulation and submission
- Credit insurance option with unemployment and life coverage
- POS lending partnership "Heypay"

Corporate Banking | **~1.5 million clients[1]** | **Retail Banking[2]**

- Corporate segment includes **SMEs** and **Large companies,** being suppported by **2 Large Corporate centres** and **20 Corporate centres**



Weight of corporate credit in overall **novobanco** portfolio (2021 YE)

SMEs in Portugal that are **novobanco** clients (~11.6k; Jun-22)

Large corporates in Portugal that are **novobanco** clients (~2.0k; Jun-22)

- **Specialised, diversified and distinct product offering** to meet client needs
- In addition to the 304 branches, **novobanco** has **an omnichannel approach** through helpdesk services, internet, phone and mobile banking
- **Universal product offering** including life/non-life insurance and asset management (through GNB Gestão de Ativos)

	Deposits (€bn)	Gross Loans (€bn)
Small business	~20%	~20%
Affluent	~50%	~20%
Mass market	~30%	~60%

Market Share[3]

19.1% Trade Finance	15.6% POS	14.7% Corporate Loans	9.4% Asset Mgmt	9.3% Deposits	9.2% Mortgage Loans	5.1% Consumer Loans

(1) novobanco group clients, including Novobanco Açores and BEST ; (2) December 31st 2021, End of Period; Affluent includes upper affluent (Singular); % calculated as a proxy of management data; (3) May 2022 data; sources: Banco de Portugal, APS, APFIPP;; Asset management restated (with updated methodology and regulator data) of 10.1% as of December 2021.

In addition to novobanco's branches and corporate and business centres, the novobanco business model is also supported by:

novobanco
DOS AÇORES

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

novobanco dos Açores has as its mission to serve its clients (individuals, companies and institutions) and the Azorean regional economy. Its strategy relies on key 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 market and a strong tradition of close relationships with the Clients.

Detailed information on the activity of novobanco dos Açores available here: www.novobancodosacores.pt

Best Bank

Banco Best - Banco Eletrónico de Serviço Total, S.A. is a digital platform that provides the whole range of products and services of a universal bank, standing out for its strong technological nature and open architecture business model, based on national and international partnerships in the areas of Savings, Asset Management and Trading.

Banco Best operates in all segments of retail banking, providing a wide array of services ranging from banking solutions, savings, investments, credit, and day-to-day financial management.

Banco Best's business strategy is especially competitive when it comes to meeting the investment needs of a segment of individual clients who seek and value more innovative financial services, not restricted to the domestic market, more independent, diversified and sophisticated.

Banco Best's strong bet on innovation and dynamic management of a wide network of national and international partners has been key to assert its position as a digital Marketplace of investment solutions: the bank distributes around 6,000 products - Investment Funds, ETFs, Retirement Solutions, Capitalisation Insurance, Discretionary Management, Robot Advisor, etc. - managed by the most prestigious national and international financial entities.

Technology is part of Banco Best's DNA. The bank's digital channels - App and Website - give clients total autonomy in their relationship with the bank and a pleasant and effortless experience. Through the App and Website - which in 2021 had a major upgrade - clients can, among others: open their account, access information on the entire offer and use the various support tools, monitor market indicators and manage their portfolio - buy and sell, monitor returns -, perform the various operations and fulfil general duties, such as updating data.

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

GNB Gestão de Ativos
GRUPO novobanco

GNB Gestão de Ativos is one of the national management companies with the largest track record, and the quality of the management of its products and services has been recognised over the years both nationally and internationally. GNB Gestão de Ativos offers financial products and services, including several types of funds – mutual funds, real estate funds and pension funds - besides providing discretionary and portfolio management services. As at December 2021, GNB Gestão de Ativos had €9.9bn in assets under management in Portugal and the Luxembourg.

Detailed information on the activity of GNB Gestão de Ativos available here: www.gnbga.pt

1.1.2 Awards in 1H 2022

novobanco awarded "Best digital performer of Retail Banking" in Portugal

With the solutions for remote account opening through Digital Mobile Key or by videocall, novobanco has improved even more the experience in the first contact of the client with the bank, offering a complete, fast and intelligent onboarding value for our future customers and for the bank.

Best Digital Performer Portugal 2021 D-Rating

novobanco wins at the Digital CX Awards for its digital underwriting solution for Life Insurance

This recognition demonstrates the novobanco's responsiveness in to build, in partnership with GamaLife, the most suitable solutions for the questions and challenges faced by our customers, improving their omnichannel experience with the bank, namely through the contribution of digital channels.

OUTSTANDING DIGITAL CX - BANCASSURANCE

novobanco voted as Best Sub-Custodian Bank 2022 in Portugal

The international magazine Global Finance warded novobanco as the best bank in Portugal when it comes to securities custodian services. This nomination is international recognition of the bank's knowledge and performance in this important business area which is essential for the financial market to function.

1.1.3 Main Events in 1H 2022

6 January – Novo Banco, S.A. informs on SPA of Non-Performing Loans and related exposures – Addendum

novobanco made further clarifications following the announcements dated 23 and 27 of December 2021, about Project "Orion" and "Harvey", respectively, and following CMVM request.

9 March – Novo Banco, S.A. informs about FY2021 consolidated results

novobanco announced an annual net profit of €184.5mn (vs -€1,329.3mn in 2020). This achievement represents the first annual positive net income of the Group since its creation, an important achievement for the end of the restructuring process initiated in 2017.

31 March – Novo Banco, S.A., announces CEO António Ramalho to step-down in August 2022

novobanco announced that the CEO of novobanco, António Ramalho, informed the General and Supervisory Board (GSB) of his intention to step-down in August from his executive role following an orderly transition.

03 May – Novo Banco, S.A. informs about 1Q22 consolidated results

novobanco a further quarter of profitability with a net income of €142.7mn. The business performance was in line with expectations, presenting the fifth consecutive quarter of profitability. The Bank has delivered further improvement despite the uncertain macro background characterized by inflationary pressures and consequent volatility of interest rates.

05 May – Novo Banco, S.A. announces Mark Bourke for CEO and informs about EBD composition for a new mandate

novobanco noted that the General and Supervisory Board ("GSB") decided on the 3rd of May to submit the relevant Fit & Proper documentation for the members of the Executive Board of Directors ("EBD") of novobanco for a new mandate term 2022 to 2025.

23/26 May – Novo Banco, S.A. informs about the signing of a SPA of a Real Estate Portfolio

novobanco informed about the signing of a Sale and Purchase Agreement, following a competitive bid process, for the divestment of a real estate portfolio majority held by the real estate funds NB Património and NB Logística following the announcement made by GNB Real Estate, a subsidiary of Novo Banco S.A.

25 May – Novo Banco, S.A. informs about notification by Banco de Portugal of its MREL requirements

novobanco informed that it has been notified by the Bank of Portugal of its Minimum Requirement for own funds and Eligible Liabilities ("MREL") requirements, on a consolidated basis, as determined by the Single Resolution Board for 1 Jan 2022 and 1 Jan 2026.

21 June – Novo Banco, S.A. informs about multi-notch rating upgrade from Moody's

novobanco informed that Moody's has upgraded novobanco's baseline credit assessment (BCA) by 2 notches, from caa1 to b2. The outlook on the long-term deposit and senior unsecured debt ratings remains positive. The multi-notch upgrade in credit rating from Moody's reflects novobanco "improved credit profile as a result of the continued de-risking of its balance sheet and the significant restructuring of its operations over recent years".

1.2 Organisation

1.2.1 Governance Model

novobanco 's management relies on a governance model that is unique and distinct if compared with systemic banks within the Portuguese financial sector. In line with international best practices in management, and under the new shareholder structure, since 18 October 2017, the bank changed its governance model, having a General and Supervisory Board (GSB) and an Executive Board of Directors (EBD).

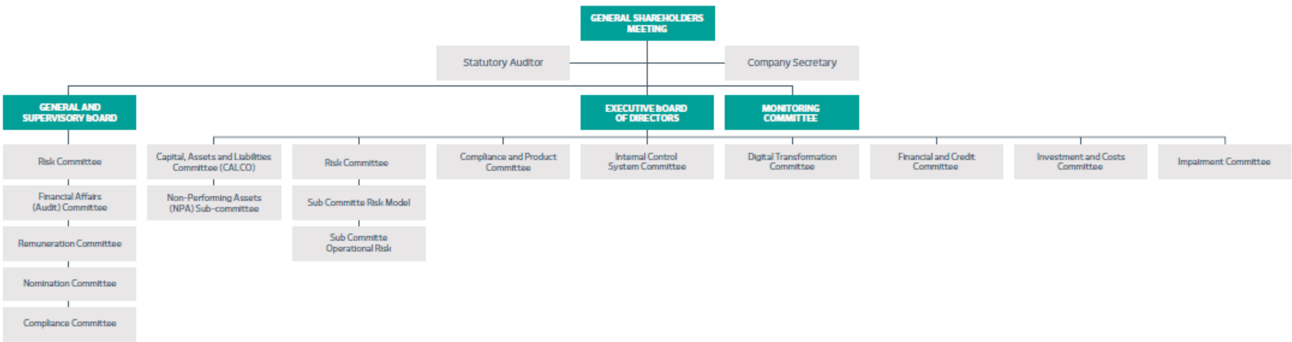
The GSB is responsible for regularly monitoring, advising and supervising the management of the bank and of the group companies, as well as for supervising EBD activities with regard to compliance with the relevant regulatory requirements of banking activity. The GSB meets on a monthly basis, and its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

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

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

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

.



1.2.2 Organisational structure

The composition of the corporate and statutory bodies, as of 30 June 2022 and during the first half of 2022, is as follows:

Board of the General Meeting

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

Statutory Auditor

Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("CMVM") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("OROC") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number

1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896.

Company Secretary

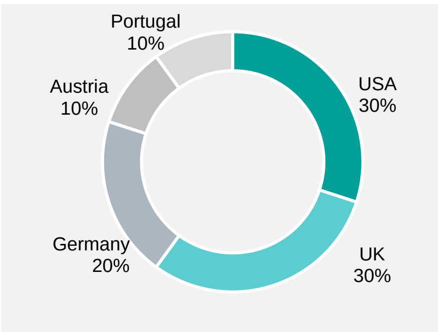
Mário Nuno de Almeida Martins Adegas
Ana Rita Amaral Tabuada Fidalgo (Alternate Secretary)

General and Supervisory Board (GSB)

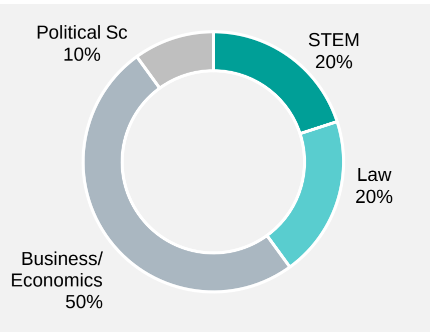
								GSB Committes				
Chairman (C)	Vice-Chairman	Member	Name	M/F	Independent	Date of 1st appointment	Expiry date	Financial Affairs	Risk	Compliance	Nomination	Remuneration
•			Byron James Macbean Haynes	M	•	18-10-2017	31-12-2024	•	•			C
	•		Karl-Gerhard Eick	M	•	18-10-2017	31-12-2024	C	•			•
		•	Donald John Quintin	M		18-10-2017	31-12-2024				•	
		•	Kambiz Nourbakhsh	M		18-10-2017	31-12-2024	•	•			
		•	Mark Andrew Coker	M		18-10-2017	31-12-2024			•	•	
		•	Benjamin Friedrich Dickgiesser	M		18-10-2017	31-12-2024		•			•
		•	John Ryan Herbert	M	•	18-10-2017	31-12-2024			•	C	
		•	Robert Alan Sherman	M	•	18-10-2017	31-12-2024			C	•	
		•	Carla Antunes da Silva	F	•	06-06-2018	31-12-2024				•	
		•	William Henry Newton	M	•	01-01-2021	31-12-2024		C			

GSB diversity in several dimensions: geo provenance, education & professional background

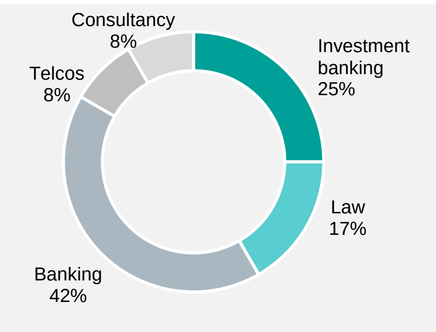
Geographical provenance



Educational background



Professional background



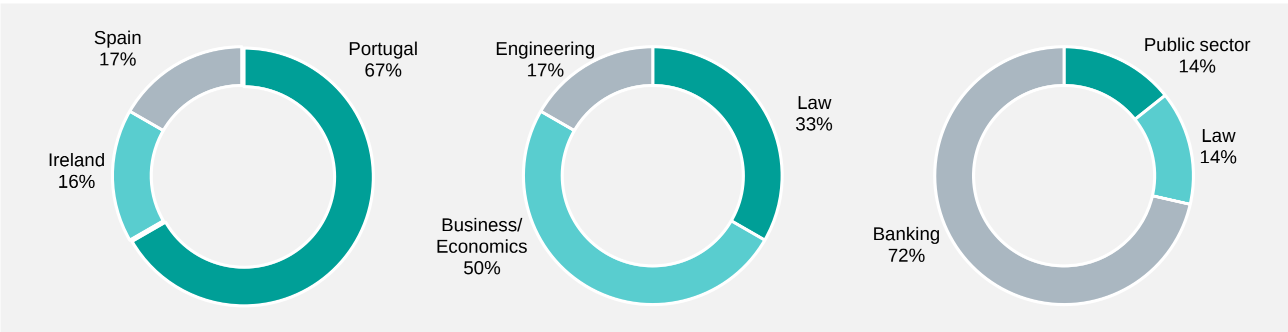
Executive Board of Directors (EBD)

Chairman	Name		M/F	Date of 1st appointment	Expiry date	Chairman of EBD Committes
●	António Manuel Palma Ramalho	Chief Executive Officer	M	18-10-2017*	31-12-2024[1]	Financial and Credit; Digital Transformation;
	Mark George Bourke	Chief Financial Officer	M	04-03-2019	31-12-2024	CALCO; Costs and Investments;
	Rui Miguel Dias Ribeiro Fontes	Chief Risk Officer	M	18-10-2017*	31-12-2024	Risk; Impairment; Internal Control System;
	Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal & Compliance Officer	F	18-10-2017*	31-12-2024	Compliance & Product;
	Luís Miguel Alves Ribeiro	Chief Commercial Officer (Retail)	M	18-09-2018	31-12-2024	
	Andrés Baltar Garcia	Chief Commercial Officer (Corporate)	M	01-12-2020	31-12-2024	

* Members of the board in the governance model previous to the sale of 75% stake to LoneStar.

EBD diversity in several dimensions: geo provenance, education & professional background

Geographical provenance **Educational background** **Professional background**



Following António Ramalho CEO's resignation, announced on 31 March 2022 and effective as of 1 August 2022, on 3 May 2022, the GSB decided to submit the relevant Fit & Proper documentation for novobanco for mandate for a new term and indicated a new composition of the EBD, subsequently appointing Mark Bourke as CEO, and two new EBD members: Leigh Bartlett and Carlos Brandão.

The new EBD member composition of novobanco, subject to regulatory approval, will therefore be as follows:

- Mark Bourke – Chief Executive Officer ("CEO")
- Leigh Bartlett – Chief Financial Officer ("CFO")
- Luís Ribeiro – Chief Commercial Officer Retail ("CCOR")
- Andrés Baltar – Chief Commercial Officer Corporate ("CCOC")
- Luísa Soares da Silva – Chief Legal Compliance Officer ("CLCO")
- Carlos Brandão – Chief Risk Officer ("CRO")
- Rui Fontes – Chief Credit Officer ("CCO")

Monitoring Committee

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

[1] After 6 years as the CEO of novobanco and the return of a sustainable profitability, on 31 March 2022, António Ramalho informed the GSB of his intention to cease, as of 1 August 2022, his role as a member of the EBD.

2 OUR STRATEGY

With the beginning of a new phase, and with a new image, in October 2021, novobanco disclosed its new strategic plan to the capital market and the general public (link: https://youtu.be/OuoVeFCSZy8).

The new brand started with a challenge: "Be the voice of change". A challenge for all employees to take part in the creation of a more modern, more dynamic, more ours, visual identity, making it closer to a world that is also in permanent transformation. The collective voice of novobanco was self-created from the individual voice of each employee and graphically expressed in sound waves.

The new strategic plan factors in the macroeconomic conditions brought about by the pandemic, such as economic growth that benefits from the Recovery and Resilience Plan (RRP) with a challenging economic outlook. The initiatives implemented under the new strategic plan also aim to address the increasingly competitive environment in banking and financial services, and the growing pace of change and disruption. Successfully implementing disruptive initiatives and adopting ecosystem business models is critical for novobanco to keep exceeding customer experience expectations and maximising customer value, while maintaining profitable operations and ensuring capital efficiency.

novobanco's strategic plan comprises 4 pillars…

A universal customer-centric bank	Simple & efficient	Profitable and safe risk profile	Talent & innovation
Focus on **customers needs** offering a **disruptive value proposition**	Leverage on **simplification, process reengineering** and **technology**	Enhance **risk decisioning models** and governance, improving asset quality	**Develop our people** & transform our workforce, to foster an innovation culture
Omnichannel distribution of simple and innovative products and services	Streamline organizational structure to maximize **effectiveness & flexibility**	Disciplined risk-management, optimize **capital allocation** and RWAs	**Motivate & reward** performance aligning individual objectives to strategic goals

A universal customer-centric bank

Novobanco's focus is on customer needs offering a disruptive value proposition, including an omnichannel distribution of simple and innovative products and service and a new distribution model. Expected growth is based on simple and innovative offers leveraging on know-how and partnerships and boosted by a unique customer experience.

On the corporate side, novobanco has a historical know-how in the sector, with a vast products and services offering from cash management to lending, helping clients to go global, as well as from insurance to human capital solutions and advisory service, namely as RRP[2] and Portugal 2030[3] finance partner.

In the retail segment, novobanco is a provider of a wide range of products, from cards and accounts to housing and individual loans and finally to saving and investment solutions. With a conservative loan portfolio, the bank is focusing on margin and value-add services like home buying omnichannel solutions, small business finance and an investment advisory platform.

Simple & efficient

Novobanco has ended the restructuring phase reaching an accretive commercial operation leveraged by highly efficient operations. The cost efficiency plan is now based on 4 levers that play a key role in the bank's distinctive value-proposition,

---

[2] Portugal's Recovery and Resilience plan consists of a set of investments in the Portuguese economy comprising €13.9 billion in grants and €2.7 billion in loans from the EC between 2021-2026. This financing will support the implementation of investments and reform measures to build and reinforce the country's economic and social resilience.

[3] The Portugal 2030 strategy is a government action programme that includes the plans for recovery and development of the economy, society and the national territory for the next decade, in convergence with the European Union to be in force between 2021-2027. It comprises the disbursement of € 24.2 billion from the Fundo Europeu de Desenvolvimento Regional (FEDER), Fundo Social Europeu + (FSE+), Fundo de Coesão, Fundo de Transição Justa (FTJ) and from the Fundo Europeu dos Assuntos Marítimos, das Pescas e da Aquicultura (FEAMPA).

like robotic process automation, new distribution model, E2E rationalisation and reorganisation and digitalization of the business.

Profitable and safe risk profile

The main goal of this pillar is to enhance risk decisioning models and optimise capital allocation and RWAs. Novobanco aims to improve profitability given deep knowledge/measure of the most capital consuming exposures.

On this pillar, novobanco aims to enhance risk decision models and governance, continuously improving asset quality by maximising the obtainment of real credit guarantees ensuring the complete characterisation in the system and by warranting the periodic update of the characteristics of the guarantees received (i.e. valuations, real estate insurance policies) and reducing capital consumption by guaranteeing on-time availability of corporate clients' most recent financial statements and other qualitative information.

Novobanco also aims to follow a disciplined risk-management, capital allocation and RWAs optimisation, using a new capital allocation model to determine each segment's profitability (with strategic implications), a dynamic allocation of balance sheet growth between different segments and its capital impact and by pricing new loans subject to RAROC hurdles.

Talent & Innovation

Novobanco is implementing a new employee value proposition and talent development program for a renewed workforce.

As part of such transformation, novobanco is:

- Developing a new training program to upgrade knowledge of Regulatory, Functional, Leadership and Digital skills and complementing the new distribution models and the omnichannel approach;
- Shaping a new leadership model, aiming a more agile organisation and creating a talent & innovation program;
- Building more functional offices aimed at increasing productivity and having new forms of organisation and working models adapted to new spaces (i.e. new headquarter; new branches, business centres);
- Creating a talent management plan, developing a new career journey to attract talent and promoting diversity with both technical and management career with defined requirement/skills.

…with clear financial objectives and targets:

		1H21	1H22	Medium-term targets	
A universal customer-centric bank	**Commercial Loan Book** (performing)	**€22.8bn**	**€23.8bn** (+4.7% YoY)	*2-3% per year*	*Expanding loan book*
	Net Interest Margin	**1.46%**	**1.30%**	*[1.30 – 1.50%]*	*Set to benefit from Euribor repricing*
Simple and efficient	**Cost-to-income**	**48%**	**51%**	*< 45%*	*Efficient operations*
	CoR	**68bps**	**15bps**	*< 50 bps*	*Achieving moderate risk profile*
Profitable and safe risk profile	**NPL ratio**	**7.3%**	**5.4%**	*< 5%*	*Converging towards EU average*
	RoTE *(pre-tax)*[1]	**8.7%**	**11.0%**	*≥ 10%*	*Delivering organic attractive returns*
Talent & innovation	**CET 1**	**10.9%**	**11.8%**	*> 12%*	*Accelerating capital generation*

(1) Tangible Equity = average phased-in RWA x 12%; Annualized; Considers Underlying profitability pre-tax deducted by special tax on Banks (€34mn on annual basis) and contributions to Resolution Funds (€40.5mn on annual basis);

ESG strategy

Novobanco ESG strategy, commitments and goals, are structured along 3 axes that reflect how the bank addresses the material issues and sustainable development goals identified by its stakeholders, and aligned to actively contribute to the 2030 SDGs defined by the United Nations Global Compact and with the Paris Agreement.

Sustainable Business	Social & Financial Well-being	Responsible Banking
Minimize the negative **environmental impact** of our operations, promoting innovation and digitalization	**Ensuring equal opportunities** and the **well-being** of our employees	Ensure **ESG integration** into the bank's governance model
Incorporating ESG risks and opportunities in our business model and commercial offer	**Promoting financial and digital literacy** among our customers and public in general	**Select suppliers based on a sustainability scoring**
Supporting our customers in the transition to a carbon neutral economy	**Tailoring products to customer needs,** integrating social considerations and promoting savings	**Ensuring equal gender** in the bank's top management staff

The commitments of Novo Banco, SA:

The Social Dividend Programme, whose 1st edition ran from 2017 to 2021, has been reformulated and is now running its second edition, focused on the strategic priorities for the 2022 - 2024 triennium and structured into 3 distinct but complementary programmes: #Environment; #Social & Well-being; #Responsible Banking, with the main targets being:

GRUPO novobanco	ESG	+ 4.5 p.p. of womem in senior leadership positions	- 50% greenhouse gas emissions (scope 1 and 2)	+ 50% Electric or hybrid vehicles in the feet group	100% neutral electricity in carbon in all installations	
novobanco	ENVIRONMENT	+ €600 mn of Green Investment[1] (vs. 2021)	€0 mn of financing to excluded sectors[2]	30% of investment products with ESG[3] characteristics	- 30% of Paper consumption[4] (tonnes, vs. 2021)	- 28% Of CO_2 emissions from own operations[5] (tonnes. vs. 2021)
	SOCIAL AND FINANCIAL WELL-BEING	40% of the employees benefiting from the social Well-being programme[6]	+ 3 p.p. of employees with psychosocial risk assessment of "Healthy"[7]	+ 8 p.p. in employee engagement level[8] (vs. 2021)	+ 11.8 points in clients NPS indicator[9] (vs. 2021)	+ 9.594 hours of employees' voluntary service hours[10] (vs. 2021)
	RESPONSIBLE BANKING	+ 2.5 p.p. of Women in senior leadership positions[11]	- 0.9 p.p. in gender pay gap[12]	+ 3 Partnerships with organisations to promote the employment of people with disabilities[13]	90% of suppliers with sustainability score[14]	+ 39.160 ESG training hours to the employees

1. Origination of financing or own portfolio investments in companies whose main economic activity is eligible to the EU Taxonomy and origination of financing or own portfolio investments where the use of funds by the borrower or the projects are directed to economic activities eligible to the EU Taxonomy or are aimed at investments in energy transition or the transition of the company's business model towards green activities; 2. Economic sectors not financed by novobanco: Weapons, Prostitution, Pornography, Coal (mining and energy production) and illegal trade of exotic or endangered species; 3. Investment Funds, Financial Insurance and Structured Products; 4. Reduction of photocopy paper consumption thanks to the implementation of the Phygital programme in the commercial network (started in 2019) and the dematerialisation of processes in the central services; 5. Scope 1 and 2 GHG emissions; 6. Percentage of employees who benefited from at least 2 programme initiatives per year. Programme of initiatives to promote balance between personal and professional life, mental and physical health, healthy living, etc.; 7. Annual psychosocial risk assessment study of novobanco's employee base; 8. Assessment of the level of employee engagement carried through the Pulse survey (average % of employee engagement); 9. Net Promoter Score calculated for Individual Clients - BASEF; 10. Promotion of volunteering actions in strategic areas of social impact of the bank. Each employee can take 1 day leave per year for volunteer work; 11. First line managers and Executive Board of Directors; 12. "Gender pay gap weighted by the representativeness of each Performance Function" 13. Number of organisations with active partnerships being promoted by the Bank; 14. Recurrent suppliers to novobanco group with annual turnover above 10 thousand euro

With clear achievements in the first half of 2022:

Sustainable Business		Social & Financial Well-being		Responsible Banking	
€103.9mn	Green investment production[1]	5.6k	Hours of ESG training to employees	6.0%	Gender pay-gap[2] (vs 5.9% in Dec-21)
-13.2%	Electricity Consumption (YoY)				
~100%	Of clean electricity consumption; (no CO_2)	600	Participations in Digital & financial sessions to the general public and senior population	25.0%	Of women in senior leaders' roles (-0.2pp YoY)[3]
-25.6%	Paper consumption (YoY)				
-19.4%	CO_2 emission (YoY)	€621k	Incl: voluntary service, donations, partnerships & specific conditions	44.3%	Of suppliers with Sustainability scoring

2Q22 Highlights

ESG/ Sustainable investment: novobanco undertakes €175mn of sustainable financing operations for Sonae Group

novobanco launches programs:
- 5+ for employees: physical health, mental health, well-being, balance, happiness
- Volunteering: giving employees 1 day/year for community support
- Partnership with "Associação Direito Mental"

Note: (1) Novo Banco S.A; Includes financing and investment in 8 sectors inherently aligned with EU Taxonomy and in Green Bonds (as labeled by Bloomberg). Does not include remaining Taxonomy eligible sectors or other ESG/Sustainable/ Social linked bonds and loans; (2) Adjusted by function; (3) includes BoD team and senior managers;

3 ECONOMIC CONTEXT

The first half of 2022 was marked by the outbreak of war in Ukraine, in February, which led to the imposition of economic sanctions on Russia and to more distress in global supply chains, accentuating the difficulties caused by the Covid-19 pandemic. In particular, the world economy suffered the effects of a significant rise in the prices of food commodities, and, even more so, of energy commodities, leading to supply disruptions in the first case and to an increase in the risk premium in the second case. Fears about the outlook for economic growth and demand toned down commodity prices from the second quarter onwards. Even so, the price of oil (Brent) rose 48% in the first half of the year and 53% in year-on-year terms. In contrast to most commodities, the price of natural gas in Europe closed the first half of the year on a rising trend, reflecting renewed fears of Russian supply disruption and of insufficient reserves. The price of gas thus spiked by 112% in the semester and 319% year-on-year, to €140.5 mwh. Inflation became more sweeping and persistent in the main economies, rising year-on-year from 7% to 9.1% in the US and from 5% to 8.6% in the Eurozone. In the Eurozone, the prices of energy and food rose 41.9% and 8.9% year-on-year in June.

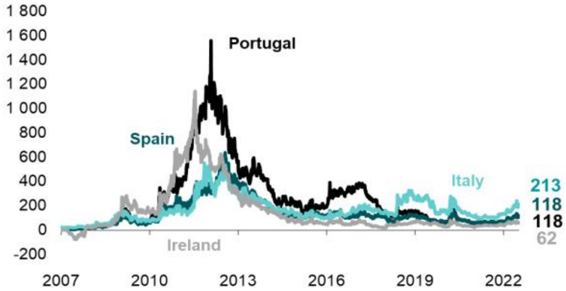
Recognising the risks associated with higher inflationary pressures, the main central banks announced the need for a faster withdrawal of monetary stimuli. In the US, the Federal Reserve started a cycle of rising reference interest rates, raising the fed funds target rate three times, by a total of 150 bps, to 1.5%-1.75% (+25 bps in March, +50 bps in May and +75 bps in June). At the same time, it announced and initiated a faster balance sheet tightening. In the Eurozone, the ECB maintained the deposit facility rate at -0.5%, but signalled its intention to raise benchmark interest rates in July (by 25 bps) and September (by 25 to 50 bps). The Eurozone monetary authority ceased net asset purchases under the pandemic emergency programme (PEPP) in March and accelerated the reduction of net asset purchases under the Asset Purchase Programme (APP), which would end in July.

In this context, the first 6 months of 2022 were marked by rising market interest rates. The 3-month Euribor rose by 38 bps to -0.195% and, even with a downward correction at the end of the first half of the year, the market significantly raised its expectations of further hikes. The 10-year yield rose from -0.177% to 1.336% in the case of the Bund and from 1.51% to 3.01% in the case of the US Treasury notes (in this case with a flattening of the yield curve). The euro lost 7.8% against the dollar to EUR/USD 1.048, reflecting the relatively more hawkish stance of the US Federal Reserve in raising interest rates, the greater exposure of the European economy to the impacts of the war in Ukraine and a general environment of greater aversion to risk, driving demand for safe-haven assets.

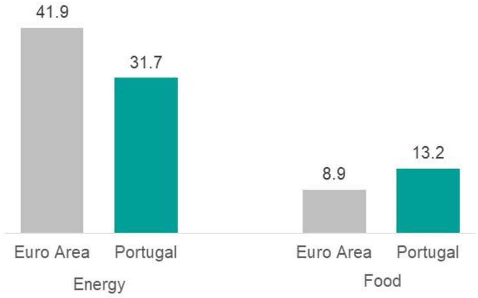
Although supported by the removal of a large part of the Covid-19 restrictions and by the lagged effects of recent policy stimuli, activity in the main economies remained constrained by global supply chain hurdles and, particularly in Europe, by the impacts of the conflict in Ukraine, driving up energy costs and accentuating the scarcity of some raw materials. In the US, GDP contracted by 1.6% in the first quarter and 1.2% in the second, in annualised terms, with negative contributions from dwindling stocks and net external demand. On the other hand, private consumption remained resilient, partly supported by a still strong labour market. The unemployment rate retreated from 4% to 3.6% of the labour force. The Eurozone economy is estimated to have grown by 0.6% in the first quarter and 0.1% in the second (2.4% and 0.4% annualised), spurred on by the removal of Covid-19 restrictions and the drop in the unemployment rate from 6.9% to 6.6% of the labour force. However, confidence levels and consumer and investment spending were penalised by increased uncertainty and rising inflation. Global activity was also constrained by the slowdown of growth in the Chinese economy, with the Chinese authorities opting for a zero-Covid policy that hampered activity.

Expectations of tighter monetary and financial conditions and growing fears of a slowdown or fall in activity increased volatility in the financial markets and penalised risk assets. In the US, the S&P 500 and Nasdaq stock market indices fell by 20.6% and 29.5%, respectively. In Europe, the Euro Stoxx and DAX retreated by 16.5% and 19.5%. In contrast, the Portuguese PSI-20 rose by 8.5%, with this growth mainly occurring in the 1st quarter.

10Y Periphery Government bond yield spreads vs. Bund (bps)

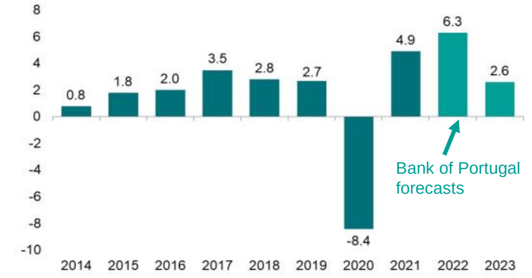


Energy and food CPI Inflation, Portugal and Euro Area (CPI, % YoY)

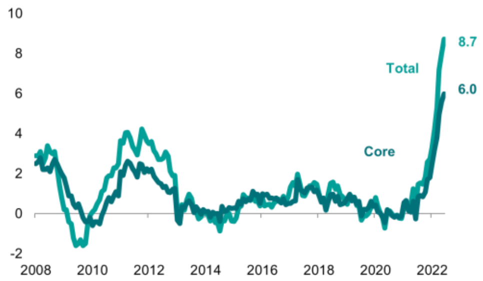


The Portuguese economy started the year in a strong momentum. In the 1st quarter, GDP grew by 2.6% quarter-on-quarter and 11.9% year-on-year, returning to pre-Covid-19 levels. Favourable base effects (given the sharp fall in GDP in Q1 2021) but also an acceleration in private consumption and strong exports growth contributed to this performance. In part this reflected the near total elimination of the pandemic-imposed restrictions, supporting services and, in particular, tourism. The improvement in tourism activity was more visible in the resident segment, but also included a recovery in external demand. Despite this improving trend, GDP is reckoned to have contracted by around 0.3% quarter-on-quarter in the second quarter - a performance explained by the unfavourable comparison with the abnormally high growth in the previous quarter. The indirect effects of the conflict in Ukraine also became more visible. Year-on-year CPI inflation rose from 3.3% to 8.7% between January and June, penalising households' real income and purchasing power. In June, energy and food prices rose by 31.7% and 11.9%, respectively, year-on-year. In turn, companies reported difficulties associated with the scarcity and cost of production resources, including labour. Manufacturing energy costs rose 63.6% year-on-year in June.

Annual GDP growth
(%)

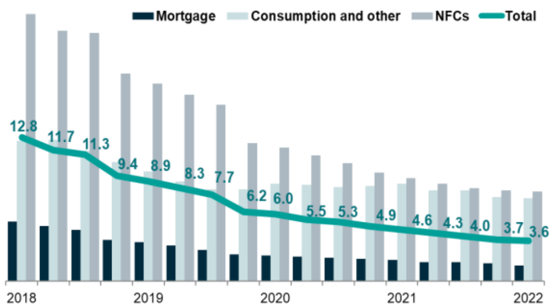


Headline and core inflation rate
(CPI, % YoY)



The monthly unemployment rate remained subdued, increasing from 5.9% to 6.1% of the labour population between January and May, below the 6.9% seen in May 2021. In this context, and despite the end of loan moratoria in September 2021, the NPL ratio retreated to 3.6% in the 1st quarter of 2022, from 4.6% a year earlier and 3.7% at the end of 2021. House prices accelerated in the 1st quarter of 2022, with year-on-year growth rising from 11.6% to 12.9%, following 3.8% quarter-on-quarter growth, partly induced by continued buoyant external demand. The yield on the Portuguese 10-year TB rose from 0,465% to 2.415%, with the spread vs. the Bund widening 44 bps, but remaining relatively contained (108 bps) and below the yield in other peripheral Eurozone economies.

Non-performing loans (% of total gross loans)



INE house price index (% YoY) **&**
Housing bank appraisals (median, % YoY)

The second half of the year should remain shrouded in high levels of uncertainty and volatility driven by events such as the expected rise in reference interest rates by the main central banks and the reduction of their balance sheets, evolution of the conflict in Ukraine and political instability, the persistence of production constraints (including the scarcity of raw materials and intermediate consumptions) and rising of energy costs. The slowdown of activity is thus expected in the main European economies and in Portugal, with risks biased towards negative growth at the end of the year. On the positive side, economic activity in Portugal should be sustained by the recovery of the tourism sector and the beginning of the execution of investments under the Recovery and Resilience Plan. For 2022, and even with a slowdown in the second half of the year, annual GDP growth is expected to be around 6.4%.

4 OUR PERFORMANCE

4.1 Highlights

CONTINUE DELIVERY OF IMPROVED PROFITABILITY

- **novobanco announces a net income of €266.7mn** (1H21: €137.7mn; +93.7% YoY).

  A solid business performance delivering further improvement in profitability against an uncertain macro background characterised by inflationary pressures and consequent volatility of interest rates.

- **Net Interest Income was €268.0mn (-7.3% YoY),** reflecting stable loan book yield and impact of senior debt issuance in 4Q21 and the negative interest rates on money market placements. **The Net Interest Margin in the period was 1.30%** (vs 2021: 1.42%) with **Net customer loans at €24.3bn (+2.8% YTD)**, confirming trajectory of an expanding loan book in both retail and corporate segments and a more favourable rate environment.
- **Fees and commissions increased to €144.4mn (+6.5% YoY),** reflecting a strong performance across the board and an improved quarterly trend.
- As a result, **Commercial banking income in the period was €412.4mn (-2.9% YoY)** and **Banking Income was strong at €571.5mn (+16.9% YoY)**, with Other operating results of €73.2mn, driven by an accelerated deleverage of the real estate portfolio.
- **Commercial Cost to Income ratio was 51%** (1Q21: 48%; 1Q22: 51%; 2Q22: 50%; excluding markets and other operating results), with **Operating costs of €208.7mn**. The +€4.6mn YoY change reflects the increase of General and administrative expenses, mostly one-off, to support the continuous investment in the improvement of operational and business processes required to deliver novobanco's strategic program, partially offset by lower staff costs. **On a recurring basis, operating costs reduced by 0.5% (-€0.9mn) with C/I ratio of 49%.**
- **Cost of risk was 15bps,** given the successful ongoing de-risking strategy (1H21: 68bps or 40bps ex-Covid related provisions) and reflecting a decrease in **Loan impairments to €19.3mn** (-77.2%; -€65.4mn vs 1H21).
- All in all, **novobanco continued to grow its profitability, reaching a RoTE of 11.0%** (pre-tax), with underlying pre-tax profitability[4] of €160.2mn, a further confirmation of the sustainability of its trajectory.

SOLID BUSINESS MODEL WITH STRONG CUSTOMER OUTCOMES

- Positive evolution of Gross **Customers loans** (€25.5bn, +2.6% YTD), across all segments. Total customer funds improved by 2.4% YTD, with 3.9% increase of customer deposits (+€1.1bn), reflecting growth of the business.
- **In the quarter, Moody's upgraded novobanco's baseline credit assessment (BCA) rating by 2 notches**, from caa1 to b2, with unchanged positive outlook. The two-notch increase in Moody's credit rating reflects "novobanco's improved credit profile as a result of the continued de-risking of its balance sheet and the significant restructuring of its operations over recent years". The ratings on the Bank's long-term senior unsecured debt and subordinated debt were upgraded from Caa2 to B3.
- **Further improvement of the Non-performing loans (NPL) ratio at 5.4% (Dec/21: 5.7%; Jun/21: 7.3%), with 73.0% coverage ratio**, reflecting the de-risking of the balance sheet and progress towards achieving an NPL ratio in line with the European average.

GENERATING CAPITAL AND SOLID LIQUIDITY RATIOS

Driven by strong bottom-line profitability, **CET 1 ratio increased significantly by 1.0pp in the quarter to 11.8%** (vs Dec/21: 11.1%; Mar/22: 10.8%) **and Total capital ratio reached 13.9%** (vs Dec/21:13.1%, Mar/22: 12.9%), which is already above the 13.5% OCR requirement and allows building of P2G buffer. This reflects the capital accretive business model, RWA discipline and is combined with specific measures to ensure early compliance with normalised post-pandemic capital requirements.

The liquidity ratio (LCR) improved further to 187% (Dec/21: 182%) and NSFR amounted to 106% (Dec/21: 117%).

[4] Calculated as pre-tax net income adjusted by extraordinary items and excluding capital markets results

MAIN HIGHLIGHTS	30-Jun-21	31-Dec-21	30-Jun-22
ACTIVITY (mn€)			
Net Assets	45 887	44 619	45 493
Customer Loans (gross)	24 945	24 899	25 541
Customer Deposits	26 875	27 315	28 385
Equity	3 239	3 149	3 252
SOLVENCY [3]			
Common EquityTier I / Risk Weighted Assets [3]	10.9%	11.1% [4]	11.8%
Tier I / Risk Weighted Assets [3]	10.9%	11.1% [4]	11.8%
Total Capital / Risk Weighted Assets [3]	12.8%	13.1% [4]	13.9%
Leverage Ratio	6.2%	6.0% [4]	13.9%
LIQUIDITY (mn€)			
European Central Bank Funding [2]	2 656	2 742	2 162
Eligible Assets for Repo Operations (ECB and others), net of haircut	17 048	16 476	16 513
(Total Credit - Credit Provision) / Customer Deposits [1]	87%	86%	83%
Liquidity Coverage Ratio (LCR)	150%	182% [4]	187%
Net Stable Funding Ratio (NSFR)	113%	117% [4]	106%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	2.3%	1.2%	1.3%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	7.3%	5.7%	5.4%
Credit Provision / Overdue Loans > 90 days	255.6%	430.2%	380.2%
Credit Provision / Customer Loans (gross)	5.9%	5.0%	4.8%
Cost of Risk	0.68%	0.60%	0.15%
PROFITABILITY			
Net Income for the Period (mn€)	137.7	184.5	266.7
Income before Taxes and Non-controlling interests / Average Net Assets [1]	0.7%	0.5%	1.4%
Banking Income / Average Net Assets [1]	2.2%	2.9%	2.6%
Income before Taxes and Non-controlling interests / Average Equity [1]	9.9%	7.1%	20.8%
EFFICIENCY			
Operating Costs / Banking Income [1]	41.7%	42.0%	36.5%
Operating Costs / Commercial Banking Income	48.1%	47.7%	50.6%
Staff Costs / Banking Income [1]	24.1%	24.0%	19.6%
EMPLOYEES (No.)			
Total	4 470	4 193	4 167
- Domestic	4 448	4 165	4 147
- International	22	28	20
BRANCH NETWORK (No.)			
Total	349	311	304
- Domestic	348	310	303
- International	1	1	1

(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force
(2) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending
(3) Preliminary
(4) Updated values

4.2 Novo Banco Group (Consolidated)

4.2.1 Results

In the first half of 2022, novobanco Group reported a profit of €226.7mn (+€129.0mn YoY). The change in profit is driven by the improvement in the banking income (+€82.4mn) and the lower level of impairments and provisions (-77.8%; -€69.4mn).60.2

The underlying pre-tax profitability[5] totalled €160.2mn, equivalent to a RoTE (Return on Tangible Equity; pre-tax) of 11.0%.

mn€

INCOME STATEMENT	30-Jun-21	30-Jun-22	Change	
			absolute	%
Net Interest Income	289.3	268.0	- 21.2	-7.3%
+ Fees and Commissions	135.5	144.4	8.9	6.5%
= **Commercial Banking Income**	**424.8**	**412.4**	**- 12.4**	**-2.9%**
+ Capital Markets Results	93.3	85.8	- 7.6	-8.1%
+ Other Operating Results	- 29.1	73.2	102.4	...
= **Banking Income**	**489.0**	**571.5**	**82.4**	**16.9%**
- Operating Costs	204.1	208.7	4.6	2.2%
= **Net Operating Income**	**284.9**	**362.7**	**77.8**	**27.3%**
+ Restructuring funds - independent valuation	0.0	0.0	0.0	...
- **Net Impairments and Provisions**	**89.2**	**19.8**	**- 69.4**	**-77.8%**
Credit	84.7	19.3	- 65.4	-77.2%
Securities	16.0	41.7	25.6	...
Other Assets and Contingencies	- 11.5	- 41.2	- 29.7	...
= **Income before Taxes**	**195.7**	**343.0**	**147.2**	**75.2%**
- Corporate Income Tax	21.1	18.9	- 2.2	-10.4%
- Special Tax on Banks	34.2	34.1	- 0.1	-0.2%
= **Income after Taxes**	**140.4**	**289.9**	**149.5**	**...**
- Non-Controlling Interests	2.7	23.2	20.5	...
= **Net Income for the period**	**137.7**	**266.7**	**129.0**	**93.7%**

The novobanco Group presents the sixth consecutive quarter of profitability. Key features of the activity in the second quarter of 2022 are the following:

- Commercial banking income amounted to €210.1mn, driven by an improvement in fees and commissions (+10.0%; +€6.9mn vs 1Q22) and stable net interest income (+0.7%; +€1.0mn);
- Capital markets results of -€5.6mn, driven by interest rates volatility in the period;
- Operating costs of €105.1mn, with higher General and Administrative Costs and reflecting the continued investment in the business, including the New Distribution Model, the implementation of an Omnichannel delivery model, supported by a programme of digital transformation;
- Net impairments and provisions amounted to €2.0mn reflecting the normalisation of the balance sheet (1Q22: €21.8mn).

[5] Calculated as pre-tax net income adjusted by extraordinary items and excluding capital markets results

mn€

INCOME STATEMENT	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ change absolute	QoQ change %
Net Interest Income	145.7	143.5	140.9	143.2	133.5	134.5	1.0	0.7%
+ Fees and Commissions	62.8	72.8	72.3	74.6	68.8	75.6	6.9	10.0%
= **Commercial Banking Income**	**208.5**	**216.3**	**213.2**	**217.9**	**202.3**	**210.1**	**7.8**	**3.9%**
+ Market Results	52.8	40.5	-59.7	42.2	91.4	-5.6	-97.0	...
+ Other Operating Results	12.2	-41.3	30.3	39.2	16.7	56.5	39.8	...
= **Banking Income**	**273.5**	**215.5**	**183.9**	**299.3**	**310.4**	**261.0**	**-49.4**	**-15.9%**
- Operating Costs	102.7	101.4	101.6	102.6	103.6	105.1	1.5	1.4%
= **Net Operating Income**	**170.8**	**114.1**	**82.3**	**196.6**	**206.8**	**155.9**	**-50.9**	**-24.6%**
- **Net Impairments and Provisions**	**61.8**	**27.4**	**70.4**	**193.1**	**21.8**	**-2.0**	**-23.8**	**...**
Credit	54.9	29.8	30.3	34.4	14.3	5.0	-9.2	-64.7%
Securities	0.9	15.1	1.4	30.4	11.1	30.6	19.5	...
Other Assets and Contingencies	6.0	-17.5	38.7	128.4	-3.6	-37.6	-34.1	...
= **Income before Taxes**	**109.0**	**86.7**	**11.9**	**3.5**	**185.0**	**157.9**	**-27.1**	**-14.6%**
- Taxes	4.2	16.9	-8.1	-28.2	7.4	11.6	4.2	57.4%
- Special Tax on Banks	32.8	1.5	0.0	-0.1	34.1	0.0	-34.1	-100.0%
= **Income after Taxes**	**72.0**	**68.4**	**20.0**	**31.8**	**143.5**	**146.4**	**2.8**	**2.0%**
- Non-controlling Interests	1.3	1.4	3.6	1.4	0.9	22.3	21.5	...
= **Net Income**	**70.7**	**67.0**	**16.4**	**30.4**	**142.7**	**124.0**	**-18.6**	**-13.1%**

Net Interest Income

mn€

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	30-Jun-21			31-Dec-21			30-Jun-22		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	39 357	1.65%	326	39 799	1.60%	645	41 009	1.51%	311
Customer Loans	24 994	2.03%	255	24 954	2.01%	509	25 211	2.02%	256
Mortgage Loans	*9 911*	*1.06%*	*53*	*9 869*	*1.04%*	*104*	*9 782*	*1.04%*	*51*
Consumer Loans and Others	*1 353*	*5.90%*	*40*	*1 380*	*5.86%*	*82*	*1 432*	*5.85%*	*42*
Corporate Lending	*13 730*	*2.35%*	*162*	*13 706*	*2.33%*	*323*	*13 997*	*2.31%*	*163*
Money Market Placements	3 883	0.18%	4	4 602	0.07%	3	6 013	-0.32%	- 10
Securities and Other Assets	10 479	1.27%	67	10 243	1.28%	133	9 785	1.32%	65
INTEREST EARNING ASSETS AND OTHER	**39 357**	**1.65%**	**326**	**39 799**	**1.60%**	**645**	**41 009**	**1.51%**	**311**
INTEREST BEARING LIABILITIES	37 764	0.18%	35	38 148	0.18%	68	39 750	0.21%	41
Customer Deposits	26 425	0.20%	27	26 580	0.19%	51	27 813	0.15%	21
Money Market Funding	10 390	-0.49%	- 26	10 497	-0.51%	- 54	10 496	-0.50%	- 26
Other Liabilities	949	7.01%	33	1 070	6.53%	71	1 441	6.38%	46
OTHER NON-INTEREST BEARING LIABILITIES	1 593	-	-	1 651	-	-	1 259	-	-
INTEREST BEARING LIABILITIES AND OTHER	**39 357**	**0.17%**	**35**	**39 799**	**0.17%**	**68**	**41 009**	**0.20%**	**41**
NIM / NII (without stage 3 impairment adjustment)		**1.47%**	**291**		**1.43%**	**577**		**1.31%**	**269**
Stage 3 impairment			**- 2**			**- 4**			**- 1**
NIM / NII		**1.46%**	**289**		**1.42%**	**573**		**1.30%**	**268**

Net Interest Income was €268.0mn (-7.3% YoY), reflecting the higher funding cost due to the senior debt issuance in 4Q21 and negative interest rates on money market placements. The expansion of the loan book (Gross customer loans +€642mn YoY) and the higher interest rates contribute positively to an improvement in Net interest income, which impact although still not significant, has already been observed in the first half of 2022.

The business performance is in line with expectations for the period, despite the current macroeconomic conditions characterized by inflationary pressure and consequent volatility of interest rates, which has been exacerbated by the conflict in Ukraine.

The average asset rate reduced by 9bps YTD, from 1.60% in December 2021 to 1.51% in the first half of 2022, with the decreased explained by the negative rates of money market placements. The average liability rate increased by 3bp, given the senior debt issuance in 4Q21.

The average balance of deposits was €27.8bn, with an average interest rate of 0.15% (-4bps YTD), and Money Market Funding was €10.5bn, with -0.50% average interest rate, benefiting from the conditions of the ECB long-term refinancing operations.

The overall net interest margin decrease (1.30%; 2021: 1.42%) is explained by a mild compression of the asset yields, driven by negative rates on money market placements (1.51%; 2021: 1.60%), and slight increase in the cost of liabilities (0.20%; 2021: 0.17%).

Fees and Commissions

Fees and commissions were €144.4mn in the quarter, representing a 6.5% YoY increase (+€8.9mn).

This positive development is driven mainly by (i) a strong performance in Payments Management (+11.6%; +€6.3mn YoY) due to higher volume of transactions and pricing, and (ii) higher management fees in Asset Management & Bancassurance (+7.7%; +€2.4mn), reflecting a quarter with more robust commercial activity and increased customer appetite in the Bancassurance segment.

mn€

FEES AND COMMISSIONS	30-Jun-21	30-Jun-22	Change	
			absolute	%
Payments Management	54.3	60.6	6.3	11.6%
Commissions on Loans, Guarantees and Similar	42.7	42.5	-0.2	-0.4%
Asset Management and Bancassurance	30.8	33.2	2.4	7.7%
Advising, Servicing and Other	7.7	8.1	0.4	5.1%
TOTAL	**135.5**	**144.4**	**8.9**	**6.5%**

Capital Markets and Other Operating Results

In the period, the results of financial operations were positive in the amount of €85.8mn (1Q22: €91.4mn; 2Q22: -€5.6mn) mostly due to gains from the hedging of interest rate risk, reflecting the volatility of sovereign debt in the market. The fair value reserves decreased by €271.7mn in the first half of the year (2Q22: -€28.3mn).

Other operating results amounted €73.2mn, including €77.1mn of gains from the sale of a real estate assets (portfolio of logistics assets; €58.5mn net of non-controlling interests), offsetting €40.9mn of contributions to resolution funds (Single Resolution Fund: €24.5mn; Portuguese Resolution Fund: €15.4mn).

Operating Costs

Operating costs increased by €4.6mn YoY, reflecting on the one hand the reduction of staff costs given the lower number of employees and on the other hand, the increase in General and administrative costs reflecting the continuous investment towards transformation of the organisation and its processes as a function of its strategic programme.

Operating costs presented a reduction of 0.5%, to €203.1mn, when adjusted by non-recurrent costs in general and administrative costs.

mn€

OPERATING COSTS	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21	30-Jun-22	Change	
								absolute	%
Staff Costs	157.0	142.8	133.9	133.4	129.2	117.6	111.8	- 5.8	-4.9%
General and Administrative Costs	118.2	101.0	99.1	92.7	83.5	70.1	77.3	7.2	10.2%
Depreciation	29.0	21.4	11.2	17.0	17.3	16.4	19.5	3.2	19.4%
TOTAL	**304.2**	**265.2**	**244.2**	**243.1**	**230.1**	**204.1**	**208.7**	**4.6**	**2.2%**

Staff costs totalled €111.8mn (-4.9% YoY), maintaining the downward trend of recent years, as a result of increased efficiency. As of 30 June 2022, novobanco Group had 4,167 employees (Dec/21: 4,193; -26 YTD; Jun/21: 4,470; -303 YoY).

General administrative costs and Depreciation increased to €77.3mn and €19.5mn, respectively.

The total number of branches as of 30 June 2022 was 304 (Dec/21: 311; -7 branches YTD; Jun/21: 349; -45 YoY).

Net Impairments and Provisions

In the first half of 2022, novobanco Group recorded net impairments and provisions amounting to €19.8mn, a reduction compared to 1H21 (-77.8%; -€69.4mn).

Benefiting from the execution of the de-risking strategy implemented during the restructuring process, the cost of risk decreased to 15bps (vs 1H21: 68bps).

mn€

NET IMPAIRMENTS AND PROVISIONS	30-Jun-21	30-Jun-22	Change	
			absolute	%
Customer Loans	84.7	19.3	-65.4	-77.2%
Securities	16.0	41.7	25.6	...
Other Assets and Contingencies	- 11.5	- 41.2	- 29.7	...
TOTAL	**89.2**	**19.8**	**- 69.4**	**-77.8%**

4.2.2 Balance Sheet and Activity

Customer Loans

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

mn€

CUSTOMER LOANS	30-Jun-21	31-Dec-21	30-Jun-22	YTD Change	
				absolute	%
Loans to corporate customers	**13 689**	**13 710**	**14 268**	**558**	**4.1%**
Loans to Individuals	**11 256**	**11 189**	**11 273**	**84**	**0.8%**
Residential Mortgage	9 889	9 782	9 833	51	0.5%
Other Loans	1 367	1 406	1 440	33	2.4%
Customer Loans (gross)	**24 945**	**24 899**	**25 541**	**642**	**2.6%**
Provisions	1 474	1 248	1 237	- 11	-0.9%
Customer Loans (net)	**23 470**	**23 651**	**24 304**	**653**	**2.8%**

Loans to customers (gross) totalled €25,541mn, increasing 2.6% YTD driven by a 4.1% growth in loans to corporate customers.

The asset quality indicators of June 2022, and comparison with previous year, are presented below:

mn€

ASSET QUALITY AND COVERAGE RATIOS	30-Jun-21	31-Dec-21	30-Jun-22	YtD Change	
				absolute	%
Overdue Loans > 90 days	577	290	325	35	12.2%
Non-Performing Loans (NPL)[1]	2 209	1 749	1 695	- 54	-3.1%
Overdue Loans > 90 days / Customer Loans (gross)	2.3%	1.2%	1.3%	0.1 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**7.3%**	**5.7%**	**5.4%**	**-0.3 p.p.**	
Credit Provisions / Customer Loans	5.9%	5.0%	4.8%	-0.2 p.p.	
Coverage of Overdue Loans > 90 days	255.6%	430.2%	380.2%	-50.1 p.p.	
Coverage of Non-Performing Loans [1]	**78.4%**	**71.4%**	**73.0%**	**1.6 p.p.**	

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

The reduction in loans overdue by more than 90 days and non-performing loans (including deposits with Banks and loans and advances to Banks), led to an improvement in the respective asset quality ratios to 1.3% and 5.4%, respectively (Jun/21: 2.3% and 7.3%).

As of June 2022, the provision coverage of NPL by impairments (including deposits with Banks and loans and advances to Banks) was 73.0%.

Securities

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €10.3bn on 30 June 2022, representing 22.6% of assets.

net of impairment | mn€

Securities portfolio	30-Jun-21	31-Dec-21	30-Jun-22	YTD Change	
				absolute	relative
Portuguese sovereign debt	3 262	3 056	2 166	- 890	-29.1%
Other sovereign debt	3 489	3 197	3 353	156	4.9%
Bonds	3 463	3 413	4 105	692	20.3%
Other	903	805	655	- 150	-18.6%
Total	**11 117**	**10 471**	**10 278**	**- 193**	**-1.8%**

4.2.3 Business Segments

Corporate

novobanco holds a leadership position within the Portuguese corporate sector, with market shares of 14.7% in loans to non-financial companies and 12.6% in deposits in this segment[6]. To serve its corporate clients, novobanco has a segmented network:

- The Large Corporates segment, serving around 2,000 clients with financial involvement of €8.2bn, has two hubs that ensure proximity to the clients (Oporto and Lisbon);
- The Medium-Sized Companies segment, serving around 12,000 clients with financial involvement of €10.2bn, has 20 Corporate Centres distributed around the country, with dedicated teams in each region.

In the first half of 2022, novobanco's corporate loans (large and medium-sized companies) grew by €440mn (+4.2% YTD), with strong growth in corporate treasury products (+14.6% YTD on short-term lending), in new investment loans (+€915mn), and in guarantees and documentary credits (+€544mn), supporting clients' activity.

novobanco maintains a strong foothold in the exporting sector, with around 61.1% of the medium and large exporting companies as clients, equivalent to approximately 2,900 clients. In Trade Finance, novobanco provides a wide range of products and specialised advice in support of international trade. The Bank's know-how in this segment is valued and recognised, resulting in a market share of around 19.1%[7].

Within the scope of programmes to support the development of the economy by stimulating innovation, digital transformation and energy transition, such as the RRP and Portugal 2030, in the period, novobanco continued to develop and enhance its activity as a leading financial partner for Portuguese companies. In this context, both FEI and EIB financing solutions under the European Guarantee Fund were made available to its corporate clients. This allowed SMEs, Mid Caps and Large Companies to access financing under preferential conditions, promoting investment and support for treasury in a particularly challenging phase of post-pandemic activity resumption and inflation (ie: raw materials, energy and labour), which result in greater working capital needs.

The multidisciplinary team set up for this purpose continued to focus on the already identified areas: i) provision of permanently updated information on these programmes to facilitate clients' access to the available support; ii) partnership with consultants specialised in the preparation of such applications; iii) information and clarification sessions to clients,

[6] May 2022

[7] May2022, as measured by the number of Swift messages.

associations and other relevant entities; and iv) a specific offer of financial products to cover investment needs, including advances on funds, equity and working capital financing and issuance of guarantees.

novobanco online for corporate clients has a high penetration rate, of over 79%. The new version of the novobanco online for companies, launched in the last quarter of 2021, delivers a sharply redesigned user experience. New components were also made available in the first half of 2022, especially focused on improving accessibility, ease of generating and sending proof of operations, and also new widgets and components for easier use of the service.

Regarding the assessment made by the corporate clients, the NPS (Net Promoter Score) totalled 32.6. The Quality of Service continues to stand out and the weight of Very Satisfied Customers reached 88.2% in June 2022.

Retail

Novobanco's positioning relies on building long-term relationships with its clients, as reflected in the optimisation of the commercial network to meet the clients' expectations and needs. Considering the ongoing behavioural changes in all age brackets, largely induced by consumption habits created by other industries, it has become essential to be seamlessly available to the clients through their preferred channels, and to be aware of the journey made by each client to adopt the Bank’s solutions - a concept known as Omnicanality.

The omnichannel operation maintains the key support of the branch network. novobanco continues to revamp the branch network, redesigning the face-to-face service experience, with greater focus on customised service and space for relaxed and meaningful engagement with the clients. There are currently 167 branches with the new format (107 of which were converted in 2021), and the process for the remaining branches is underway.

Within the scope of omnicanality, and besides the physical branch network, novobanco has 118 Virtual Teller Machines (VTMs) (vs. 65 in Dec.21) featuring physical currency management solutions (for cash withdrawal and deposit). These provide a key basis for the development of new virtual value-added services, such as authentication by citizen card, cheque deposit, scheduling of large withdrawals and 24/7 operation.

The universe of clients subscribing to the 360º Link service also continues to expand. 360º Link is a remote manager service with monitoring capabilities for high-value clients who prefer remote contact.

Customer acquisition showed strong growth, increasing by 52% YoY, with more than 20% of the new clients being under 25 years (which compares with a 10% of current client base in this age group) - consolidating a relevant trend of rejuvenation of the Bank's customer base. The following stand out in the effort to attract and reactivate Clients:

i) The Cross-Segment Programme, which gives employees of companies (with which the Bank has relationships) access to more favourable conditions in several of the Bank’s products and services. Bank promoters had a relevant contribution to the retail segment’s customer acquisition, with a share of 15% in the period.

ii) The customer-loyalty programme: an ongoing programme based on advanced micro-segmentation that seeks to deepen the relationship with underpenetrated active clients. Contact coverage reached 72%, successfully increasing the relationship in 19% of the cases, and having visible results in the use of basic customer equipment: service accounts, credit card and salary solution.

iii) The pilot programme for customer reactivation, with promising results and progressive roll out.

Mortgage loan origination reached €0.6bn, maintaining in 2022 the growth trend initiated in the second quarter of 2021 and continuing to pursue the goal of increasing the market share (Apr/22 stock: 9.2%). The 54% YoY increase in residential and other mortgage loans in 1H22 was driven by an advertising campaign that significantly expanded the client acquisition basis and permitted to reach higher value markets, combined with a marked improvement in competitiveness and in our relationships with credit intermediaries.

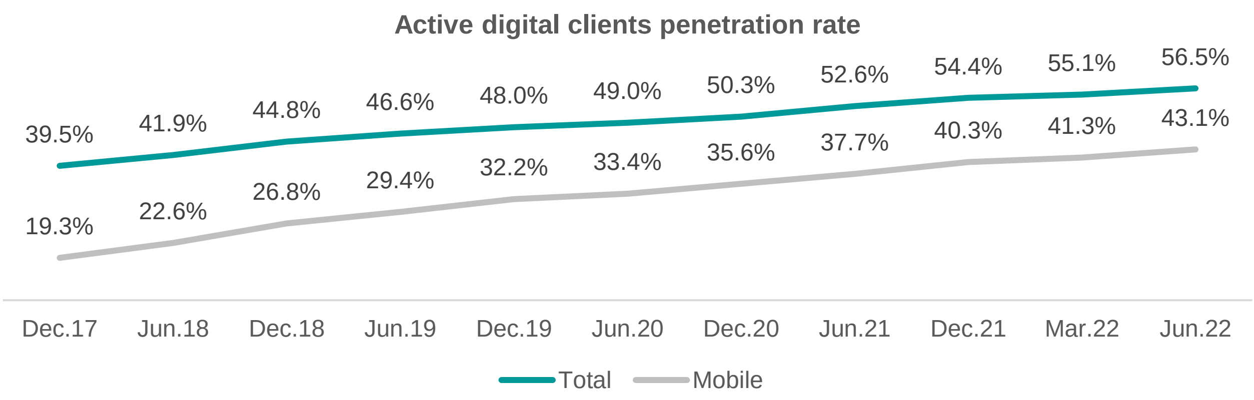
Consumer loans grew by 9.4% year-on-year in the second quarter of 2022, sustaining the recovery of the recent quarters and enabling annualised growth of 37%. Digital channels production (+276% YOY) and the Non-Financial Offer, where the Bank holds a differentiating positioning in the art market, are also worth noting. The external channels continue to make a significant contribution, with a 15% share of the second quarter production.

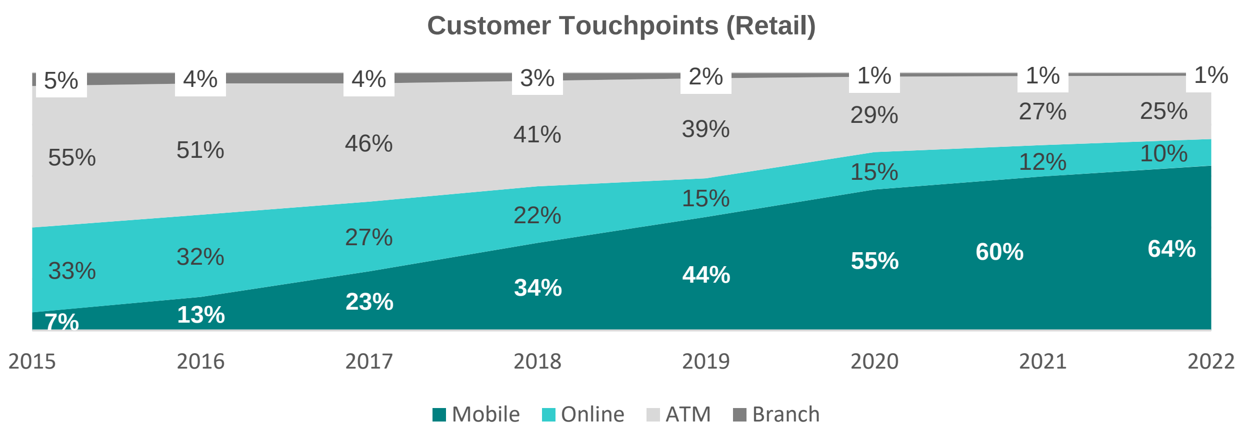
As regards the investment offer, novobanco continues to pay particular attention to the new investment trends. Sustainability featured prominently in this offer, which was reinforced with thematic funds (two of which meet the sustainable investment requirements of the Sustainable Finance Disclosure Regulation (SFDR)), and alternative funds, which increase the range of strategies and alternatives for building investment advisory portfolios, in accordance with the client's profile and initial portfolio.

In the Small Businesses segment, know-how and proximity have permitted the ongoing assessment of the macro environment's individual impacts, as well as to support each client with the right solutions for continued business development. The customer base grew by 7.5% in the 1H22 (15.2% annualised) with an impact on the placement of equipment, such as TPAs (with the stock increasing by 5.5%), and on loans, with the small businesses' loan portfolio growing by 6.6%. The segment's stock of customer funds grew by 7.0%, indicating some propensity to save in a period of volatility.

In both the Corporate and the Retail segments, the purpose of digital transformation involves i) accelerating front-to-back digitisation by improving experience and efficiency by addressing the customer journeys and transforming the operating model, and ii) transforming the digital channels to ensure a fully omnichannel experience and greater customisation, leveraging best-in-class data science.

This strategy drove an increase in the number of active digital clients, to 56.5% of the total in June 2022 (Jun/21: 52.6%; the number of digital clients increased by 8% YoY) as well as a 14% annual rise in the number of active mobile clients (43% of clients are mobile). In turn, this underpinned a YoY increase in the weight of digital sales of: Personal Loans (+284%; 13% of segment sales vs 4% in 1H21), Life and Non-Life Insurance (+196%; 5% of segment sales vs 2% in 1H21), and Credit Cards (+110%; 3% of sales vs 2% in 1H21).

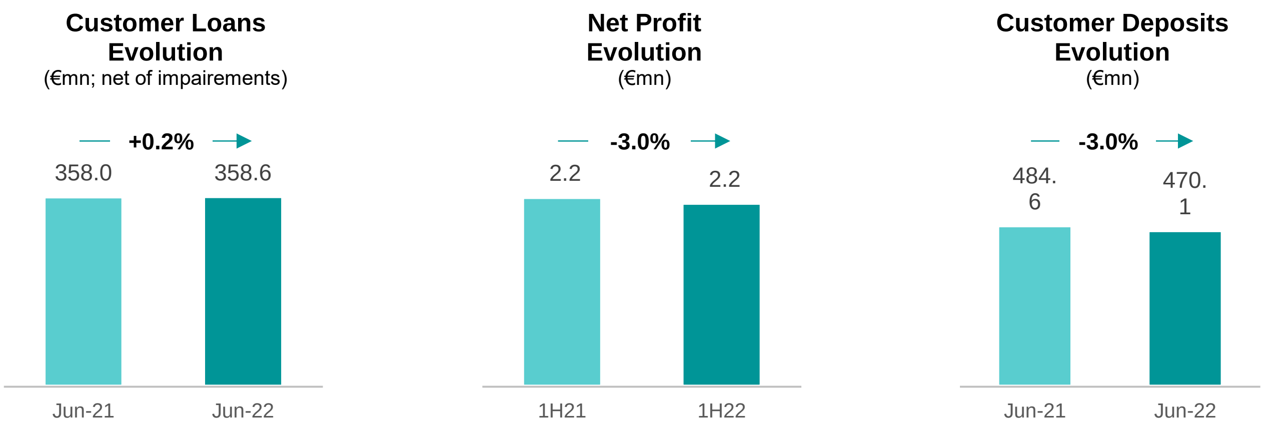




In the first half of 2022, 74% of individual clients' contacts with novobanco were made through the digital channels (+2 pp YoY). Reflecting a reinforced focus on a "mobile digital first" strategy, mobile continues to be the main means of contact of individual clients, with interactions (as measured by the number of logins) growing by 19% YoY.

novobanco dos Açores

The strategy of novobanco dos Açores is particularly focused on supporting the Azorean regional business fabric, namely SMEs and companies that incorporate innovation in their products, services or production systems. In the first half of 2022, novobanco dos Açores continued its wide-ranging outreach activity to its Clients, supporting the pressing and growing needs of the Azorean society.



novobanco dos Açores reported a net profit of € 2,162k in the first half of 2022 (-3.0% vs. 1H21). The improvement in the results compared to the first quarter of the year (1Q22: €407k) was mainly due to the higher volume of impairment reversals, resulting from loan recoveries. The YoY reduction is explained by the lower performance of the margin (Banking income: -15.7%; Net interest income: -7.2% vs 1H21).

The Cost to income, excluding market results and other operating results, was 55.3% in the period (1H21: 54.0%).

novobanco dos Açores' assets expanded by +€4.1mn (+0,6%) in the first half of 2022, with net customer loans increasing by 0.2% (+€624k). As to overdue loans, the total was €6.9mn, resulting in an overdue loans ratio of 1.8% only.

Under customer funds, the total amount of Customer deposits was €470.1mn, a YoY reduction of 3.0% directly reflecting non-recurring outflows by Institutional Clients.

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

Banco Best posted a net loss of €0.2mn in the 1H22 (vs €1.1mn in 1H21), with the YoY reduction in earnings being explained by the cost of the new outsourcing contract with novobanco (Other third-party services: +€2.5mn vs €0.2mn in 1H22) and the lower amount of capital gains in the proprietary portfolio (1H21: €1.8mn vs 1H22: €0.2mn).

With €2.2bn in client AUM, plus €0.4bn in funds distributed directly by novobanco, BEST maintains very positive prudential and financial strength ratios, namely a loan to deposit ratio of 16.3% and a Core Tier 1 ratio of 46.6% (in May 2022).

On the Balance Sheet front, the following are of note:

- Customer deposits acquisition grew by €58mn vs Dec-21, underpinned by effective acquisition of new customer funds and the reduction of exposure to Asset Management products more linked to markets performance;
- Treasury applications increased by €72mn vs Dec-21, reaching ~€700mn of liquidity available to novobanco;
- Customer loans fell by €20mn, mainly due to the reduction in the value of loan collaterals. This fact has a double impact on the reduction of the credit volumes and lower investments leverage;
- The amount of overdue loans and interest remains low at €0.2mn, with the ratio of overdue loans to total customer loans standing at 0.19%.

As a result of a strong commercial drive leveraged on digital marketing, BEST reached a total of 90 thousand clients (the majority of which with remote account opening).

Highlights of the period:

Mobile First strategy

- **Portfolio profitability:** gains and losses on investments by maturity, products and sectors, filters by accounts and with graphical representation;
- **Subscription to Margin Account** (credit product for investment) through the digital journey, with freedom of choice of capital and portfolio investments, simulations, and digital signature process;
- **Enhanced card security** through app notifications to the client;
- **Introduction of new functionalities:** retirement products, standing transfer orders, home loans application, advisory service leads, MDS insurance;
- **Promotion of App and its download** through videos explaining its functionalities.

Investment & Saving

- **New tool for investing:** performance demonstration by investment themes, increased visibility of the effects of themes in the selection of funds and ETFs;
- **More filters on investment themes:** increase in product filters, thus enabling the user to better organise his preferences and make faster decisions;
- **Launch of new and revamped investment themes:** Human Capital and Renewed sustainability themes;
- **Investment Quiz:** through a micro-quiz it became simpler to browse among the thousands of options**;**
- **Term Deposits Quiz:** filtering possibility through a simple questionnaire disclosing the more competitive rates.

GNB Gestão de Ativos

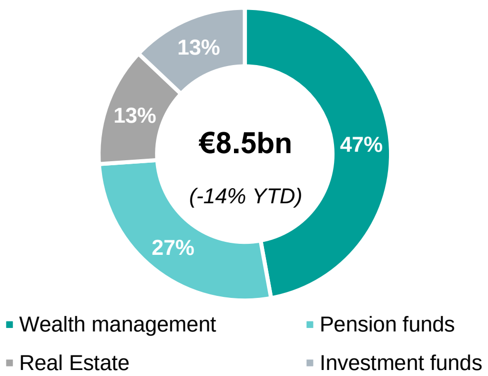
As of 30 June 2022, GNB Asset Management had total assets under management of €8.5bn. The main categories of financial assets - equities, government bonds and corporate debt - suffered a devaluation during the period, in line with the performance of the main stock exchanges and market indices. This devaluation in markets and real estate funds, essentially due to the effect of redemptions and/or capital reductions resulting from asset divestment strategies, mainly explains the 14% fall in assets under management in real estate, wealth management, and pension funds.

During the period GNB Gestão de Ativos' expertise and performance in fund management continued to deserve international recognition. The NB Euro Bond fund was again distinguished in the Refinitiv Lipper Awards 2022 with the awards for best 3-, 5-, and 10-year Euro bond funds sold in Europe. Moreover, GNB Gestão de Ativos continues to be the national management company with more investment funds rated 4 and 5 stars by Morningstar.

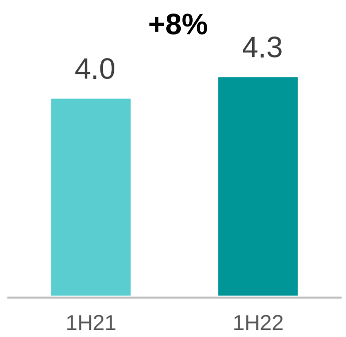
- 5 stars: NB Euro Bond, NB Obrigações Europa and NB PPR/OICVM;
- 4 stars: NB Corporate Euro and NB Rendimento Plus.

Despite the adverse context of the financial markets in the last few months, Banking Income increased by 3.2% YoY, driven by the growth in funds under management and the favourable market environment up to February 2022. This growth in revenues combined with practically flat costs, led to an improvement in the Cost-to-Income Ratio, which dropped to 48.1% (-1.6 p.p. vs 1H21). Net Profit for the first half of 2022 grew by 8% YoY to €4.3m, generating a 4.8% increase in Equity compared to December 2021.

Assets under Management
(June 2022)



Net Income evolution
(€mn)



4.3 Novo Banco Separate

Results

novobanco reported a net profit of €212.0mn in the first half of 2022 (vs 1H221: €148.4mn).

Commercial banking income reached €402.6mn (-3.3% YoY), driven by the lower net interest income (-8.2%) despite the increase in fees and commissions (+8.4%).

Capital market results were positive, at €75.1 million, which compares with -€89.8mn in the first half 2021

Operating costs totalled €197.8mn, a YoY increase of 3.5%, reflecting the continued investment in the business, including the New Distribution Model, the implementation of an Omnichannel approach, supported by a vast programme of digital transformation;

Net operating income was positive, at €246.6mn. Impairments and provisions registered a reduction of €95.7mn relative to the previous year, to -€15.4mn, reflecting the restructuring cycle carried out by the Bank in recent years.

mn€

INCOME STATEMENT	30-Jun-21	30-Jun-22	% Change
Net Interest Income	293.9	-0.1	0.0%
+ Fees and Commissions	122.5	0.1	0.0%
= Commercial Banking Income	**416.4**	**0.0**	**0.0%**
+ Capital Markets Results	89.8	-0.2	0.0%
+ Other Operating Results	-36.0	0.1	0.0%
= Banking Income	**470.2**	**-0.1**	**0.0%**
- Operating Costs	190.4	0.0	0.0%
= Net Operating Income	**279.8**	**-0.1**	**0.0%**
- Net Impairments and Provisions	80.3	...	0.0%
Credit	84.3	-0.8	0.0%
Securities	15.6	...	0.0%
Other Assets and Contingencies	-19.6	...	0.0%
= Income before Taxes	**199.5**	**0.3**	**0.0%**
- Taxes	17.4	0.0	0.0%
- Special Tax on Banks	33.5	0.0	0.0%
= Net Income for the year	**148.5**	**0.4**	**0.0%**

Activity

novobanco's activity in the first half of 2022 was developed under the same guidelines already referred for novobanco Group.

At 30 June 2022, deposits totalled €27.7bn, an increase of €0.9mn compared to December 2021 (€26.7bn).

Gross customer loans totalled €23,854 million (+€0.7bn vs. Dec-2021; +3% YTD).

The quality of the loan portfolio at the end of the period shows an improvement in novobanco's asset quality, with the NPL ratio decreasing from 5.9% in December 2021 to 5.5%.

mn€

ACTIVITY EVOLUTION	31-Dec-21	30-Jun-22	Change	
			absolute	%
Assets	**44 341**	**45 065**	**724**	**1.6%**
Customer Loans (gross)	**23 133**	**23 854**	**721**	**3.1%**
Loans to Individuals	9 571	9 743	171	1.8%
Residential Mortgage	8 306	8 422	116	1.4%
Other Loans	1 265	1 320	55	4.3%
Loans to corporate customers	13 562	14 112	550	4.1%
On Balance Sheet Funds	**28 432**	**29 758**	**1 326**	**4.7%**
Deposits	26 739	27 658	918	3.4%
Other Customer Funds [1]	259	633	374	...
Debt Securities	1 019	1 036	17	1.6%
Subordinated Debt	415	432	17	4.1%

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

ASSET QUALITY	31-Dec-20	31-Dec-21	Change	
			absolute	%
DATA BASIS (Euro millions)				
Customer Loans (gross)	23 133	23 854	721	3.1%
Overdue Loans	301	346	44	14.7%
Overdue Loans > 90 days	283	334	51	18.0%
Forborne Loans	1 538	1 462	- 77	-5.0%
Non-Performing Loans (NPL)*	1 708	1 658	- 51	-3.0%
Customer Loans Impairment	1 236	1 226	- 10	-0.8%
ASSET QUALITY AND COVERAGE RATIOS (%)				
Overdue Loans / Gross Loans to Customers	1.3%	1.4%	0.1 p.p.	
Overdue Loans > 90 days / Gross Loans to Customers	1.2%	1.4%	0.2 p.p.	
Forborne Loans / Gross Loans to Customers	6.6%	6.1%	-0.5 p.p.	
Non-Performing Loans (NPL)* / Gross Loans to Customers + Gross Loans to Credit Institutions	5.9%	5.5%	-0.4 p.p.	
Impairment / Total Loans to Customers	5.3%	5.1%	-0.2 p.p.	
Impairment / Overdue Loans	409.9%	354.5%	-55.4 p.p.	
Impairment / Overdue Loans > 90 days	437.3%	367.6%	-69.8 p.p.	
Impairment / Non-Performing Loans*	72.3%	74.0%	1.6 p.p.	

* includes Credit Institutions

5 CAPITAL, LIQUIDITY, FUNDING & RISK

5.1 Capital Ratios

Driven by strong bottom-line profitability, as of June 2022, CET 1 ratio was 11.8% (+1.0pp vs Mar/22: 10.8%) and Total capital ratio reached 13.9% (+1.0pp vs Mar/22: 12.9%), above 13.5% OCR requirement (applicable as of 1 January 2023) and building P2G.

In this context, it is important to highlight the fact that the European Central Bank (ECB) disclosed during March 2020 several measures that allow Banks to operate temporarily below the required capital level. These measures aim to prevent Banks from suspending financing to the economy in an adverse economic environment. In addition, changes were introduced to the regulatory framework, in force since June 2020, regarding the calculation of capital ratios, aimed at mitigating the impacts of the Covid-19 pandemic. In these circumstances, novobanco adhered to the dynamic option of the transitional regime of IFRS 9.

mn€

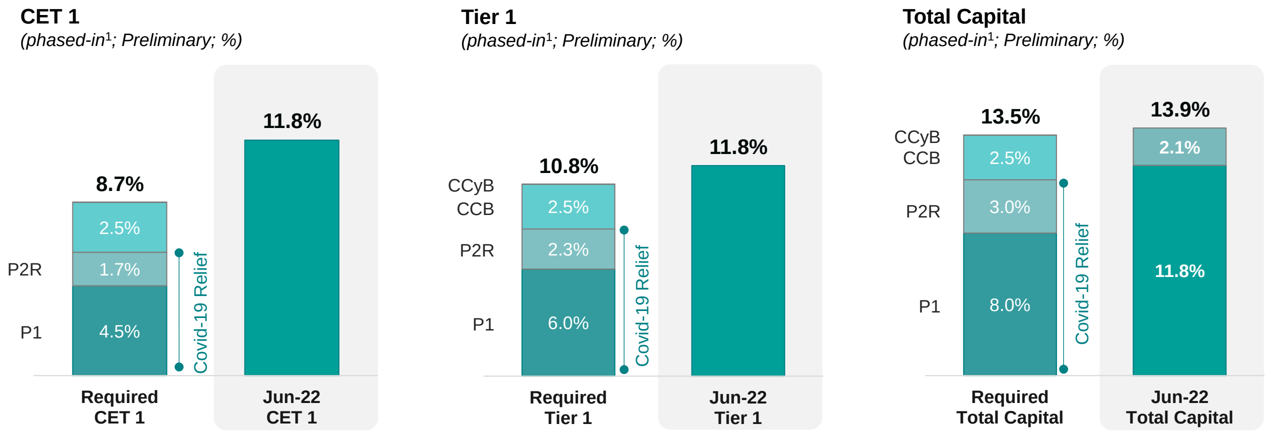
CAPITAL RATIOS (CRD IV/CRR)		31-Dec-21[1] (Phased-in)	31-Dec-21[1] (Fully loaded)	31-Mar-21[2] (Phased-in)	31-Mar-21[2] (Fully loaded)	30-Jun-22[2] (Phased-in)	30-Jun-22[2] (Fully loaded)
Risk Weighted Assets	(A)	24 929	24 689	23 761	23 622	23 058	22 914
Own Funds							
Common Equity Tier 1	(B)	2 768	2 507	2 571	2 419	2 711	2 558
Tier 1	(C)	2 769	2 509	2 572	2 420	2 712	2 559
Total Own Funds	(D)	3 276	3 016	3 076	2 925	3 214	3 061
Common Equity Tier 1 Ratio	(B/A)	11.1%	10.1%	10.8%	10.2%	11.8%	11.2%
Tier 1 Ratio	(C/A)	11.1%	10.1%	10.8%	10.2%	11.8%	11.2%
Solvency Ratio	(D/A)	13.1%	12.2%	12.9%	12.4%	13.9%	13.4%
Leverage Ratio		6.0%	5.4%	5.5%	5.2%	5.7%	5.4%

(1) Updated values
(2) Preliminary

novobanco's Common Equity Tier 1 (CET1) ratio is protected up to a predetermined threshold for the amounts of losses verified in a perimeter of assets as outlined by the Contingent Capital Agreement. The amount of compensation requested with reference to 2021 was €209.2mn (with this amount not included in the calculation of regulatory capital with reference to 31 December 2021), took into account the losses incurred in the assets covered by the Contingent Capital Agreement, as well as the minimum capital condition applicable at the end of the same year under the Contingent Capital Agreement.

Regarding the amount requested from the Resolution Fund for the year 2020, there are two divergences between novobanco and the Resolution Fund, i.e. (i) the provision for discontinued operations in Spain and (ii) valuation of participation units, which are subject to an arbitration decision. novobanco considers these amounts (in aggregate equal to €165mn) as due from the Resolution Fund under the Contingent Capital Agreement, and has triggered the legal and contractual mechanisms at its disposal.

Additionally, novobanco and the Resolution Fund have a divergence, subject to arbitration, concerning the application by novobanco, at the end of 2020, of the dynamic option of the transitional regime of IFRS 9.



(1) Preliminary; The inclusion of positive results depends on an authorization from the ECB; On 12-Mar-20 the European Central Bank disclosed several measures that allow Banks to operate temporarily below the required capital level; P2G of 1.5% not included;

5.2 Liquidity and Funding

Highlights

- Liquidity remains at comfortable levels and above regulatory requirements.
- Stable funding structure, relying mainly in customer deposits.
- First half of 2022 marked by strong growth of customer deposits (+€1.1bn YTD).

Liquidity Management

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

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

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

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

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

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

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

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

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

Funding structure and Liquidity in the first half of 2022

Novobanco maintained in the first half of 2022, a comfortable liquidity position as shown by a Liquidity Coverage Ratio (LCR) at 187% (Dec/21: 182%) and Net Stable Funding Ratio (NSFR) of 106% (Dec/21: 117%), both above the regulatory requirement.

Total customer funds amounted to €34.6bn as of June 2022, growing by 2.4% YTD, driven by an increase in deposits (+3.9% YTD), which represent 82.1% of total customer funds.

mn€

TOTAL FUNDS	30-Jun-21	31-Dec-21	30-Jun-22	YTD change	
				absolute	%
Deposits	26 875	27 315	28 385	1 070	3.9%
Other Customer Funds [1]	324	267	645	378	...
Debt Securities [2]	559	1 054	1 066	12	1.1%
Subordinated Debt	432	415	432	17	4.1%
Sub -Total	**28 190**	**29 052**	**30 528**	**1 477**	**5.1%**
Off-Balance Sheet Funds	4 655	4 711	4 046	- 664	-14.1%
Total Funds	**32 846**	**33 762**	**34 575**	**812**	**2.4%**

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

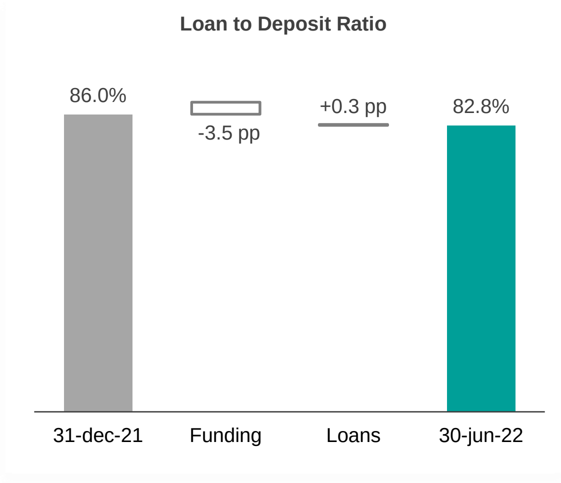
(2) Includes funds associated to consolidated securitisation operations.

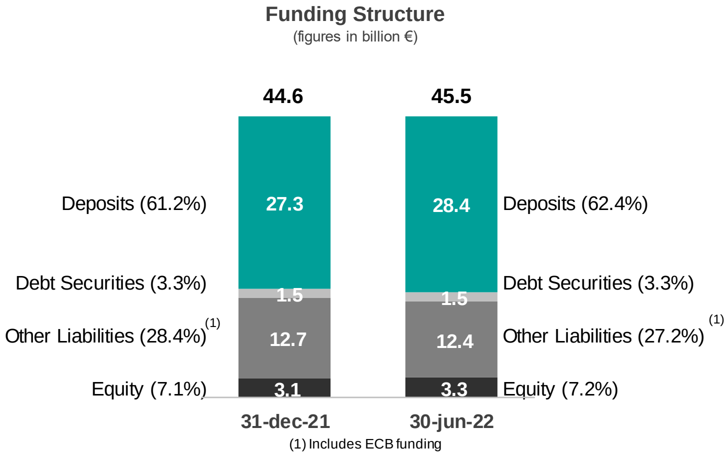
In the first half of 2022 customer deposits increased by €1.1bn YTD and by €1.5bn YoY, to €28.4bn, mainly explained by the performance of the retail segment, remaining the main source of balance sheet funding (67.2% of total liabilities and 62.4% of total assets).

In terms of asset evolution, in the period, the net loan portfolio increased by €0.7bn YTD, to €24.3bn, and by €0.8bn YoY, driven by the growth of the corporate segment.

In the first half of the year, the deposits with the ECB remained consistently above €5.0bn, standing at €5.8bn at the end of June (vs. €5.3bn in Dec/21). As a result, net funding from the ECB (funding taken from the ECB minus deposits with the European Central Bank) was €2.2bn in Jun/22 vs €2.7bn in Dec/21, a reduction of around €0.5bn in the period.

On 30 June 2022, the eligible assets portfolio for rediscount with the European Central Bank remained stable versus 31 December 2021, totalling €16.5bn (net of haircut). In addition, including HQLA assets non-eligible for ECB rediscount purposes, as well as deposits with ECB, the total liquidity buffer in the first half of 2022 increased by €0.7bn, to €13.2bn, mostly composed of highly liquid assets (90%).





In terms of medium- and long-term funding, driven by the bank's MREL requirements, in 2021 novobanco successfully concluded two senior preferred bond issues amounting in aggregate to €575mn, a milestone for the bank's return to the capital markets.

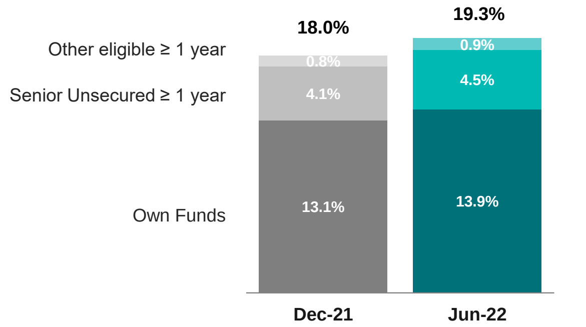
In the 1st half of 2022 novobanco announced of its MREL requirements, on a consolidated basis as determined by the Single Resolution Board. As such, from 1 January 2022 the MREL target of own funds and eligible liabilities should be equivalent to:

MREL requirements:
(BdP notification of May 2022; %)

	Jan-22	Jan-26
TREA[1]	14.64%	23.16%
Combined Buffer	2.52%	n.a.[3]
Total	**17.16%**	**23.16% + CBR**
O-SII (LSF Nani)	0.50%[2]	
Total + O-SII	**17.66%**	**23.16% + CBR**
LRE[4]	**5.91%**	**5.91%**

(1) TREA - Total Risk Exposure Amount; (2) O-SII defined at LSF Nani Investments; as communicated by Banco de Portugal on its website on 30 Nov 2021, the O-SII increased from 0.375% to 0.5%; (3) As of Jan-26 applicable combined buffer requirement; (4) LRE - Total Leverage Exposure

MREL ratio
(% RWA; Preliminary)



As of 1 January 2022, novobanco complied with the MREL requirement set for that date, both as a percentage of TREA (also including the applicable CBR) and as a percentage of LRE.

As of 30 June 2022, novobanco had a MREL ratio of 19.3% of TREA, and complied with the MREL requirements as percentage of LRE. Moreover, the bank considers that these requirements are consistent with its funding plan, which may be adjusted to reflect the actual balance sheet evolution in the coming years, including the risk-weighted assets.

5.3 Risk Management

The definition of a risk management framework with standards, patterns, objectives and responsibilities established for all areas of novobanco Group, permits to implement the strategy in compliance of the established risk appetite.

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

- the main risks faced by the novobanco Group, as well as those to which it may be exposed
- the risk appetite requirements and their monitoring;
- the responsibility functions in risk management;
- the governance structures and risk management and control committees.

RISK MANAGEMENT FRAMEWORK

THE RISK CULTURE AT NOVO BANCO GROUP

Risk in implicit in the banking business. Consequently, the novobanco Group is naturally exposed to the various classes of risk arising from external and internal factors according to the markets where the bank operates and the activities it develops.

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

The novobanco Group's Risk management and control is therefore grounded on the following assumptions:

- Independence from the Group's other units, and in particular risk-taking units;
- Universality, through application of the risk culture across the entire novobanco Group, through a holistic and preemptive approach to risk;
- Three lines of defence model, viewing the adequate detection, measurement, monitoring and control of all material risks to which the novobanco Group is exposed. This Model implies that all employees, in their sphere of activity, are responsible for the management and control of risks.

<table>
<tr><th>3 Lines of Defence Principle</th><th>1st Line of Defence</th><th>2nd Line of Defence</th><th>3rd Line of Defence</th></tr>
<tr><td>Novo Banco Group</td><td>Business Areas</td><td>Global Risk Department
Compliance Department;</td><td>Internal Audit Department</td></tr>
<tr><td>Function</td><td>Maximise return</td><td>Control</td><td rowspan="3">• Independent review
• Ensures adequacy of policies and processes
• Ensures correct implementation of policies and processes</td></tr>
<tr><td>Limitation</td><td>Takes risk according to Risk Appetite</td><td>Does not take risk</td></tr>
<tr><td>Mission</td><td colspan="2">• Accurate and timely identification of risks
• Make sure that risk remains within defined limits
• Measure, monitor, report</td></tr>
</table>

A strong risk culture in the organisation is revealed by diligent, proactive and consistent compliance with regulations, the code of conduct, values and risk appetite defined for all activities and risk exposures. To this end, the timely identification of risk sources and risk-based mitigation and control actions are fundamental.

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 novobanco Group - those to which top management pays special attention and which may impact the achievement of the objectives defined by the bank -, as well as risks 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, among others, ESG risks.

In particular, with regard to ESG risks, novobanco is finalising a specific risk assessment exercise, aimed at a) understanding the (complex) transmission channels that link this category to the other risk categories; b) assessing their likely impacts, taking into account different climate transition scenarios; and c) strengthening the existing risk management and control practices.

MANAGEMENT OF ESG RISKS

Approach to ESG risks

ESG risk management is integrated in the global sustainability framework of the novobanco Group, which comprises the following elements:

- The group-wide sustainability strategy, which sets the objectives, targets, actions and respective timings for the business areas; the internal governance, internal control and risk management strategy; the internal activities (i.e., own operations) strategy; and the internal and external reporting strategy.
- novobanco's disclosure approach regarding its sustainability objectives, such as: a) reduction of direct GHG emissions, in line with the global objectives of the Paris agreement; b) increased use of 'sustainable finance' instruments, namely through the commercial offer and investment policies, channelling direct financial support to the transition of the Portuguese economy; and c) adequate management of climate transition risks, systematically identifying and controlling its main factors;
- A governance and operational structure specifically adapted to this strategy, ensuring the existence in the first and second lines of internal organisation, of expertise and approaches/work plans directed at ensuring the fulfilment of novobanco's objectives.

This framework is directly led by the EBD, supervised by the GSB, with the participation of the EBD and the departmental heads more closely involved in the definition and implementation of the sustainability strategy.

At operational level, this framework is executed by dedicated work groups, which follow detailed action plans to ensure the timely achievement of the established objectives, in alignment with the defined strategy.

The developments at the level of the ESG risk component of the risk management system take place within these organisational structures and have three primary objectives:

- Compliance with the new regulatory requirements, namely those concerning the disclosure of non-financial information on the sustainability strategy and ESG risk management;
- Effective alignment with regulatory and supervisory expectations, with emphasis on a) implementation of the European Central Bank (ECB) Guide on climate-related and environmental risks (C&E) management; and b) participation in the ECB stress test exercises focused on C&E risks, starting in 2022;
- Implementation of enhanced procedures for ESG risk management, adjusted to the activity of the **novobanco** Group, with emphasis on a) routines for global monitoring of ESG risk exposure; b) integration in the business (commercial and financial) of specific controls for ESG risk factors, conducting the origination and monitoring of risk exposures - including the necessary procedures to implement the European Taxonomy for sustainable activities; and c) implementation of risk assessment practices, considering sensitivity analysis or scenario methodologies.

ESG risk profile

The definition of ESG risks focuses on the potential negative impacts deriving from the current or future effects of risk factors in clients and counterparties or in the bank's assets and liabilities, that are included in the current internal taxonomy of the novobanco Group, and in particular of climate change impacts.

The group is currently in the process of reviewing and updating its risk taxonomy - as part of the internal risk identification and assessment exercise - with the objective of recognising and reassessing the materiality of the impacts of the climate and environmental, and social and governance risk components.

RISK MANAGEMENT IS CONSIDERED VITAL FOR THE GROUP

Risk Management, being vital for the development of novobanco Group’s activity, is centralised in the Risk Management Function, which comprises the Global Risk Department (GRD) and the Rating Department (RTD). It defines holistic principles for risk management and control, in close coordination with the remaining 2nd line units of novobanco Group, and with the Internal Audit Department. Moreover, the Risk Management Function continuously monitors and assesses ESG Risks in close coordination with the Sustainability area (DDAE- Strategy Development and Implementation Department), which contributes specific knowledge to the understanding of climate and environmental risk factors and social risk factors.

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

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

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

The Risk Appetite framework defines:

This framework aims to ensure compliance with the strategy of maximising value for the Client - one of the relevant stakeholders along with employees, shareholders and the community -, protecting the strength of the organisation through rational and solid risk management.

Risks	Concept	Management	Risk Appetite	Focus in 2022
Credit	The risk of financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with novobanco 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, as well as on internal processes for assigning ratings and scorings to portfolios and their continuous monitoring in specific decision forums.	Conservative risk appetite	Credit risk capabilities able to support business growth, such as reinforcement of remote service models and creation and development of automated credit assessment and decision tools. Following post covid moratoria context, a new challenging macro-economic environment is observed requiring reinforced capacities to identifying early signs of financial deterioration regardless of the industry sectors.

Risks	Concept	Management	Risk Appetite	Focus in 2022
				Reinforcement of the continuous monitoring processes of the various loan 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.	Solid liquidity position. Funding of medium- and long-term assets through stable liabilities. Withstanding liquidity stresses for a minimum of 12 months. Compliance at all times with the limits imposed by the legislation in force.	Maintenance of risk control monitoring and management processes, ensuring the timely detection of changes in the risk profile, and the bank's aligned compliance with the established risk appetite. To be continuously updated on the regulatory framework.
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 management and control of novobanco Group's market risk and interest rate risk on the banking book (IRRBB), in line with the regulations and risk good practices.	Monitoring of net interest income, market Investments as well as balance sheet interest rate risk through predefined risk appetite rules.	Processes for continuous monitoring of market risks allowing to assess the impact of changes in market factors, namely volatility and interest rate levels. Development and maintenance of internal models and stress testing exercises to measure and control market risk and IRRBB, as well as calculation of economic capital under ICAAP and regulatory capital under the Fundamental Review of the Trading Book. To be continuously updated on the regulatory framework.
Operational	The risk of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures or information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: Operations, Information Systems, Compliance and Reputational.	A GRD expert team defines the Operational Risk Policies, with other units, namely the Compliance Department and the Information Security Office issuing specific risk Policies. The effectiveness of operational risk identification and control methodologies is ensured though the activity of the operational risk management Representatives appointed for each	The operational risk appetite defined for the novobanco Group covers the various categories under this risk. This appetite reflects the infeasibility of eliminating operational risk from a cost-benefit perspective as well as novobanco Group's high ethical and conduct standards, thus	Reinforcement of compliance with the established risk appetite; Strengthening of the risk culture, particularly in the first line of defence, as support for action and decisions aligned with the risk strategy and appetite across the various levels of the organisation, promoting a more robust control of risk. Strengthening of the Fraud Risk framework in light of the increased sophistication of fraud typologies, in particular cyber risk, by enhancing the prevention and control mechanisms. Updating of the identification and assessment methodologies for

Risks	Concept	Management	Risk Appetite	Focus in 2022
		organisational Unit, who promote the risk culture in the first line of defence in continuous collaboration with the GRD.	implying zero tolerance for breaches of conduct.	non-financial risks, to include ESG risk.
ESG Risk	Risks of occurrence of financial losses arising from current or future impacts of ESG factors on novobanco's clients, counterparties or assets. ESG factors are climate and environmental, social or governance issues that may have a positive or negative impact on the financial performance or solvency of an entity, institution or person.	The management of ESG risk results from the joint approach of specialised teams from the GRD, RTD, and DDAE, which define the guidelines to be followed for any new business and for monitoring existing positions, in order to minimise novobanco's exposure, in particular to transition risks and physical risks. In addition, it is supported by methodologies to assess and monitor the risk factors, which, consistently with the applicable regulations, allow novobanco to monitor the evolution of the risk profile of its balance sheet positions.	Application of specific exclusion and safeguard policies, namely for activities with higher ESG risk (in the environmental, social and governance dimensions). Definition of global goals and guidelines to steer new credit production according to ESG assessment criteria; Implementation of global risk assessment methodologies, at the level of the credit portfolio, to identify and monitor the main ESG risks on the balance sheet.	Participation in the ECB's climate risk stress test exercise, which will strengthen the understanding and anticipation of the impacts of these risks; Application of the criteria established by the EU Taxonomy (and applicable in 2022), allowing the first characterisation of the bank's portfolios; Reinforcement of the integration between ESG risk methodologies and business planning and execution, namely regarding the implementation of risk classification methodologies (Ratings & Taxonomy) and respective guidance on credit decision and monitoring.

6 MAIN RISKS AND UNCERTAINTIES

Since the beginning of 2020, the economic, financial and social landscape have been negatively impacted by the widespread pandemic of the severe respiratory syndrome coronavirus 2 (SARS-CoV-2) and of the infectious disease Covid-19, caused by the virus has affected a large portion of the global population.

The consequences of Covid-19 on global markets and on the economy have been wide-ranging. The pandemic 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 most of these measures have already been lifted, following significant progress in the rolling out of vaccination programmes and a decrease in the severity of Covid-19 cases but several effects of the pandemic are still being felt in the economy, including in supply chains, in tourism flows, in the labour market and in inflation. Portugal's gross domestic product ("GDP") fell 8.4% in 2020 and increased 4.9% in 2021 and for 2022, and even with a slowdown in the second half of the year, annual GDP growth is expected to be around 6.4%.

Although the risks related to the pandemic have diminished, in February 2022, the global economy suffered a significant setback with the outbreak of a military conflict in Ukraine, following Russia's invasion of the country. Following this invasion, the European Union imposed economic sanctions on Russia, which included a ban on all transactions with the Russian Central Bank and the freezing its assets, the exclusion of major Russian banks from SWIFT, the imposition of limits on bank deposits; a ban on Russian investment in EU securities, a ban on exports of aircraft, aircraft parts and related equipment to Russia; a ban on sale of equipment and technology related to oil refineries and environmental standards, export controls on high tech goods, sanctions on top officials in Russian State and media companies, and a shutdown of EU airspace to Russian planes and private jets.

The second half of the year should remain shrouded in high levels of uncertainty and volatility. The expected rise in reference interest rates by the main central banks and the reduction of their balance sheets should translate into less expansionary or more restrictive monetary and financial conditions and less liquidity available in the economy and the markets. Activity and confidence levels are also expected to be shaped by the conflict in Ukraine and the persistence of production constraints, including the scarcity of raw materials and intermediate consumptions. In the Eurozone, energy costs should remain at risk of rising sharply, given fears of a sudden interruption in Russian gas supply. It will also be important to take into account risks of political instability, particularly in Italy, with potential impacts on investor confidence on the Eurozone periphery. A slowdown of activity is thus expected in the main European economies and in Portugal, with risks biased towards negative growth at the end of the year. Tighter monetary and financial conditions could lead to a revaluation of assets in the financial and real estate markets, or to pockets of financial instability in emerging economies, penalising investor confidence at a global level. On the positive side, economic activity in Portugal should be sustained by the recovery of the tourism sector and the beginning of the execution of investments under the Recovery and Resilience Plan.

All things considered, alongside with some inheritance from Covid-19 to tackle, a deceleration of the Eurozone economic growth is expected, with rising fear of a recession in the short-term. This environment generates risks for all financial institutions, including higher interest rates, potential increase of non-productive assets, cybercrime, disruption in Information Technology (IT) and increased regulatory requirements.

An environment with higher interest rates would generate higher net interest income, given that the majority of the loan book is linked to variable references rates (Euribor). The environment with higher interest rates and inflation will also generate pressure towards higher operating costs. Despite limited defaults have been observed to date in response to the Covid-19 pandemic, partly as a result of government and Bank support measures, potential credit deterioration could be seen with higher interest rates.

As the pandemic prompted households and companies to seek digital options, financial institutions strengthened and are expected to continue to strengthen the trend towards greater use of technology. Greater digitalization is associated with increased efficiency, higher level of service and interaction with clients and improvement of internal processes. However, during the pandemic, the acceleration of digital transformation and broader usage by the population led to an increase of cyber security risk, fraud and money laundering.

The transition towards a greener and sustainable economy will continue to be, in the short and medium-term, a challenge for the banking industry. Even though initiatives toward higher level of digitalization, digital and financial literacy are being implemented, the path to a low carbon economy and increased social responsibility will raise risks and costs with the implementation of internal control mechanisms, conformity with regulatory requirement and disclosure of non-financial information.

Concerning the two remaining viability financial indicators for 2021 of pre-provision income and cost-to-income, although not reaching its 2021 targets set in the Commitments, the Bank considers that all the Commitments should be considered fulfilled based on the key assumptions that underpinned the agreed business plans from 2017 to 2021 (including the evolution of interest rates and the economic effects of the Covid-19 pandemic). The Bank remains under the Restructuring Period until the Directorate-General for Competition (the "DGCOMP") completes its assessment of the fulfilment of the Commitments. Such assessment is underway, and DGCOMP may have a different opinion and may determine the application of certain measures, such as the extension of the Restructuring Period.
Non-compliance with the viability Commitments may result in an extension of the restructuring period and/or trigger additional restrictive measures, including a further reduction in the number of branches and/or employees. Although the Bank has already reduced the number of branches and staff well above the current requirements, it might still face a negative impact for breaching such commitments.

In addition, novobanco is subject to continuous political and public scrutiny (including, but not limited to) in relation to circumstances related to its incorporation and the sale to Lone Star, in particular the CCA, which have led to a number of political initiatives such as audits from the Court of Auditors (Tribunal de Contas) at the request of the Portuguese Parliament and the creation of a Parliament Inquiry (*"Comissão Eventual de Inquérito Parlamentar às perdas registadas pelo Novo Banco e imputadas ao Fundo de Resolução"*). In addition, as a result of the rules introduced by Law No. 15/2019 of 12 February, on transparency of information concerning granting of credits of significant value, some independent audits have and may continue to be performed in the future to novobanco. These initiatives have impacted and may continue to impact novobanco's reputation, market perception and its business.

In the execution of the CCA there were some divergences, which should be resolved in arbitration under the contractual terms. More specifically, there is an arbitration proceeding at the International Chamber of Commerce regarding the implementation by the Bank, at the end of 2020, of the dynamic option of the transitional regime of IFRS9, and those relating to amounts that novobanco considers to be due and that should have been paid by the Resolution Fund for the year 2020 financial statements, including the capital impact from the provisions made for the divestment of the Spanish operations and the fair value of the restructuring funds, with the decision expected to be delivered in 4Q23. There can be no assurance that novobanco will receive all or any of the amounts that were not paid and that are or may be under dispute and if the Resolution Fund will make such payments.

Following a determination of the Joint Supervisory Team (the "JST"), all claims under the CCA should only be recognised as Common Equity Tier 1 ("CET1"), for the purpose of the own funds' calculation, once such payment occurs. The determination described above was applied from the fourth quarter of the 2021 financial year onwards, thus changing the prudential treatment of the CCA. As a result of the new prudential treatment of the CCA, and despite the CCA still being valid and in place, the Bank may not be able to comply with the regulatory capital ratios in the future. If the bank is required to raise further capital but is unable to do so or to do so on acceptable terms, the bank 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 Bank.

With respect to the 2021 financial year, novobanco requested a payment in the amount of €209 million. As a result of the above and in line with the JST's instructions, this amount was not included in its regulatory capital calculation. As at the date, the payment is still pending.
There can be no assurance that novobanco will receive all or any of the amounts that were not paid and that are or may be under dispute and that the Resolution Fund will be willing or able to make such payments.

The materialisation of any of these risks and uncertainties mentioned above may have a material effect on novobanco's strategy, financial condition, results of operations and prospects.

7 SHAREHOLDER STRUCTURE

7.1 Qualified holdings in Novo Banco's share capital

The share capital of Novo Banco totals €6,054,907,314 (six billion, fifty-four million, nine hundred and seven thousand, three hundred and fourteen euros), divided into 9,954,907,311 (nine billion, nine hundred fifty-four million, nine hundred and seven thousand, three hundred eleven) nominative dematerialised shares with no nominal value, fully subscribed and paid up.

Qualified holdings in Novo Banco's share capital as of 30 June 2022:

Shareholder	Number of shares	% of share capital
Nani Holdings S.G.P.S., S.A.	7,466,180,483	75.00%
Fundo de Resolução	2,333,819,514	23.44%
Direcção-Geral do Tesouro e Finanças	154,907,314	1.56%

7.2 Equity Holders with Special Rights

There are no shareholders with special rights.

7.3 Restrictions on Voting Rights

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

7.4 Securities Held by Members of the Management and Supervisory Bodies

As of 30 June 2022, and with regard to the first half of 2022, the members of the management and supervisory bodies of novobanco did not hold any securities issued by novobanco or by companies in a control or group relationship with novobanco.

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

7.5 Non-Material Indirect Investment in Novo Banco

All current members of the Executive Board of Directors and certain members of the General and Supervisory Board acquired, using their own resources, holdings in an indirect investment structure in novobanco, which had been set up (and is controlled) by LSF Nani GP, LLP, which owns indirectly a 75% interest in novobanco. This indirect investment represents a shareholding of substantially less than 1% in novobanco and has no financial impact on the Bank, or in the exercise of the functions, suitability and independence of the aforesaid members, taking into account the reduced weight of the investment on the share capital's percentage, and also for each individual. Non-material indirect investments in novobanco have been disclosed in previous novobanco's annual financial statements and were notified to the relevant supervisory authorities and internal control bodies. In addition, certain staff members also had the opportunity to make a non-material indirect investment in novobanco using their own resources, under the same terms as the above.

8 CONSOLIDATED FINANCIAL STATEMENTS AND FINAL NOTES

8.1 Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2022 AND 2021

thousands of Euros

	30.06.2022	30.06.2021
Interest Income	365 753	370 383
Interest Expenses	(97 723)	(81 126)
Net Interest Income	**268 030**	**289 257**
Dividend income	2 826	5 359
Fees and commissions income	165 270	157 327
Fees and commissions expenses	(22 921)	(24 561)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(52 582)	10 832
Gains or losses on financial assets and liabilities held for trading	148 420	18 972
Gains or losses on financial assets mandatorily at fair value through profit or loss	(10 955)	30 125
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	30	81
Gains or losses from hedge accounting	113	8 192
Exchange differences	(964)	13 438
Gains or losses on derecognition of non-financial assets	4 132	1 308
Other operating income	143 982	48 661
Other operating expenses	(69 088)	(63 161)
Operating Income	**576 293**	**495 830**
Administrative expenses	(189 171)	(187 775)
Staff expenses	*(111 844)*	*(117 628)*
Other administrative expenses	*(77 327)*	*(70 147)*
Cash contributions to resolution funds and deposit guarantee schemes	*(41 155)*	*(40 535)*
Depreciation	*(19 545)*	*(16 364)*
Provisions or reversal of provisions	*21 926*	*23 570*
Commitments and guarantees given	*4 685*	*18 610*
Other provisions	*17 241*	*4 960*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	*(60 876)*	*(101 006)*
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	*20 773*	*969*
Impairment or reversal of impairment on non-financial assets	*(1 610)*	*(12 730)*
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	2 453	953
Profit or loss before tax from continuing operations	**309 088**	**162 912**
Tax expense or income related to profit or loss from continuing operations	(18 921)	(21 115)
Current tax	(2 596)	(4 409)
Deferred tax	*(16 325)*	*(16 706)*
Profit or loss after tax from continuing operations	**290 167**	**141 797**
Profit or loss from discontinued operations	(270)	(1 411)
Profit or loss for the period	**289 897**	**140 386**
Attributable to Shareholders of the parent	**266 724**	**137 706**
Attributable to non-controlling interests	23 173	2 680
	289 897	**140 386**

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2022 AND 31 DECEMBER 2021

thousands of Euros

	30.06.2022	31.12.2021
ASSETS		
Cash, cash balances at central banks and other demand deposits	6 225 736	5 871 538
Financial assets held for trading	200 800	377 664
Financial assets mandatorily at fair value through profit or loss	583 312	799 592
Financial assets at fair value through other comprehensive income	2 679 702	7 220 996
Financial assets at amortised cost	31 329 794	26 039 902
Securities	6 979 236	2 338 697
Loans and advances to banks	46 916	50 466
Loans and advances to customers	24 303 642	23 650 739
Derivatives – Hedge accounting	344 320	19 639
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(190 983)	30 661
Investments in subsidiaries, joint ventures and associates	118 687	94 590
Tangible assets	981 274	864 132
Tangible fixed assets	268 457	238 945
Investment properties	712 817	625 187
Intangible assets	69 539	67 986
Tax assets	848 511	779 892
Current Tax Assets	36 194	35 653
Deferred Tax Assets	812 317	744 239
Other assets	2 290 356	2 442 550
Non-current assets and disposal groups classified as held for sale	11 953	9 373
TOTAL ASSETS	**45 493 001**	**44 618 515**
LIABILITIES		
Financial liabilities held for trading	163 373	306 054
Financial liabilities measured at amortised cost	40 898 619	40 215 994
Deposits from central banks and other banks	9 874 931	10 745 155
Due to customers	29 030 063	27 582 093
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 542 850	1 514 153
Other financial liabilities	450 775	374 593
Derivatives – Hedge accounting	14 982	44 460
Provisions	397 213	442 834
Tax liabilities	11 025	15 297
Current Tax liabilities	7 990	12 262
Deferred Tax liabilities	3 035	3 035
Other liabilities	754 278	443 437
Liabilities included in disposal groups classified as held for sale	1 755	968
TOTAL LIABILITIES	**42 241 245**	**41 469 044**
EQUITY		
Capital	6 054 907	6 054 907
Accumulated other comprehensive income	(1 183 107)	(1 045 489)
Retained earnings	(8 577 074)	(8 576 860)
Other reserves	6 670 293	6 501 374
Profit or loss attributable to Shareholders of the parent	266 724	184 504
Minority interests (Non-controlling interests)	20 013	31 035
TOTAL EQUITY	**3 251 756**	**3 149 471**
TOTAL LIABILITIES AND EQUITY	**45 493 001**	**44 618 515**

8.2 Separate Financial Statements

NOVO BANCO, S.A.

INCOME STATEMENT AS AT 30 JUNE 2022 AND 2021

thousands of Euros

	30.06.2022	31.12.2021
Interest Income	368 315	375 148
Interest Expenses	(98 404)	(81 246)
Net Interest Income	**269 911**	**293 902**
Dividend income	7 162	12 063
Fees and commissions income	147 426	139 998
Fees and commissions expenses	(19 085)	(20 132)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(52 777)	9 224
Gains or losses on financial assets and liabilities held for trading	147 440	18 909
Gains or losses on financial assets mandatorily at fair value through profit or loss	(26 411)	20 854
Gains or losses from hedge accounting	936	8 820
Exchange differences	(139)	13 553
Gains or losses on derecognition of non-financial assets	1 458	2 010
Other operating income	21 095	27 998
Other operating expenses	(46 087)	(49 065)
Operating Income	**450 929**	**478 134**
Administrative expenses	(176 787)	(174 129)
Staff expenses	*(104 056)*	*(108 560)*
Other administrative expenses	*(72 731)*	*(65 569)*
Cash contributions to resolution funds and deposit guarantee schemes	(40 717)	*(40 172)*
Depreciation	(20 237)	(16 282)
Provisions or reversal of provisions	56 405	32 396
Commitments and guarantees given	*4 713*	*18 622*
Other provisions	*51 692*	*13 774*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(61 057)	(100 339)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	15 687	-
Impairment or reversal of impairment on non-financial assets	4 331	(12 382)
Profit or loss before tax from continuing operations	**228 554**	**167 226**
Tax expense or income related to profit or loss from continuing operations	(16 580)	(17 371)
Current tax	*(640)*	*(814)*
Deferred tax	*(15 940)*	*(16 557)*
Profit or loss after tax from continuing operations	**211 974**	**149 855**
Profit or loss from discontinued operations	-	(1 319)
Profit or loss for the period	**211 974**	**148 536**

NOVO BANCO, S.A.

BALANCE SHEET AS AT 30 JUNE 2022 AND 31 DECEMBER 2021

thousands of Euros

	30.06.2022	31.12.2021
ASSETS		
Cash, cash balances at central banks and other demand deposits	6 053 289	5 674 461
Financial assets held for trading	200 102	377 709
Financial assets mandatorily at fair value through profit or loss	1 975 984	2 250 308
Financial assets at fair value through other comprehensive income	2 593 258	7 133 508
Financial assets at amortised cost	30 286 141	24 977 300
Securities	7 474 496	2 893 829
Loans and advances to banks	183 159	186 089
Loans and advances to customers	22 628 486	21 897 382
Derivatives – Hedge accounting	344 371	20 150
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(191 270)	28 787
Investments in subsidiaries, joint ventures and associates	256 153	241 066
Tangible assets	258 868	231 419
Tangible fixed assets	258 868	231 419
Intangible assets	69 294	67 515
Tax assets	843 911	776 769
Current Tax Assets	35 938	35 448
Deferred Tax Assets	807 973	741 321
Other assets	2 367 974	2 555 852
Non-current assets and disposal groups classified as held for sale	7 055	6 601
TOTAL ASSETS	**45 065 130**	**44 341 445**
LIABILITIES		
Financial liabilities held for trading	163 133	305 512
Financial liabilities measured at amortised cost	40 999 644	40 346 362
Deposits from central banks and other banks	10 748 834	11 497 829
(dos quais: Operações com acordo de recompra)	813 932	1 529 847
Due to customers	28 290 244	26 997 858
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 512 651	1 479 066
Other financial liabilities	447 915	371 609
Derivatives – Hedge accounting	15 452	44 460
Provisions	398 075	478 170
Tax liabilities	4 793	4 703
Current Tax liabilities	4 793	4 703
Other liabilities	609 267	362 836
TOTAL DO PASSIVO	**42 190 364**	**41 542 043**
EQUITY		
Capital	6 054 907	6 054 907
Accumulated other comprehensive income	(1 105 596)	(968 987)
Retained earnings	(8 577 074)	(8 576 860)
Other reserves	6 290 555	6 064 434
Profit or loss attributable to Shareholders of the parent	211 974	225 908
TOTAL EQUITY	**2 874 766**	**2 799 402**
TOTAL LIABILITIES AND EQUITY	**45 065 130**	**44 341 445**

8.3 Statement of Conformity of the Financial Information

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

(i) the separate and consolidated financial statements of novobanco, for the six-month period ending 30 June 2022 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

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

(iii) the management report describes accurately the evolution of the businesses, the performance and the financial position of novobanco and of novobanco Group for the six-month period ending 30 June 2022 and includes a description of the main risks and uncertainties faced.

The management report and the individual and consolidated financial statements have been approved at the meeting of the Executive Board of Directors held on 28 August 2022.

8.4 Note of Recognition

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

Lisbon, 28 August 2022

The Executive Board of Directors

António Manuel Palma Ramalho

Mark George Bourke

Rui Miguel Dias Ribeiro Fontes

Luísa M. S. Soares da Silva Amaro de Matos

Luís Miguel Alves Ribeiro

Andrés Baltar

9 ANNEX – ALTERNATIVE PERFORMANCE MEASURES

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

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

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

9.1 Reconciliation of the Income Statement

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

euro thousands

Official Income Statement		Management Income Statement												
		Net Interest Income	Fees and Commissions	Market Results	Other Operating Results	Staff Costs	General and Administrative Costs	Depreciation	Restructuring funds - independent valuation	Credit Impairment	Securities Impairment	Other Assets and Contingencies Provisions	Taxes	Special Tax on Banks
		268 030	**144 410**	**85 767**	**73 246**	**(111 844)**	**(77 327)**	**(19 545)**	**-**	**(19 300)**	**(41 659)**	**41 172**	**(18 921)**	**(34 132)**
Interest Income	365 753	365 753												
Interest Expenses	(97 723)	(97 723)												
Net Interest Income	**268 030**													
Dividend income	2 826			2 826										
Fee and comission income	165 270		165 270											
Fee and comission expenses	(22 921)		(22 921)											
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(52 582)			(53 503)	921									
Gains or losses on financial assets and liabilities held for trading	148 420			148 420										
Gains or losses on financial assets mandatorily at fair value through profit or loss	(10 955)			(10 955)										
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	30			30										
Gains or losses from hedge accounting	113			113										
Exchange differences	(964)			(964)										
Gains or losses on derecognition of non-financial assets	4 132				4 132									
Other operating income	143 982		2 061	1 352	140 569									
Other operating expenses	(69 088)			(1 552)	(33 404)									(34 132)
Operating Income	**576 293**													
Administrative expenses														
Staff expenses	*(111 844)*					(111 844)								
Other administrative expenses	*(77 327)*						(77 327)							
Contributions to resolution funds and deposit guarantee schemes	*(41 155)*				(41 155)									
Depreciation	(19 545)							(19 545)						
Provisions or reversal of provisions														
Commitments and guarantees given	4 685											4 685		
Other provisions	17 241											17 241		
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(60 876)									(19 300)	(41 659)	83		
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	20 773											20 773		
Impairment or reversal of impairment on non-financial assets	(1 610)											(1 610)		
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	2 453				2 453									
Profit or loss before tax from continuing operations	**309 088**													
Tax expense or income related to profit or loss from continuing operations														
Current tax	*(2 596)*												(2 596)	
Deferred tax	*(16 325)*												(16 325)	
Profit or loss after tax from continuing operations	**(1 309 358)**													
Profit or loss from discontinued operations	(270)				(270)									
Profit or loss for the period	**(1 338 310)**													
Attributable to Shareholders of the parent	**(1 328 236)**													
Attributable to non-controlling interests	23 173													
	289 897													

9.2 Glossary

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

INCOME STATEMENT			
Designation	**Definition**	**Calculation Basis**	**Conciliation with the Financial Statements[8]**
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients Historical financial performance indicator	Fee and commission income less fee and commission expenses	(IS): Fee and commission income and Fee and commission expenses
Commercial banking income	Indicator of the results of commercial activity most directly related to customers Historical financial performance indicator	Financial margin + Customer services	
Capital markets results	Indicator of results of activity in the financial markets Historical financial performance indicator indicator	Results from trading hedging operations, assets at fair value through other comprehensive income and at amortized cost	(IS): Dividend income, gains or losses on the derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets that must be accounted for at fair value through profit or loss, gains or losses on financial assets and liabilities accounted for at fair value through profit or loss, gains or losses from hedge accounting and exchange differences
Other operating results	Indicator of other diverse results, not directly related to activity with customers and markets Historical financial performance	Gains or losses on the derecognition of non-financial assets + Other operating income + Other operating expenses + Proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equity method	(IS): Gains or losses on the derecognition of non-financial assets, other operating income, other operating expenses, proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equivalence method
Banking Income	Financial activity results indicator Historical financial performance indicator	Net interest income + Fees and commissions + Capital markets results + Other operating results	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs Indicator of histoncal financial performance	Personnel expenses + Other administrative expenses + Depreciation	(IS): Personnel expenses, Other administrative expenses and Depreciation
Operational result	Indicator of results of financial activity less costs and before impairment. Measures the extent to which the income generated covers / exceeds operating costs Historical financial performance indicator	Banking income - Operating costs	
Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year Historical financial performance indicator	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates +	(IS): Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates and Impairment or

[8] IS: Income Statement Item; BS: Balance Sheet Item

		Impairment or reversal of impairment of non-financial assets	reversal of impairment of non-assets financial
BALANCE SHEET/LIQUIDITY			
Designation	**Definition**	**Calculation Basis**	**Conciliation with the Financial Statements[9]**
Assets eligible for rediscount transactions with the ECB	Trading financial securities or other types of assets, such as non- marketable assets or cash, accepted as collateral by the ECB in financing operations Indicator of historical financial performance	n.a.	n.a.
Securities portfolio	Indicator of the size of funds invested in trading assets, at fair value through profit or loss, at fair value through profit or loss mandatory, at fair value through other comprehensive income and at amortized cost Historical financial performance indicator	Securities (bonds, shares and other variable income securities) recorded in trading portfolios, at fair value through profit or loss, at fair value through mandatory income, at fair value through equity and amortized cost.	(BS): Securities held for trading and Securities portfolio
Customer deposits Instruction No 16/2004 of Banco de Portugal	Indicator of the asset's financing capacity Historical financial performance indicator	Set of amounts entered in the following general ledges accounting items: [#400 - #34120 + #52020 + #53100]	(BS): Customer resources
Net financing from the ECB	Indicator that reflects the net amount that was obtained from the ECB to finance the activity Historical financial performance indicator	Difference between the amount of financing obtained from the ECB and investments in the ECB	(BS): Applications at the ECB and Resources from the ECB
Customer funds	Indicator of the asset's financing capacity Historical financial performance indicator	Deposits + Other customer funds + Debt securities placed on customers	(BS): Customer funds, Debt securities issued, subordinated liabilities and Liabilities associated with transferred assets
Off-balance funds	Indicator of off-balance sheet customer funds Historical financial performance indicator	Off-balance sheet resources managed by Group companies, which include real estate and investment funds, pension funds, banking insurance, portfolio management and discretionary management	
Total customer funds	Indicator of customer resources registered on the balance sheet and off balance sheet Historical financial performance indicator	Deposits + Other customer resources + Issued bonds + Subordinated liabilities + Disintermediation resources	(BS): Customer resources, Liabilities represented by securities, subordinated liabilities and Liabilities associated with transferred assets
Commercial gap	Indicator that measures the need / excess of financing in absolute value of the commercial area Historical financial performance indicator	Difference between customer deposits and net credit	(BS): Net customer loans and customer deposits
Liquidity gap	Indicator that allows assessing the need / excess liquidity accumulated up to 1 year, in each cumulative	Difference between [(Net assets - volatile liabilities)]	

[9] IS: Income Statement Item; BS: Balance Sheet Item

	scale of residual maturity. Historical financial performance indicator		
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	Indicator of the relationship between the financing of the activity and the funds raised from customers Historical financial performance indicator	Ratio between [(total credit - accumulated impairment for credit) and deposits customer]	(BS): Net customer loans and customer deposits

ASSET QUALITY AND COVERAGE RATIOS

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[10]
Overdue loans ratio	Loans quality indicator, showing the proportion of the gross loan portfolio that is in default Historical financial performance indicator	Ratio between overdue loans and total loans	(BS): Overdue loans, that is, loans with installments of capital and interest in default and loans to customers, gross
Ratio of loans overdue for more than 90 days	Loans quality indicator, reflects the proportion of the gross loan portfolio that has been in default for more than 90 days. Historical financial performance indicator.	Ratio between loans overdue for more than 90 days and total loans	(BS): Loans overdue for more than 90 days, that is, loans with installments of capital and interest in default for more than 90 days and loans to customers, gross
Non-performing loans ratio	Loans portfolio quality indicator, reflects the proportion of the gross loans portfolio including cash and deposits with credit institutions that are in a non-performing situation. Historical financial performance indicator.	Ratio between the total balance of loans agreements with customers and cash equivalents and investments in credit institutions identified as: (i) being in default (internal definition in line with Article 178 of the Capital Requirements Regulation, that is, contracts with higher material defaults) 90 days and contracts identified as unlikely to pay, according to qualitative criteria; and (ii) having specific impairment and total loans	(BS). Loans identified as non-productive loans and Gross customer loans
Forborne ratio Instruction No 32/2013 of Banco de Portugal	Loans quality indicator, reflects the proportion of the gross loan portfolio that was restructured. Historical financial performance indicator.	Ratio between forborne and total loans	(BS). Loans identified as restructured due to financial difficulties of the customer and loans to customers gross
Overdue loans coverage	Indicator of the ability to absorb potential losses related to loans default Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and the amount of overdue loans	(BS): Provisions for loans and overdue loans to customers
Coverage of loans overdue for more than 90 days	Indicator of the ability to absorb potential losses related to loans default for more than 90 days. Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and loans overdue for more than 90 days	(BS): Provisions for loans and loans to customers overdue by more than 90 days
Non-performing loans coverage	Indicator of the capacity to absorb potential losses related to non- performing loans default.	Ratio between balance sheet impairments for loans to customers and	(BS): Provisions for loans and non-performing loans

[10] IS: Income Statement Item; BS: Balance Sheet Item

	Historical financial performance indicator.	non-performing loans	
Coverage of loans to customers	Indicator of the ability to absorb potential losses related to the customer loan portfolio. Historical financial performance indicator.	Ratio between balance sheet loan impairments and gross loans to customers	(BS): Provisions for loans and gross loans to customers
Cost of Risk	Measure of the cost recognised in the year to cover the risk default in the customer loans book -historical financial performance measure	Ratio between impairment charges recorded in the period for loans risk and the balance of loans to customers gross	(IS): Reinforcement of provisions for loans, in the year (BS): Gross customer loans
EFFICIENCY AND PROFITABILITY RATIO			
Designation	**Definition**	**Calculation Basis**	**Conciliation with the Financial Statements[11]**
Efficiency I Instruction No 16/2004 of Banco de Portugal	It expresses the proportion of income necessary to cover the staff costs incurred. The lower the value of the indicator, the higher the level of efficiency of the organization's human resources. Historical financial performance indicator.	Ratio between staff expenses and banking income	(IS): Staff expenses
Efficiency II Instruction No 16/2004 of Banco de Portugal	Expresses the proportion of income necessary to cover operating costs incurred. The lower the value of the indicator, the greater the level of efficiency of the organization. Historical income financial performance indicator.	Ratio between [administrative expenses and depreciation] and banking income	(IS): Operating costs include Staff expenses, Other administrative expenses and Depreciation
Cost to Income	It expresses the proportion of income necessary to face the operating costs incurred and allows to measure the progression of efficiency levels. The lower the value of the indicator, the greater the level of efficiency of the organization. Historical financial performance indicator.	Ratio between operating costs and banking income	
Profitability Instrucao n°16/2004 do Banco de Portugal	Expresses the banking income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate income per unit of assets used. Indicator of historical financial performance.	Ratio between banking income and average net assets	(BS): Active; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered.
Return on average net assets Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate results per unit of assets used. Indicator of historical financial performance.	Ratio between profits or losses of continuing operations before taxes and average net assets.	(IS): Profit or loss from continuing operations before taxes (BS): Assets; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded

[11] IS: Income Statement Item; BS: Balance Sheet Item

			in each of the months in the interval considered
Return on average equity Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by equity in the period and provides information on the efficiency with which capital is used to generate results. Indicator of historical financial performance.	Ratio between profits or losses of continuing operations before taxes and average equity.	(IS): Profit or loss from continuing operations before taxes (BS): Equity; the calculation of average equity includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered.

INTERIM CONDENSED

FINANCIAL STATEMENTS AND NOTES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF NOVO BANCO GROUP

FIRST HALF OF 2022

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND SIX MONTH ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	Three months period ended on		Six months period ended on	
		30.06.2022	30.06.2021	30.06.2022	30.06.2021
Interest Income	10	185 528	184 046	365 753	370 383
Interest Expenses	10	(51 031)	(40 534)	(97 723)	(81 126)
Net Interest Income		**134 497**	**143 512**	**268 030**	**289 257**
Dividend Income	11	2 724	5 056	2 826	5 359
Fees and commission income	12	85 895	83 343	165 270	157 327
Fees and commission expenses	12	(11 703)	(12 082)	(22 921)	(24 561)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	(34 497)	(2 037)	(52 582)	10 832
Gains or losses on financial assets and liabilities held for trading	13	22 867	(16 296)	148 420	18 972
Gains or losses on financial assets mandatorily at fair value through profit or loss	13	(1 554)	30 478	(10 955)	30 125
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	13	-	81	30	81
Gains or losses from hedge accounting	13	2 073	1 616	113	8 192
Exchanges differences	13	1 108	18 085	(964)	13 438
Gains or losses on derecognition of non-financial assets	14	3 574	373	4 132	1 308
Other operating income	15	112 251	26 168	143 982	48 661
Other operating expenses	15	(17 099)	(20 972)	(69 088)	(63 161)
Operating Income		**300 136**	**257 325**	**576 293**	**495 830**
Administrative expenses		(95 306)	(93 165)	(189 171)	(187 775)
Staff expenses	16	*(56 134)*	*(58 918)*	*(111 844)*	*(117 628)*
Other administrative expenses	18	*(39 172)*	*(34 247)*	*(77 327)*	*(70 147)*
Contributions to resolution funds and deposit guarantee	19	(40 856)	(40 535)	(41 155)	(40 535)
Depreciation	27, 29	(9 795)	(8 226)	(19 545)	(16 364)
Provisions or reversal of provisions	34	18 338	19 643	21 926	23 570
Commitments and guarantees given		*997*	*17 433*	*4 685*	*18 610*
Other provisions		*17 341*	*2 210*	*17 241*	*4 960*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	20	(35 464)	(45 076)	(60 876)	(101 006)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	20	21 134	1 305	20 773	969
Impairment or reversal of impairment on non-financial assets	20	(2 015)	(3 282)	(1 610)	(12 730)
Share of profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	26	2 026	124	2 453	953
Profit or loss before tax from continuing operations		**158 198**	**88 113**	**309 088**	**162 912**
Tax expense or income related to profit or loss from continuing operations		(11 570)	(16 904)	(18 921)	(21 115)
Current tax		*(960)*	*(2 754)*	*(2 596)*	*(4 409)*
Deferred tax		*(10 610)*	*(14 150)*	*(16 325)*	*(16 706)*
Profit or loss after tax from continuing operations		**146 628**	**71 209**	**290 167**	**141 797**
Profit or loss before tax from discontinued operations	32	(270)	(2 856)	(270)	(1 411)
Profit or loss for the period		**146 358**	**68 353**	**289 897**	**140 386**
Attributable to Shareholders of the parent		**124 046**	**66 977**	**266 724**	**137 707**
Attributable to non-controlling interests	37	**22 312**	**1 376**	**23 173**	**2 679**
		146 358	**68 353**	**289 897**	**140 386**
Basic earning per share (in Euros)	21	0.01	0.01	0.03	0.01
Diluted earnings per share (in Euros)	21	0.01	0.01	0.03	0.01
Basic earnings per share of continuing activities (in Euros)	21	0.01	0.01	0.03	0.01
Diluted earnings per share of continuing activities (in Euros)	21	0.01	0.01	0.03	0.01

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2022	30.06.2021	30.06.2022	30.06.2021
Net profit / (loss) for the period		146 358	68 353	289 897	140 386
Other comprehensive income/(loss)					
Items that will not be reclassified to results		***66 808***	***(45 330)***	***69 337***	***(45 885)***
Actuarial gains / (losses) on defined benefit plans	a)	50 776	(41 448)	52 631	(41 468)
Other comprehensive income from associates accounted for using the equity method	a)	41	135	233	(741)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	15 991	(4 017)	16 473	(3 676)
Items that may be reclassified to results		***(39 142)***	***(16 748)***	***(206 956)***	***(95 364)***
Foreign exchange differences	a)	(142)	511	539	304
Financial assets at fair value through other comprehensive income	a)	(39 000)	(17 259)	(207 495)	(95 668)
Total other comprehensive income/(loss) for the period		**174 024**	**6 275**	**152 278**	**(863)**
Attributable to non-controlling interest		**22 313**	**1 376**	**23 174**	**2 679**
Attributable to Shareholders of the Bank		**151 711**	**4 899**	**129 104**	**(3 542)**

a) See INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2022 AND 31 DECEMBER 2021

(in thousands of Euros)

	Notes	30.06.2022	31.12.2021
ASSETS			
Cash, cash balances at central banks and other demand deposits	22	6 225 736	5 871 538
Financial assets held for trading	23	200 800	377 664
Financial assets mandatorily at fair value through profit or loss	24	583 312	799 592
Financial assets at fair value through other comprehensive income	24	2 679 702	7 220 996
Financial assets at amortised cost	24	31 329 794	26 039 902
Securities		6 979 236	2 338 697
Loans and advances to banks		46 916	50 466
Loans and advances to customers		24 303 642	23 650 739
Derivatives - Hedge accounting	25	344 320	19 639
Fair value changes of the hedged items in portfolio hedge of interest rate risk	25	(190 983)	30 661
Investments in subsidiaries, joint ventures and associates	26	118 687	94 590
Tangible assets		981 274	864 132
Tangible fixed assets	27	268 457	238 945
Investment properties	28	712 817	625 187
Intangible assets	29	69 539	67 986
Tax assets	30	848 511	779 892
Current Tax Assets		36 194	35 653
Deferred Tax Assets		812 317	744 239
Other assets	31	2 290 356	2 442 550
Non-current assets and disposal groups classified as held for sale	32	11 953	9 373
TOTAL ASSETS		**45 493 001**	**44 618 515**
LIABILITIES			
Financial liabilities held for trading	23	163 373	306 054
Financial liabilities measured at amortised cost	33	40 898 619	40 215 994
Deposits from banks		9 874 931	10 745 155
(of which, Repurchase Agreement)		*783 188*	*1 529 847*
Due to customers		29 030 063	27 582 093
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 542 850	1 514 153
Other financial liabilities		450 775	374 593
Derivatives - Hedge accounting	25	14 982	44 460
Provisions	34	397 213	442 834
Tax liabilities	30	11 025	15 297
Current Tax Liabilities		7 990	12 262
Deferred Tax Liabilities		3 035	3 035
Other liabilities	35	754 278	443 437
Liabilities included in disposal groups classified as held for sale	32	1 755	968
TOTAL LIABILITIES		**42 241 245**	**41 469 044**
EQUITY			
Capital	36	6 054 907	6 054 907
Accumulated other comprehensive income	37	(1 183 107)	(1 045 489)
Retained earnings	37	(8 577 074)	(8 576 860)
Other reserves	37	6 670 293	6 501 374
Profit or loss attributable to Shareholders of the parent		266 724	184 504
Minority interests (Non-controlling interests)	37	20 013	31 035
TOTAL EQUITY		**3 251 756**	**3 149 471**
TOTAL LIABILITIES AND EQUITY		**45 493 001**	**44 618 515**

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

NOVO BANCO GROUP

INTERIM CONDESED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIODS ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the period attributable to shareholders of the Bank	Non-controlling interests		Total
							Other Comprehensive Income	Other	
Balance as at 31 December 2020		**5 900 000**	**(823 420)**	**(7 202 828)**	**6 570 154**	**(1 329 317)**	**(42 986)**	**75 032**	**3 146 635**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 246)**	**141 677**	**1 329 317**	**-**	**(3 715)**	**93 033**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 374 246)*	*44 929*	*1 329 317*	-	-	-
Reserve of Contigent Capital Agreement		-	-	-	*96 413*	-	-	-	*96 413*
Other movements		-	-	-	*335*	-	-	*(3 715)*	*(3 380)*
Total comprehensive income for the period		**-**	**(141 249)**	**-**	**-**	**137 707**	**2 679**	**-**	**(863)**
Changes in fair value, net of tax		-	*(79 967)*	-	-	-	-	-	*(79 967)*
Foreign exchange differences, net of tax		-	*304*	-	-	-	-	-	*304*
Remeasurement of defined benefit plans, net of tax		-	*(41 468)*	-	-	-	-	-	*(41 468)*
Other comprehensive income appropriated from affiliates		-	*(741)*	-	-	-	-	-	*(741)*
Reserves of impairment of securities at fair value through OCI		-	*(220)*	-	-	-	-	-	*(220)*
Reserves of sales of securities at fair value through OCI		-	*(19 157)*	-	-	-	-	-	*(19 157)*
Net income of the period		-	-	-	-	*137 707*	*2 679*	-	*140 386*
Balance as at 30 June 2021		**5 900 000**	**(964 669)**	**(8 577 074)**	**6 711 831**	**137 707**	**(40 307)**	**71 317**	**3 238 805**
Capital increase by incorporation of special reserve for deferred taxes		154 907	-	-	(154 907)	-	-	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**214**	**(55 550)**	**-**	**-**	**(4 981)**	**(60 317)**
Reserve of Contigent Capital Agreement	35	-	-	-	*(56 493)*	-	-	-	*(56 493)*
Other movements		-	-	*214*	*943*	-	-	*(4 981)*	*(3 824)*
Total comprehensive income for the period		**-**	**(80 820)**	**-**	**-**	**46 797**	**5 006**	**-**	**(29 017)**
Changes in fair value, net of tax	35	-	*(45 834)*	-	-	-	-	-	*(45 834)*
Foreign exchange differences, net of tax		-	*(209)*	-	-	-	-	-	*(209)*
Remeasurement of defined benefit plans, net of tax	16	-	*(34 116)*	-	-	-	-	-	*(34 116)*
Other comprehensive income appropriated from affiliates		-	*489*	-	-	-	-	-	*489*
Reserves of impairment of securities at fair value through OCI	35	-	*232*	-	-	-	-	-	*232*
Reserves of sales of securities at fair value through OCI	35	-	*(1 382)*	-	-	-	-	-	*(1 382)*
Net income of the period		-	-	-	-	*46 797*	*5 006*	-	*51 803*
Balance as at 31 December 2021		**6 054 907**	**(1 045 489)**	**(8 576 860)**	**6 501 374**	**184 504**	**(35 301)**	**66 336**	**3 149 471**
Other Increase / (Decrease) in Equity		**-**	**2**	**(214)**	**168 919**	**(184 504)**	**-**	**(34 196)**	**(49 993)**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	-	*184 504*	*(184 504)*	-	-	-
Other movements		-	-	*(214)*	*636*	-	-	*(34 196)*	*(33 774)*
Other variations in non-controlling interests		-	*2*	-	*(16 221)*	-	-	-	*(16 219)*
Total comprehensive income for the period		**-**	**(137 620)**	**-**	**-**	**266 724**	**23 174**	**-**	**152 278**
Changes in fair value, net of tax	35	-	*(187 736)*	-	-	-	-	-	*(187 736)*
Foreign exchange differences, net of tax		-	*539*	-	-	-	-	-	*539*
Remeasurement of defined benefit plans, net of tax	16	-	*52 631*	-	-	-	-	-	*52 631*
Other comprehensive income appropriated from affiliates		-	*233*	-	-	-	-	-	*233*
Reserves of impairment of securities at fair value through OCI	35	-	*(2 210)*	-	-	-	-	-	*(2 210)*
Reserves of sales of securities at fair value through OCI	35	-	*(1 077)*	-	-	-	-	-	*(1 077)*
Net income of the period		-	-	-	-	*266 724*	*23 174*	-	*289 898*
Balance as at 30 June 2022		**6 054 907**	**(1 183 107)**	**(8 577 074)**	**6 670 293**	**266 724**	**(12 127)**	**32 140**	**3 251 756**

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

NOVO BANCO GROUP

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	30.06.2022	30.06.2021
Cash flows from operating activities			
Interest received		357 641	343 737
Interest paid		(75 048)	(71 663)
Fees and commissions received		165 270	157 574
Fees and commissions paid		(22 921)	(24 561)
Recoveries on loans previously written off		12 548	16 089
Contributions to the pension fund		(249)	(1 973)
Cash contributions to resolution funds and deposit guarantee schemes		(41 155)	(40 535)
Cash payments to employees and suppliers		(197 589)	(147 164)
		198 497	**231 504**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(62 066)	115 801
Financial assets mandatorily at fair value through profit or loss		162 478	80 908
Financial assets designated at fair value through profit or loss		182 746	181 165
Financial assets at fair value through other comprehensive income		4 193 069	60 056
Financial assets at amortised cost		(5 296 459)	(263 508)
Debt securities		*(4 624 693)*	*(172 694)*
Loans and advances to banks		*3 626*	*(79 224)*
Loans and advances to customers		*(675 392)*	*(11 590)*
Financial liabilities at amortised cost		632 457	1 176 520
Deposits from banks		*(816 986)*	*298 164*
Due to customers		*1 449 443*	*878 356*
Derivatives - Hedge accounting		(132 515)	2 467
Other operating assets and liabilites		433 123	364 532
Net cash from operating activities before corporate income tax		**311 330**	**1 949 445**
Corporate income taxes paid		(39 880)	(37 534)
Net cash from operating activities		**271 450**	**1 911 911**
Cash flows from investing activities			
Acquistions of investments in subsidiaries and associated companies		5 003	-
Dividends received		2 826	5 359
Acquisition of investment properties		(10 524)	(2 434)
Sale of investment properties		117 818	4 483
Acquisition of tangible fixed assets		(44 122)	(26 155)
Sale of tangible fixed assets		528	2 146
Acquisition of intangible assets		(6 824)	(8 124)
Sale of intangible assets		4	4
Net cash from investing activities		**64 709**	**(24 721)**
Cash flows from financing activities			
Contigent Capital Agreement		-	317 013
Reimbursement of bonds and other debt securities		8 949	(3 458)
Net cash from financing activities		**8 949**	**313 555**
Net changes in cash and cash equivalents		**345 108**	**2 200 745**
Cash and cash equivalents at the beginning of the period		**5 606 583**	**2 432 237**
Net changes in cash and cash equivalents		345 108	2 200 745
Cash and cash equivalents at the end of the period		**5 951 691**	**4 632 982**
Cash and cash equivalents include:			
Cash	22	156 384	145 901
Deposits with Central Banks	22	5 792 283	4 494 747
(of which, Restricted balances)		(274 045)	(264 903)
Deposits with banks	22	277 069	257 237
Total		**5 951 691**	**4 632 982**

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

NOVO BANCO GROUP

Notes to the Interim condensed consolidated financial statements as at 30 June 2022

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

NOTE 1 – ACTIVITY AND STRUCTURE OF THE GROUP

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

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

On 31 March 2017, the Resolution Fund signed the sale agreement of novobanco. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively.

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

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

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

novobanco Group (hereinafter referred to as Grupo or Grupo NB) has a retail network of 304 branches in Portugal and abroad (31 December 2021: 311 branches), branches in Spain and Luxembourg, in addition to 2 representation offices in Switzerland (31 December 2021: 4 representation offices).

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

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

The entities directly consolidated into novobanco are the following:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial Banking		
Novo Banco dos Açores, SA (novobanco Açores)	2002	2002	Portugal	Commercial Banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NB FINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100.00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99.99%	Full consolidation
Aroleri, SLU	2021	2021	Spain	Real estate development	100.00%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56.78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund management	100.00%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	100.00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real estate fund management	92.51%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	56.39%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real estate fund management	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	95.24%	Full consolidation
Novimove - Fundo de Investimento Imobiliario Fechado	2004	2019	Portugal	Real estate fund management	100.00%	Full consolidation
NB Branches - Fundo Especial de Investimento Imobiliário Fechado	2006	2019	Portugal	Real estate fund management	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	100.00%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100.00%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real estate fund management	100.00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real estate fund management	100.00%	Full consolidation
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Restoration	100.00%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	2003	2003	Portugal	Renting	50.00% [b)]	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non banking financing	17.50% [a)]	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50.00% [b)]	Equity method
ESEGUR - Empresa de Segurança, SA (ESEGUR)	1994	2004	Portugal	Private security services	44.00%	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of shareholdings	22.52%	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet via the equity method as the Group exercises significant influence over their activities

b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1987	1987	Portugal	Investment fund management	100.00%	Full consolidation
GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1992	1992	Portugal	Investment fund management	100.00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100.00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50.00% b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100.00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33.33%	Equity method
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100.00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56.78%**	**Full consolidation**
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18.96% a)	Equity method
Ach Brito & Ca, SA	1918	2015	Portugal	Soap manufacturing	8.77% a)	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engeneering	8.11% a)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2008	2010	Portugal	Holding	40.00% a)	Equity method

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

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

	Year incorporated	Year acquired	Registered office	Share-holding %	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full consolidation

(*) - Structured entities set up in the scope os securitization operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 41)

During the first half of 2022, the most relevant changes in the structure of the novobanco Group were as follows:

- Subsidiary companies and branches:

- In February 2022, the Five Stars Fund changed its denomination to NB Branches;
- In March 2022 the stake held in Autodril was sold, having been recorded a loss of Euro 591 thousand;
- In May 2022 the FCR PME NB Fund repaid the capital, with the novobanco receiving Euro 3,174 thousand;
- In June 2022, novobanco redeemed participation units in the Imogestão Fund in the amount of Euro 38,000 thousand.

novobanco holds in its balance sheet mandatorily convertible securities (VMOC) from two entities obtained through foreclosed credit, measured at the fair value which was estimated to be zero. The extension of the conversion period of these VMOC into shares ended during the month of December 2021. The Group contests this conversion, having addressed to these securities issuers, letters of formal notice for payment of the amounts. The amounts of assets to be recognized in the consolidated financial statements resulting from a possible consolidation process could amount to Euro 2.4 million (with reference to 31 December 2021), however, on this date, novobanco does not have information that allows the accurate determination of the value of goodwill to be recognized in the first half of 2022 financial statements. For this reason, the Group is within the measurement period and continues to provisionally record the fair value of the VMOC in the balance sheet. The measurement period will end when the Group has clarified all the facts and circumstances related to the eventual conversion of the VMOC, on the possible need to recognize assets and liabilities and to be able to measure goodwill, and this measurement period must not exceed the period of one year.

- Associated Companies:

- In March 2022, FCR PME NB sold the participation in Epedal for Euros 1,709 thousand, generating a gain of Euro 67 thousand;
- In May 2022, FCR PME NB sold the participation, supplementary instalments and shareholder loans in Nexxpro, having not generated any gain or loss.

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

- Subsidiary companies and branches

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

During the six-month periods ended on 30 June 2022 and 2021, movements related to acquisitions, sales and other investments and reimbursements in subsidiary and associated companies are detailed as follows:

(in thousands of Euros)

	30.06.2022						
	Acquisitions			Sales			
	Acquisition cost	Other investments (a)	Total	Sale value	Other reimbursements (a)	Total	Profit / (Loss) in Sales/Liquidations
Subsidiary companies							
Autodril	-	-	-	504	-	504	(591)
Fungere	-	-	-	-	(15 051)	(15 051)	-
FCR PME NB	-	-	-	-	(3 174)	(3 174)	-
Imogestão	-	-	-	-	(38 000)	(38 000)	-
	-	-	-	504	(56 225)	(55 721)	(591)
Associated companies							
Epedal	-	-	-	1 709	-	1 709	67
Nexxpro	-	-	-	2 790	-	2 790	-
	-	-	-	4 499	-	4 499	67
	-	**-**	**-**	**5 003**	**(56 225)**	**(51 222)**	**(524)**

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

(in thousands of Euros)

	30.06.2021						
	Acquisitions			Sales			
	Acquisition cost	Other investments (a)	Total	Sale value	Other reimburseme nts (a)	Total	Profit / (Loss) in Sales/Liquidations
Subsidiary companies							
Quinta D. Manuel I	-	50	50	-	-	-	-
Várzea da Lagoa	-	110	110	-	-	-	-
Promotur	-	260	260	-	-	-	-
FCR PME NB	-	-	-	-	(3 486)	(3 486)	-
	-	**420**	**420**	**-**	**(3 486)**	**(3 486)**	**-**

(a) Aumentos / reduções de capital, prestações suplementares, suprimentos, operações de troca de instrumentos financeiros e constituição de sociedades

Subsidiaries that were classified under IFRS 5 as non-current assets held for sale and discontinued operations are detailed in Note 32.

NOTE 2 – BASIS OF PRESENTATION

The interim condensed consolidated financial statements of novobanco are presented as at 30 June 2022 and are expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Group are consistent with the ones used in the preparation of the financial statements as at 31 December 2021. The changes to the most relevant accounting policies are described in Note 5.

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

The interim condensed consolidated financial statements and the Management Report of 30 June 2022 were approved at a meeting of the Executive Board of Directors on 28 July of 2022.

NOTE 3 – STATEMENT OF COMPLIANCE

The consolidated financial statements of novobanco have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union in force on January 1, 2021, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of July 19, 2002, and Notice nº 5/2015 of Bank of Portugal.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and its predecessor body the Standing Interpretations Committee (SIC).

The interim condensed consolidated financial statements of novobanco are presented as at 30 June 2022. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Consequently, these interim condensed consolidated financial statements do not include all the information required by IFRS, and therefore they should be read together with the financial statements for the year ended on 31 December 2021. The accounting policies used by the Bank are consistent with the ones used in the preparation of the financial statements as at 31 December 2021, except for the new standards issued.

NOTE 4 – PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

NOTE 5 – CHANGES IN ACCOUNTING POLICIES

In the preparation of its financial statements with reference to June 30, 2022, the Group did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Group are as follows:

Norms, interpretations, amendments, and revisions that came into force in the fiscal year
The following norms, interpretations, amendments, and revisions adopted ("endorsed") by the European Union have mandatory application for the first time in the fiscal year beginning January 1, 2022:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	Description
Amendments to IFRS 3 - References to the Framework for Financial Reporting	1-Jan-2022	This amendment updates the references to the Framework in the text of IFRS 3, with no changes being made to the accounting requirements for business combinations. It also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. The amendment is of prospective application.
Amendments to IAS 16 - Income Earned Before Start-Up	1-Jan-2022	Clarifies the accounting treatment given to the consideration obtained with the sale of products that result from the production in test phase of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognizes the income obtained from the sale of such products and the costs of their production in results.
Amendments to IAS 37 - Onerous Contracts - costs of fulfilling a contract	1-Jan-2022	This amendment specifies that in assessing whether or not a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labor and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses for tangible assets used to perform the contract. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract. This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without restating the comparative.
Amendments to IFRS 1 - Subsidiary as a first-time adopter of IFRS (included in the annual improvements for the 2018-2020 cycle)	1-Jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.

Amendments to IFRS 9 - Derecognition of financial liabilities - Fees to be included in the '10 per cent' change test (included in the annual improvements for the 2018 2020 cycle)	1-Jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.
Amendments to IAS 41 - Taxation and fair value measurement (included in the annual improvements for the 2018-2020 cycle)	1-Jan-2022	This improvement eliminates the requirement to exclude tax cash flows in the fair value measurement of biological assets.

These standards and changes had no material impact on the Group's financial statements.

NOTE 6 – BASIS OF CONSOLIDATION

These consolidated financial statements comprise the assets, liabilities, income, expenses, other comprehensive income, and cash flows of novobanco and of its subsidiaries (Group or novobanco Group) and the results attributable to the Group relating to shareholdings in associated companies.

These accounting policies have been consistently applied to all the Group companies during the financial years covered by these consolidated financial statements.

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

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

Gains or losses arising from the dilution or sale of a portion of the financial interest in a subsidiary, with loss of control, are recognized by the Group in the income statement.

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

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

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

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

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

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

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

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

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

The evaluation of the existence of control is made based on the established by IFRS 10 – Consolidated Financial Statements, according to which a SE is controlled if (i) the Group is exposed or has rights to its results; and (ii) the Group has the power to affect the SE's results through the control it exercises over them.

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

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

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

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

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

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

For business combinations that are not completed at the end of the reporting period, the Group estimates the provisional amounts of assets and liabilities to be included in the consolidated financial statements, including the related *goodwill*. During the measurement period, which does not exceed one year from the acquisition date, the provisional amounts recognized will be retrospectively adjusted to reflect new information obtained, including the recognition of additional assets or liabilities.

Goodwill is tested for impairment annually and whenever circumstances indicate that its book value may be impaired. Any impairment losses determined are recognized in the income statement. The recoverable amount reduction is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the *goodwill* refers. When the recoverable amount of the cash-generating unit is less than it's carrying amount, an impairment loss is recognized. Impairment losses related to *goodwill* cannot be reversed in future periods.

Transactions with non-controlling interests
Acquisitions of non-controlling interests that do not result in a change in control over a subsidiary are accounted for as transactions with shareholders and, therefore, no additional goodwill is recognized as a result of such transactions. Any difference between the

acquisition cost and the carrying book value of the non-controlling interest acquired is recognized directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over a subsidiary, are always recorded against reserves.

Non-controlling interests for open investment funds are presented in the caption Other liabilities.

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

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

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

The financial statements of each of the Group entities that have a functional currency different from the Euro are translated into Euro in accordance with the following criteria:
- Assets and liabilities are translated using the exchange rate prevailing at the reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;
- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognized in results as an integral part of the gain or loss on the disposal.

NOTE 7 – MAIN ACCOUNTING POLICIES

7.1. Foreign currency operations

7.1.1 Functional and presentational currency

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

7.1.2 Transactions and balances

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

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

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

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

7.2. Recognition of interest income/expense

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

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

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

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

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities held for trading (see note 7.5).

7.3. Recognition of fee and commission income

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

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 7.2.

7.4. Recognition of dividend income

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

7.5. Net trading income

Net income from financial assets and liabilities held for trading includes changes in fair value, interest or expenses and dividends, as well as income from derivatives held for economic hedging that do not qualify as hedging derivatives.

7.6. Net gain/ (loss) on financial assets and liabilities designated at fair value through profit or loss

Net gain or loss on financial assets and liabilities designated at fair value through profit or loss includes the net gain or loss from financial assets and financial liabilities designated as at fair value through profit or loss and also from non-trading assets measured at fair value through profit or loss, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

7.7. Net gain/ (loss) on derecognition of financial assets measured at amortized cost

Net loss on derecognition of financial assets measured at amortized cost includes loss (or income) recognized on sale or derecognition of financial assets measured at amortized cost calculated as the difference between the net book value (including impairment until the recoverable amount) and the proceeds received.

7.8. Financial Instruments – Initial recognition and measurement

7.8.1. Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Group recognizes balances due to customers when funds are transferred to the Group.

7.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in note 7.10 Financial instruments are initially measured at their fair value (as defined in note 7.9), except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

7.8.3. Day one profit

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

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

7.8.4. Measurement categories for financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortized cost, as explained in note 7.10.1;
- Fair Value Through Other Comprehensive Income, as explained in notes 7.10.1, 7.10.2 and 7.10.3;
- Fair Value Through Profit or Loss, as set out in note 7.10.4.
- Mandatorily measured at fair value through profit or loss, as set out in note 7.10.4.

The Group classifies and measures its derivative and trading portfolio at fair value through profit or loss, as explained in note 7.10.5. The Group may designate financial instruments at fair value through profit or loss, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note 7.10.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at fair value through profit or loss when they are held for trading and derivative.

7.9. Fair value of financial assets and liabilities

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)
This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Group analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Group in favour of a specific price.

This category includes, amongst others, the following financial instruments:
- (i) Derivatives traded on an organized market;
- (ii) Shares quoted on a stock exchange;
- (iii) Open investment funds quoted on a stock exchange;
- (iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
- (v) Bonds with observable market quotes;

(vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)
In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Group uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations, but which markets have a lower liquidity. Additionally, the Group also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:
(i) Bonds without observable market valuations valued using observable market inputs;
(ii) Derivatives (OTC) over-the-counter valued using observable market inputs; and
(iii) Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)
This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:
(i) Debt securities valued using non-observable market inputs;
(ii) Unquoted shares;
(iii) Closed real estate funds;
(iv) Hedge funds;
(v) Private equities;
(vi) Restructuring funds; and
(vii) Over the counter (OTC) derivatives with prices provided by third parties

7.10. Financial Assets and Liabilities

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

7.10.1 Financial assets at amortized cost or accounted at fair value through other comprehensive income

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

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

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

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

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

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

7.10.2 Debt instruments at fair value through other comprehensive income

The Group classifies debt instruments at fair value through other comprehensive income when both of the following conditions are met:

- The financial asset is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise to, on specific dates, cash flows that are solely payments of principal and interests on the principal amount outstanding.

Debt instruments classified as at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in Other Comprehensive Income, at which point the accumulated value of potential gains and losses recorded in reserves is transferred to income statement under the caption of gains or losses with financial assets and liabilities accounted for at fair value through profit or loss. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 7.2.

The expected credit loss calculation for debt instruments at fair value through other comprehensive income is explained in Note 7.16. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis.

7.10.3. Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income.

Equity instruments measured at fair value through other comprehensive income are not subject to an impairment assessment.

7.10.4. Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss present the following characteristics:

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

These assets are measured at fair value and the respective revaluation gains, or losses are recognized in the income statement, except for gains and losses arising from changes in the Group's own credit risk, the Debt Valuation Adjustment (DVA), which are recognized in other comprehensive income. novobanco Group does not record any gain arising from own credit risk.

7.10.5. Assets and liabilities held for trading

The Group classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking.

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

7.10.6. Derivative financial instruments and hedge accounting

Classification

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

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

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 31 and 35) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting
- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:
(i) Hedging instruments and hedged items are eligible for the hedge relationship;
(ii) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;
(iii) There is an economic relationship between the hedged item and the hedging instrument;
(iv) The effect of credit risk does not dominate the changes in value that result from this economic relationship;
(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

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

The use of derivatives is framed in the Group's risk management strategy and objectives.

- Fair Value Hedge

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

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

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

- Cash Flow Hedge

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

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

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Group classifies the entire contract in accordance with the policy outlined in Note 7.9.

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

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

These embedded derivatives are measured at fair value with the changes in fair value being recognized in the income statement.

7.10.7. Financial liabilities

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

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

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

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

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

Reclassifications between categories of liabilities are not allowed.

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

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

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

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

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

7.10.8. Financial and performance guarantees

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

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

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

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

7.11. Reclassifications of financial assets and financial liabilities

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

7.12. Modification of financial assets and financial liabilities

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Group performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors. When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:

- Change in loan currency;
- Introduction of an equity feature;
- Change in counterparty;
- Whether the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Group's accounting policy in respect of forborne loans is set out in note 7.13.

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortized cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognized immediately as profit or loss. For financial liabilities, the Group considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability.

7.13. Derecognition

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

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

7.14. Forborne modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Global Risk Department. Forbearance may involve extending the payment arrangements and/or the agreement of new loan conditions. If modifications are substantial, the loan is derecognied, as explained in Note 7.12. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. The Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 44 and whether the assets should be classified as Stage 3.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset.
Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contracts that are more than 30 days past due.

7.15. Offsetting of financial instruments

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

7.16. Impairment of Financial Assets

Impairment principles
The Group records impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Equity instruments are not subject to impairment under IFRS 9.

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

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

Impairment is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- *Stage* 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

- *Stage* 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired (as default definition described below). The Group records an allowance for the LTECL.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR. The ECL allowance is only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The calculation of ECL

The Group calculates ECL based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD Probability of Default- is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- EAD Exposure at Default - is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD The Loss Given Default - is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognized separately.

Scenarios

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

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

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

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

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

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

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

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case and an upside case.

The mechanics of the ECL method are summarised below:

- *Stage* 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

- *Stage* 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- *Stage* 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

- When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

- For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized within Provisions.

The ECL for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

For POCI financial assets, the Group only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest. The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Individual impairment analysis process

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

7.17. Collateral and financial guarantees valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

7.18. Foreclosed properties and non-current assets held for sale

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

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

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

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

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

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

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

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

For assets of greater relevance, the challenge of the appraisals that serve as a basis for the valuation of the real estate assets is carried out by a specialized area of the Group that is independent of this valuation process, in accordance with an annual work plan previously approved by the Executive Board of Directors.

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

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell. Where the carrying value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to Level 3.

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

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

For purposes of determining the fair value of subsidiaries held for resale, the Group adopts the following methodologies:

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

7.19. Investment properties

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

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

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

Subsequent expenditure is capitalised only when it is probable that the Group will obtain future economic benefits in excess of those originally estimated based on the performance of the asset.
Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income and expenses. Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income or Other operating expenses.

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

7.20. Write-offs

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

(i) the total amount of the credit has been demanded, that is, the credit must be fully recognized (totally or partially) as overdue credit. Exemptions from this requirement are (i) debt restructuring/pardon carried out within the scope of extra-judicial, PER and Insolvency agreements, in which part of the credit may remain performing and the remainder of the debt will be written off by judicial/extra-judicial decision and (ii) situations in which that despite the contract not having expired in its entirety, the Group understands that it is facing a scenario of total or partial loss;
(ii) All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered);
(iii) The credit recovery expectations are very low, being necessary that the amount to be written off (whether total or partial write-off of the debt) to be fully covered by impairment and under management by the central credit recovery application. It is necessary to ensure that the amount to be written off from the asset is 100% impaired (constituted at least in the month prior to the write-off); and
(iv) A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered.

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

7.21. Cash and cash equivalents

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

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

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

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognized in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 7.10. Securities received under borrowing agreements are not recognized in the balance sheet.

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

7.23. Property, plant and equipment

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

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

Land is not depreciated. The depreciation of property, plant and equipment is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of Years
Self-Serviced Buildings	35 to 50
Leasehold improvements	10
IT equipment	4 to 8
Furniture and fixtures	4 to 10
Interior installations	5 to 10
Security equipment	4 to 10
Machines and tools	4 to 10
Transport equipment	4
Other equipment	5

The useful lives and residual values of property, plant and equipment are reviewed at each reporting date.

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

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

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

7.24. Leases

Lease Definition
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee
As a lessee, the Group leases various assets, including real estate, vehicles and IT equipment. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

The Group presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and less any lease incentives received.

The Group presents the lease liabilities under "Other liabilities" in the statement of financial position. The lease liability corresponds to the present value of the future cash flows to be paid during the lease contract. The lease rents include fixed amounts, variable amounts that depend on an interest rate, amounts to be payable relating to guarantees on the residual value of the asset. Any options are also included if they are reasonably expected to be exercised.

Variable amounts that do not depend on interest rate are recognized as cost in the period to which they relate. During the lease period, the lease liability increases by the interest accrual and decreases by the lease rents payment. The value of the lease liability changes if the terms of the lease (such as the term or the value of the index) change or if the valuation of the exercise of the option to acquire the asset changes.

As Lessor

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

Operating leases
All lease transactions that do not fall under the definition of finance lease are classified as operating leases.
Receipts relating to these contracts are recognized on a straight-line basis over the lease term and recorded in "Other operating income".

7.25. Intangible assets

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

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

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

7.26. Impairment of non-financial assets

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asse or cash generating unit fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year (perpetuity).

Impairment losses of continuing operations are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or cash generating unit recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

.

7.27. Employee Benefits

Pensions
Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 17, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

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

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

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

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

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

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

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

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

Health-care benefits
The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.
SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization, and surgeries, in accordance with its funding availability and internal regulations.

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

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

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

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

Employees' variable remuneration and other obligations
The Group recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Group recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events and can make a reliable estimate of the obligation.
- Obligations with holidays, holiday subsidy and Christmas subsidy
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

7.28. Provisions and Contingent liabilities

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

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

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

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

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

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

7.29. Income taxes

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

Corporate income tax comprises current tax and deferred tax.

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

Current tax

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

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

Deferred tax

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

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

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

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

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

7.30. Treasury shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank’s own equity instruments is recognized directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments. As at 30 june 2022, the Bank or the Group does not hold own equity instruments.

7.31. Disintermediation

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Group.

7.32. Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date..

7.33. Equity Reserves

The reserves recorded in equity on the Group's statement of financial position include:

- Other Comprehensive Income:
  - Fair value reserves which comprise: (i) The cumulative net change in the fair value of debt instruments classified at fair value through other comprehensive income, less the allowance for expected credit loss, when applicable; (ii) The cumulative net change in fair value of equity instruments at fair value through other comprehensive income;
  - Impairment reserves of debt instruments classified at fair value through other comprehensive income;
  - Reserves associated with sales of equity instruments classified as fair value through other comprehensive income, which include the proceeds from sales of these securities;
  - Actuarial deviation reserves that correspond to actuarial gains and losses, resulting from differences between the actuarial assumptions used and the values actually verified (experience gains and losses) and from changes in actuarial assumptions and the gains and losses arising from the difference between the income expected from the fund's assets and the values obtained;
  - Own credit revaluation reserve, which comprises the cumulative changes in the fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in the Group's own credit risk
  - Cash flow hedge reserve, which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge
  - Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging
  - Other capital reserve, which includes the portion of compound financial liabilities that qualify for treatment as equity
- Retained earnings, which corresponds to earnings of the Group carried over from previous years;
- Other reserves (originary reserve, special reserve and other reserves).

7.34. Earnings per share

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

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

7.35. The accounting standards and interpretations

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet applied in the preparation of its financial statements may be analyzed as follows:

Standards, interpretations, amendments and revisions that become effective in future years:

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have not been, until the date of approval of these financial statements, adopted ("endorsed") by the European Union:

Standard / Interpretation	Applicable in the European Union for fiscal years beginning on or after	Description
IFRS 17 - Insurance Contracts	1-Jan-2023	IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IAS 1 – Presentation of financial		This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its

statements - Classification of current and non-current liabilities	1-Jan-2023(*)	payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise that right), or by events occurring after the reporting date, such as the breach of a "covenant". However, if the right to defer settlement for at least twelve months is subject to certain conditions being met after the reporting date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or noncurrent. This amendment also includes a new definition of "settlement" of a liability and is retrospective.
Amendments to IAS 8 – Definition of accounting estimates	1-Jan-2023	The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 1 – Disclosure of accounting policies	1-jan-2023	These amendments are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However, due to the absence of this concept in IFRS, it was decided to replace it by the concept "materiality", a concept already known to users of financial statements. In assessing the materiality of accounting policies, the entity has to consider not only the size of the transactions but also other events or conditions and the nature of these.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	1-jan-2023	The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgment whether such deductions are attributable to the liability that is recognized in the financial statements or the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability. According to these amendments, the initial recognition exception is not applicable to transactions that have given rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not equal.

(*) In July 2021, the Board tentatively decided to defer the effective date of the 2020 amendments to no earlier than 1 January 2024..

The Group did not early adopt any of these standards in the interim financial statements as of 30 June 2022. No significant impacts on the financial statements are expected as a result of their adoption.

NOTE 8 - MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

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

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

8.1 Impairment of financial assets at amortized cost and at fair value through other comprehensive income

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

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Group determines its business model based on how it manages the financial assets and its business objectives. The Group monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 7.16 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Group management, constitutes a significant increase on credit risk;
- Classification of default: Grupo novobanco's internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification –

unlikely to pay -, which are replicated in the internal definition implemented by Grupo novobanco and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with Grupo novobanco. This concept is covered in more detail below;

- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Group monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: The Group uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

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

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

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Note 42.

8.3. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 30.

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

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

.

8.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 16 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries, and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the novobanco Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

8.5. Provisions and Contingent liabilities

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

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

8.6. Investment properties, Foreclosed assets and Non-current assets held for sale

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

The fair value of these assets is determined based on valuations conducted by independent entities specialized in this type of service, using the market, income or cost methods, as defined in Notes 7.18 and 7.19. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

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

8.7. Entities included in the consolidation perimeter

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

8.8 Significant judgment in determining contract lease term

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

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

NOTE 9 – SEGMENT REPORTING

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

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

For this purpose, as at 30 June 2022, the Group has novobanco as its main operating unit - with 284 branches in Portugal (31 December 2021: 291 branches) and branches in Luxembourg and Spain and 2 representation offices – with novobanco dos Açores (13 branches), Banco BEST (6 branches), GNB GA, amongst other companies.

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

9.1. Description of the operating segments

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

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

a) **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans, and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;
b) **Corporate and Institutional: i**ncludes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;
c) **Private Banking:** In accordance with the commitments made to the Directorate General for Competition of the European Commission, the Bank discontinued the provision of private banking services and therefore this segment is no longer reported.

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

Amongst the units comprising this segment are novobanco’s branches in Luxembourg and Spain. The aggregation of this units in the same segment is related with the geographic criteria and with the nature of the clients, the products and the services provided.

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

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

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

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

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

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 7, with the adoption of the following additional principles:

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

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

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

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the

Group, strategically, decides to securitize some of the assets; (ii) the allocation of a commercial margin to mass-products, defined at top management level when the products are launched; (iii) for non-mass products, the allocation of a margin directly negotiated by the commercial structures with customers; (iv) the allocation of the direct costs of commercial and central structures dedicated to the segment; (v) the allocation of indirect costs (central support and IT services) determined based on specific drivers; (vi) the allocation of credit risk determined in accordance with the impairment model; and (vii) the allocation of novobanco's total equity to the Markets segment.

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

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

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

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

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

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

Domestic and International Areas
In presenting the financial information by geographical areas, the operating units that make up the International Area are the branches of novobanco in Spain and Luxembourg, the subsidiaries NB Servicios and Novo Vanguarda (both settled during 2021), the units located outside GNB GA, and also Banco Delle Tre Venezie (no longer part of the Group's perimeter during 2021) and Ijar Leasing Algérie as discontinued operations.

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

The segment reporting is presented as follows:

(in thousands of Euros)

	30.06.2022							
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	107 156	107 318	21 777	(1)	-	31 780	-	268 030
Net fees and comissions	91 395	45 246	5 993	11 814	-	(12 099)	-	142 349
Other operating income	9 267	5 089	640	(59)	-	150 977	-	165 914
Total operating income	207 818	157 653	28 410	11 754	-	170 658	-	576 293
Operating expenses	121 505	18 213	9 455	5 842	-	66 338	48 305	269 658
Of which:								
Provisions / Impairment losses	*(5 432)*	*3 983*	*2 272*	*189*	-	*18 775*	-	*19 787*
Depreciation and amortization	*8 522*	*429*	*242*	*332*	-	*526*	*9 494*	*19 545*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	2 453	-	2 453
Profit / (loss) from continued operations before taxes and non-controlling interests	**86 313**	**139 440**	**18 955**	**5 912**	**-**	**106 773**	**(48 305)**	**309 088**
Taxes	-	-	90	1 624	-	-	17 207	18 921
Profit / (loss) of discontinued operations	-	-	-	-	-	(270)	-	(270)
Net Profit / (loss) for the period attributable to non-controlling interests	894	-	-	-	-	22 279	-	23 173
Net Profit / (loss) for the period attributable to Shareholders of the parent	**85 419**	**139 440**	**18 865**	**4 288**	**-**	**84 224**	**(65 512)**	**266 724**
Intersegment operating income [(1)]	*1 056*	*3 204*	*28 946*	*(193)*	-	*(29 572)*	-	*3 441*
Total Net Assets	**21 848 851**	**10 603 781**	**2 691 452**	**106 664**	**-**	**10 242 253**	**-**	**45 493 001**
Total Liabilities	**21 590 010**	**10 457 598**	**2 568 076**	**13 593**	**-**	**7 611 968**	**-**	**42 241 245**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**118 687**	**-**	**118 687**
Investments in tangible fixed assets	**167**	**-**	**-**	**88**	**-**	**43 861**	**6**	**44 122**
Investments in intangible assets	**-**	**-**	**-**	**6**	**-**	**6 818**	**-**	**6 824**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**10 524**	**-**	**10 524**
Investments in other assets - real estate properties	**700**	**-**	**-**	**-**	**-**	**8 200**	**829**	**9 729**

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

(in thousands of Euros)

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

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

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

(in thousands of Euros)

	30.06.2022						
	Portugal	Spain	Luxembourg	Brazil	Angola	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	252 592	(3 432)	16 576	988	-	-	266 724
(of which: rel. to discontinued units)	*(5 441)*	*5 171*	-	-	-	-	(270)
Total income	3 299 145	386	105 004	980	-	-	3 405 515
Intersegment operating income	*(22 825)*	-	*26 266*	-	-	-	*3 441*
Net assets	43 178 738	52 823	2 252 633	3 605	876	4 326	45 493 001
(of which: rel. to discontinued units)	*3 522*	-	-	*3 229*	*876*	*4 326*	*11 953*
Investments in associated companies	118 687	-	-	-	-	-	118 687
Investments in tangible fixed assets	44 122	-	-	-	-	-	44 122
Investments in intangible assets	6 824	-	-	-	-	-	6 824
Investments in investment properties	10 524	-	-	-	-	-	10 524
Investments in other assets - real estate properties	8 900	829	-	-	-	-	9 729
Profits / (losses) of continuing operating units before taxes and non-controlling interests	289 328	(3 432)	22 204	988	-	-	309 088
Turnover [(a) (b)]	723 234	386	43 811	980	-	-	768 411
Number of employees [(a)]	4 149	7	11	-	-	-	4 167

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

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

(in thousands of Euros)

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

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

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

NOTE 10 – NET INTEREST INCOME

The breakdown of this caption as at 30 June 2022 and 2021 is as follows:

(in thousands of Euros)

	30.06.2022					30.06.2021				
	Effective Interest Rate Method			Other		Effective Interest Rate Method			Other	
	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances to customers	250 263	6 820	-	-	257 083	249 617	6 352	-	-	255 969
Interest from deposits with and loans and advances to / deposits from banks	160	-	40 634	-	40 794	7 424	-	36 640	-	44 064
Interest from securities	39 723	24 377	-	685	64 785	25 358	36 248	-	5 175	66 781
Interest from derivatives	-	-	763	2 151	2 914	-	-	948	2 406	3 354
Other interest and similar income	177	-	-	-	177	215	-	-	-	215
	290 323	**31 197**	**41 397**	**2 836**	**365 753**	**282 614**	**42 600**	**37 588**	**7 581**	**370 383**
Interest Expenses										
Interest on debt securities issued	29 305	-	-	-	29 305	16 516	-	-	-	16 516
Interest on amount due to customers	21 363	-	-	-	21 363	26 595	-	-	-	26 595
Interest on deposits from / deposits with and loans and advances to banks	3 900	-	9 804	-	13 704	3 666	-	3 826	-	7 492
Interest on subordinated liabilities	16 948	-	-	-	16 948	16 943	-	-	-	16 943
Interest from derivatives	-	-	5 484	6 919	12 403	-	-	3 665	5 984	9 649
Other interest and similar expenses	3 487	-	513	-	4 000	3 399	-	532	-	3 931
	75 003	**-**	**15 801**	**6 919**	**97 723**	**67 119**	**-**	**8 023**	**5 984**	**81 126**
	215 320	**31 197**	**25 596**	**(4 083)**	**268 030**	**215 495**	**42 600**	**29 565**	**1 597**	**289 257**

As at 30 June 2022, interest from loans and advances to customers includes Euro 14,275 thousand from financial leasing operations (30 June 2021: Euro 15,895 thousand).

In relation to repurchase agreement operations, interest from deposits with and loans and advances to banks, interest on amounts due to customers and interest on deposits from banks include, as at 30 June 2022, the amount of Euro -157 thousand, Euro 1,077 thousand and Euro 2,783 thousand, respectively (30 June 2021: Euro 587 thousand of resources from credit institutions).

Interest income and expense items related to derivative interest include, according to the accounting policy described in Notes 7.10.6 and 7.2, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 7.10.6 and 7.10.7.

NOTE 11 – DIVIDEND INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Financial assets mandatorily at fair value through profit or loss		
Shares	102	1 979
Euronext NV	-	1 801
Visa Inc CL C	98	169
Other	4	9
Participation units	164	2 050
Explorer III B	164	2 050
Financial assets at fair value through other comprehensive income		
Shares	2 561	1 330
ESA ENERGIA-AM	238	275
SIBS SGPS	1 866	785
RAMADA INV.	2	2
Other	455	268
	2 826	**5 359**

NOTE 12 – FEE AND COMMISSION INCOME AND FEE AND COMISSION EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Fees and commissions income		
From banking services	124 503	116 091
From guarantees provided	15 625	16 923
From transaction of securities	4 202	4 383
From commitments to third parties	3 281	4 014
From transactions carried out on behalf of third parties - cross-selling	17 039	15 254
Other fee and commission income	620	662
	165 270	**157 327**
Fees and commissions expenses		
With banking services rendered by third parties	15 100	16 769
With guarantees received	1 353	813
With transaction of securities	1 227	1 286
Other fee and commission income	5 241	5 693
	22 921	**24 561**
	142 349	**132 766**

NOTE 13 – NET TRADING INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2022			30.06.2021		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss						
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by the government and public entities	29 012	44 216	(15 204)	15 939	8 595	7 344
Issued by other entities	2 976	36 710	(33 734)	9 511	323	9 188
	31 988	**80 926**	**(48 938)**	**25 450**	**8 918**	**16 532**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by the government and public entities	2	-	2	-	-	-
Issued by other entities	-	4 567	(4 567)	-	142	(142)
Loans	2 164	1 243	921	5 221	10 779	(5 558)
	2 166	**5 810**	**(3 644)**	**5 221**	**10 921**	**(5 700)**
	34 154	**86 736**	**(52 582)**	**30 671**	**19 839**	**10 832**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by the government and public entities	1 803	22 662	(20 859)	2 038	11 768	(9 730)
Issued by other entities	10	-	10	38	20	18
Financial Derivatives						
Foreign exchange rate contracts	43 996	38 880	5 116	33 810	42 600	(8 790)
Interest rate contracts	421 384	258 577	162 807	253 362	216 968	36 394
Equity / Index contracts	1 185	1 341	(156)	20 634	20 035	599
Credit default contracts	-	-	-	16	18	(2)
Other	8 307	6 635	1 672	637	154	483
Other	-	170	(170)	-	-	-
	476 685	**328 265**	**148 420**	**310 535**	**291 563**	**18 972**
Gains or losses on financial assets mandatorily at fair value through profits or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	570	627	(57)	14 602	2 440	12 162
Shares	2 716	12 837	(10 121)	17 313	-	17 313
Other variable income securities	993	1 770	(777)	8 022	7 372	650
	4 279	**15 234**	**(10 955)**	**39 937**	**9 812**	**30 125**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Other variable income securities	34	4	30	81	-	81
	34	**4**	**30**	**81**	**-**	**81**
Gains or losses from hedge accounting						
Fair value changes of hedging instruments						
Foreign exchange rate contracts	420 065	176 839	243 226	62 352	30 470	31 882
Fair value changes of hedging item attributable to hedged risk	1 765	244 878	(243 113)	4 645	28 335	(23 690)
	421 830	**421 717**	**113**	**66 997**	**58 805**	**8 192**
Foreign exchange revaluation	**808 036**	**809 000**	**(964)**	**685 749**	**672 311**	**13 438**
	1 745 018	**1 660 956**	**84 062**	**1 133 970**	**1 052 330**	**81 640**

Gains or losses on financial assets and financial liabilities held for trading

In accordance with the accounting policy described in Note 7.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

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

As at 30 June 2022, the gains recognized in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 1,499 thousand (30 June 2021: Euro 773 thousand).

Gains or losses on financial assets mandatorily at fair value through profit or loss

Gains or losses on hedge accounting include the fair value changes of the hedging instrument (derivative) and the fair value changes of the hedged item attributable to the hedged risk. In the case where the hedging operations are interrupted in advance there may occur the payment/receipt of compensation, which is recorded in Other operating expenses/ Other operating income. As at 30 June 2022, the amount of compensation received amounted to EUR 88 thousand (30 June 2021: EUR 1,166 thousand).

Foreign exchange differences

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 7.1.

NOTE 14 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Real Estate	4 213	2 377
Equipment	(307)	(307)
Other	226	(762)
	4 132	**1 308**

NOTE 15 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Other operating income		
Gains / (losses) on recoveries of loans	12 548	16 089
Income of Funds and real estate companies	35 461	13 537
Gains on the acquisition of debt issued by the Group (see Note 33)	23	-
Gains on investment properties revaluation (see Note 28)	101 415	4 905
Other income	(5 465)	14 130
	143 982	**48 661**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 33)	-	(4)
Direct and indirect taxes	(1 886)	(1 733)
Contribution on the banking sector and solidarity additional	(34 132)	(34 203)
Membership fees and donations	(1 076)	(1 281)
Expenses of Funds and real estate companies	(7 465)	(7 465)
Charges with Supervisory entities	(1 167)	(927)
Losses on investments properties revaluation (see Note 28)	(12 333)	(4 283)
Other expenses	(11 029)	(13 265)
	(69 088)	**(63 161)**
Other operating income / (expenses)	**74 894**	**(14 500)**

As at 30 June 2022, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 88 thousand (30 june 2021: Euro 1,166 thousand) (see Note 13).

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the national amount of derivative financial instruments, and whose regime has been extended.
As at 30 June 2022, novobanco Group recognized Banking Levy charges as a cost in the amount of Euro 28,881 thousand (31 December 2021: Euro 28,893 thousand). The cost recognized as at 30 June 2022 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures provided for in Economic and Social Stabilization Program (SSPE) and following the art. 18 of Law no. 27 -A / 2020, of July 24, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates.

As at 30 June 2022, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,251 thousand (31 December 2021: Euro 5,194 thousand). The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

NOTE 16 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Wages and salaries	86 017	90 039
Remuneration	86 017	89 647
Long-term service / Career bonuses (see Note 17)	-	392
Mandatory social charges	24 586	24 104
Costs with post-employment benefits (see Note 17)	249	1 735
Other costs	992	1 750
	111 844	**117 628**

The provisions and costs related to the restructuring process are presented in Note 34.

As at 30 June 2022 and 31 December 2021, the number of employees of Novo Banco Group, breaks down as follows:

	30.06.2022	**31.12.2021**
Novo Banco employees	3 893	3 918
Employees of the Group's subsidiaries	274	275
Total employees of the Group	**4 167**	**4 193**

NOTE 17 – EMPLOYEE BENEFITS

Pension and health-care benefits
As mentioned in accounting policy 7.27, the Group has undertaken to provide its employees, or their families, with cash benefits for old-age retirement, disability and survivors' pensions and other liabilities such as a Serviço de Assistência Médico-Social (SAMS), managed by the Union.

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

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

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

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

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

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

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

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

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

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

On June 16, 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the former Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the novobanco Pension Fund. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - novobanco and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of novobanco or BES until the final decision of the court (limit of article no. 402), so novobanco transferred the amount of Euro 19.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 30 June 2022, the amount of Euro 272 thousand was recorded in Personnel Costs related to the defined contribution plan (30 June 2021: Euro 278 thousand; 31 December 2021: Euro 535 thousand).

During 2021, two changes were made to the Pension Fund:

- Inclusion of Social Security Pension – Pensioners
  Until 2020, the methodology applied considered pensions in payment by the Pension Fund for the calculation of liabilities with pensioners. In 2021, this methodology was changed for pensioners who started a pension after 2011, and do not have a Social Security pension. For this group of pensioners with age below the normal retirement age of the General Social Security Regime (RGSS), the liability arising from a Social Security pension, to be paid from the normal retirement age of the RGSS, was deducted. As for pensioners over the normal retirement age of the RGSS, the liability arising from a Social Security pension, to be paid from the moment of assessment, was deducted.

- Inclusion of acquired rights (Clause 98 ACT)
  In 2021, liabilities with former employees who left novobanco Group after 2011, and who can claim rights to the Pension Fund under Clause 98 of the ACT, were included.

The Group's liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 7.27 - Employee benefits, reportable as at 30 June 2022 and 31 December 2021 are analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 517 149)**	**(1 929 188)**
Pensioners	(1 100 741)	(1 334 872)
Employees	(416 408)	(594 316)
Coverage		
Fair value of plan assets	**1 545 815**	**1 907 928**
Net assets / (liabilities) in the balance sheet (See Notes 29 and 33)	**28 666**	**(21 260)**
Accumulated actuarial deviations recognized in other comprehensive income	**746 421**	**799 052**

According to the policy defined in Note 7.27 - Employee Benefits, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

	30.06.2022		31.12.2021	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	3.40%	-17.46%	1.35%	-0.24%
Discount rate	3.40%	-	1.35%	-
Pension increase rate	0.75%	1.26%	0.50%	0.36%
Salary increase rate	1.00%	0.80%	0.75%	2.05%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-3 years	

Disability decrements are not considered in the calculation of the liabilities. The determination of the discount rate as at 30 June 2022 and 31 December 2021 was based on: (i) the evolution of the main indexes in relation to high quality corporate bonds and (ii) the duration of the liabilities.

The evolution of the actuarial deviations in the balance sheet can be analysed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the exercise	**799 052**	**723 723**
Actuarial (gains) / losses in the exercise:		
- Changes in assumptions		
- Financial assumptions	(442 310)	10 612
- Plan assets return (excluding net of interests)	390 926	62 674
Other	(1 247)	2 043
Accumulated actuarial losses recognized in other comprehensive income at the end of the exercise	**746 421**	**799 052**

The costs of retirement pensions and healthcare benefits for the years ended 30 June 2022 and 31 December 2021 can be analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Current service cost	(13)	434
Net interest	1 273	2 908
Early retirements	262	512
Post-employment benefits costs	**1 522**	**3 854**

In the first half of 2022, the amount of early retirements was Euro 2.2 million (30 June 2021: Euro 7.1 million), of which Euro 2.0 million falls within the Group's restructuring process (30 June 2021: Euro 6.9 million) and as such was recognized against the use of the restructuring provision (see Note 34).

Career bonuses

As at 30 June 2022, the liabilities assumed by the Group amounted to Euro 7,390 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 7.27 – Employee benefits (31 December 2021: Euro 7 467 thousand) (see Note 33).

As at 30 June 2022 no costs with career bonuses were recorded (30 June 2021: Euro 392 thousand) (See Note 17).

NOTE 18 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	30.06.2022	30.06.2021
Rentals	2 264	1 896
Advertising	2 946	2 710
Communication	5 818	5 801
Maintenance and repairs expenses	4 774	4 673
Travelling and representation	999	787
Transportation of valuables	1 454	2 600
Insurance	3 681	2 737
IT services	19 403	18 849
Independent work	1 430	909
Temporary work	412	449
Electronic payment systems	6 064	5 619
Legal costs	3 820	2 419
Consultancy and audit fees	10 985	7 888
Water, energy and fuel	1 518	1 538
Consumables	817	861
Other costs	10 942	10 411
	77 327	**70 147**

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

The caption rentals and leases includes, at 30 June 2022, an amount of Euro 572 thousand relating to short-term operating lease contracts (30 June 2021: Euro 231 thousand), as described in note 7.24.

NOTE 19 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

This caption on 30 June 2022 and 2021 is analyzed as follows

(in thousands of Euros)

	30.06.2022	30.06.2021
Contribution to the Fundo Único de Resolução	24 492	25 341
Contribution to the Fundo de Resolução Nacional	16 364	15 150
Contribution to the Fundo de Garantia de Depósitos	299	44
	41 155	**40 535**

NOTE 20 – IMPAIRMENT

As at 30 June 2022 and 2021 the impairment is analyzed as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2022			30.06.2021		
	Charges	Reversals	Total	Charges	Reversals	Total
Provisions or reversal of provisions (see Note 34)						
Provisions for guarantees	6 636	(8 441)	(1 805)	4 057	(25 116)	(21 059)
Provisions for commitments	1 494	(4 374)	(2 880)	5 189	(2 740)	2 449
Other provisions	2 668	(19 909)	(17 241)	2 944	(7 904)	(4 960)
	10 798	**(32 724)**	**(21 926)**	**12 190**	**(35 760)**	**(23 570)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (see Note 24)						
Securities at fair value through equity	1 219	(1 816)	(597)	452	(516)	(64)
Securities at amortised cost	854 662	(812 406)	42 256	561 560	(545 478)	16 082
Loans and advances to banks	353	(436)	(83)	1 445	(1 138)	307
Loans and advances to customers	108 244	(88 944)	19 300	143 931	(59 250)	84 681
	964 478	**(903 602)**	**60 876**	**707 388**	**(606 382)**	**101 006**
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 26)	**(1 636)**	**(19 137)**	**(20 773)**	**361**	**(1 330)**	**(969)**
Impairment or reversal of impairment on non-financial assets						
Non-current assets and disposal groups classified as held for sale and discontinued operations (see Note 32)	-	(391)	(391)	10 686	-	10 686
Tangible fixed assets (see Note 27)	-	(486)	(486)	3 403	(3 904)	(501)
Other assets (see Note 31)	6 791	(4 304)	2 487	7 300	(4 755)	2 545
	6 791	**(5 181)**	**1 610**	**21 389**	**(8 659)**	**12 730**
	980 431	**(960 644)**	**19 787**	**741 328**	**(652 131)**	**89 197**

NOTE 21 – EARNING PER SHARE

Basic earnings per share

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

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Net consolidated profit / (loss) attributable to shareholder of the Bank	**266 724**	**137 707**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**0.03**	**0.01**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**0.03**	**0.01**

Diluted earnings per share

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

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

NOTE 22 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 30 June 2022 and 31 December 2021, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Cash	**156 384**	**151 699**
Demand deposits with Central Banks		
Bank of Portugal	5 790 840	5 261 912
Other Central Banks	1 443	2 717
	5 792 283	**5 264 629**
Deposits in other domestic credit institutions		
Repayable on demand	21 254	85 433
Uncollected checks	56 231	163 138
	77 485	**248 571**
Deposits with banks abroad		
Repayable on demand	162 597	162 632
Other deposits	36 987	44 007
	199 584	**206 639**
	6 225 736	**5 871 538**

The caption Demand deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 274.0 million (31 December 2021: Euro 265.0 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 30 June 2022 and 31 December 2021, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 30 June was included in the observation period running from 15 June to 26 July 2022.

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

NOTE 23 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 30 June 2022 and 31 December 2021, this caption is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	35 810	114 465
	35 810	**114 465**
Derivatives		
Derivatives held for trading with positive fair value	164 990	263 199
	164 990	**263 199**
	200 800	**377 664**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	147 251	306 054
Short selling	16 122	-
	163 373	**306 054**

Securities held for trading

In accordance with the accounting policy described in Note 7.10.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 42.

Derivatives

As at 30 June 2022 and 31 December 2021, Derivatives are analyzed as follows:

(in thousands of Euros)

	30.06.2022			31.12.2021		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	657 175	16 482	15 737	587 774	2 704	7 107
- sell	655 158			591 858		
Currency Swaps						
- buy	775 640	963	871	451 112	633	1 934
- sell	768 992			452 353		
Currency Interest Rate Swaps						
- buy	-	-	-	21 083	20 024	20 103
- sell	-			21 083		
Currency Options						
- buy	277 012	9 794	9 752	304 349	5 766	5 766
- sell	267 332			304 349		
		27 239	**26 360**		**29 127**	**34 910**
Interest rate contracts						
Interest Rate Swaps						
- buy	3 127 980	128 219	116 952	5 988 949	224 317	265 143
- sell	3 127 980			5 988 949		
Swaption - Interest Rate Options						
- buy	137 932	2 163	1 991	86 436	869	2 819
- sell	216 335			166 554		
		130 382	**118 943**		**225 186**	**267 962**
Equity / Index contracts						
Equity / Index Options						
- buy	463 598	7 369	1 948	526 502	8 190	2 608
- sell	463 592			526 498		
		7 369	**1 948**		**8 190**	**2 608**
Commodities Contracts						
Commodities Swaps						
- buy	-	-	-	29 633	696	574
- sell	-			29 633		
		-	**-**		**696**	**574**
		164 990	**147 251**		**263 199**	**306 054**

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 7.10.6 and 7.10.7, and which the Group has not designated for hedge accounting.

In the first half of 2022, the Group recognized a loss of Euro 1,296 thousand related to the CVA of derivative instruments (first half of 2021: loss of Euro 471 thousand). The way of determining the CVA is explained in Note 42.

NOTE 24 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTISED COST

As at 30 June 2022 and 31 December 2021, these captions are analysed as follows:

(in thousands of Euros)

	30.06.2022				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	583 312	2 679 702	6 979 236	(89 998)	10 152 252
Loans and advances to banks	-	-	46 916	-	46 916
Loans and advances to customers	-	-	24 303 642	(100 985)	24 202 657
	583 312	**2 679 702**	**31 329 794**	**(190 983)**	**34 401 825**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

(in thousands of Euros)

	31.12.2021				
	Mandatorily at fair value through profit and loss	**Fair value through other comprehensive income**	**Amortised cost**	**Fair value changes ***	**Total**
Securities	799 592	7 220 996	2 338 697	(3 136)	10 356 149
Loans and advances to banks	-	-	50 466	-	50 466
Loans and advances to customers	-	-	23 650 739	33 797	23 684 536
	799 592	**7 220 996**	**26 039 902**	**30 661**	**34 091 151**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

Securities

As at 30 June 2022 and 31 December 2021, the detail of securities portfolio is as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	13 794	54 960
Shares	300 503	427 886
Other variable income securities	269 015	316 746
	583 312	**799 592**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	1 975 963	5 761 717
From other issuers	617 985	1 398 899
Shares	85 754	60 380
	2 679 702	**7 220 996**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	3 508 968	377 335
From other issuers	3 760 314	2 208 359
Impairment	(290 046)	(246 997)
	6 979 236	**2 338 697**
Value adjustments for interest rate risk hedging (see Note 25)	(89 998)	(3 136)
	10 152 252	**10 356 149**

Other variable income securities mandatorily accounted at fair value through profit or loss include the participation units held by the Group in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 7.10.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

By the end of 2020, novobanco completed the independent assessment of the restructuring funds. These funds are “level 3” assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and novobanco requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets, which led to the recording of a loss of Euro -300.2 million in the year 2020 recorded under the heading of gains or losses with financial assets mandatorily accounted for at fair value through profit or loss. This assessment included the establishment of assumptions for the valuation of assets included in the funds, a discount at the level of the fund based on parameters equivalent to quoted funds and an appreciation of the potential evolution of the fund (see Note 42).

As at 30 June 2022 and 31 December 2021, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost (1)	Fair value reserve		Fair value reserve transferred to Results (2)	Book value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities						
From public issuers	**1 990 177**	**334**	**(14 548)**	**-**	**1 975 963**	**(1 106)**
Residents	1 612 526	334	(12 307)	-	1 600 553	(878)
Non residents	377 651	-	(2 241)	-	375 410	(228)
From other issuers	**677 078**	**172**	**(59 265)**	**6 159**	**617 985**	**(400)**
Residents	29 604	-	(2 387)	-	27 217	(3)
Non residents	647 474	172	(56 878)	6 159	590 768	(397)
Shares	**442 770**	**41 046**	**(398 062)**	**-**	**85 754**	**-**
Residents	344 191	37 619	(308 438)	-	73 372	-
Non residents	98 579	3 427	(89 624)	-	12 382	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Balance as at 30 June 2022	**3 110 028**	**41 552**	**(471 878)**	**6 159**	**2 679 702**	**(1 506)**

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

(2) As part of fair value hedge operations (see Note 25)

(in thousands of Euros)

	Cost (1)	Fair value reserve		Fair value reserve transferred to Results (2)	Book value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities						
From public issuers	**5 560 962**	**205 567**	**(4 812)**	**-**	**5 761 717**	**(3 043)**
Residents	2 478 402	87 103	(918)	-	2 564 587	(1 511)
Non residents	3 082 560	118 464	(3 894)	-	3 197 130	(1 532)
From other issuers	**1 374 554**	**30 008**	**(5 663)**	**-**	**1 398 899**	**(673)**
Residents	29 609	63	(2 335)	-	27 337	(3)
Non residents	1 344 945	29 945	(3 328)	-	1 371 562	(670)
Shares	**442 843**	**15 963**	**(398 426)**	**-**	**60 380**	**-**
Residents	344 174	14 633	(310 732)	-	48 075	-
Non residents	98 669	1 330	(87 694)	-	12 305	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Balance as at 31 December 2021	**7 378 362**	**251 538**	**(408 904)**	**-**	**7 220 996**	**(3 716)**

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

During the first half of 2022, the Group sold Euro 4,097.0 million of financial instruments classified at fair value through other comprehensive income (31 December 2021: Euro 511.3 million), with a loss of Euro 49.3 million (31 December 2021: gain of Euro 16.5 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 1.1 million that were transferred from revaluation reserves to sales-related reserves (31 December 2021: loss of Euro 19.2 million), from the sale of equity instruments.

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**3 690**	**-**	**-**	**3 690**
Increases due to changes in credit risk	452	-	-	452
Decreases due to changes in credit risk	(516)	-	-	(516)
Utilization during the period	(163)	-	-	(163)
Other movements	13	-	-	13
Balance as at 30 June 2021	**3 476**	**-**	**-**	**3 476**
Increases due to changes in credit risk	850	-	-	850
Decreases due to changes in credit risk	(412)	-	-	(412)
Utilization during the period	(221)	-	-	(221)
Other movements	23	-	-	23
Balance as at 31 December 2021	**3 716**	**-**	**-**	**3 716**
Increases due to changes in credit risk	1 219	-	-	1 219
Decreases due to changes in credit risk	(1 796)	-	(20)	(1 816)
Utilization during the period	(1 645)	-	-	(1 645)
Other movements	12	-	20	32
Balance as at 30 June 2022	**1 506**	**-**	**-**	**1 506**

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

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**3 925**	**87 652**	**109 660**	**201 237**
Increases due to changes in credit risk	5 494	539 674	16 392	561 560
Decreases due to changes in credit risk	(4 080)	(524 707)	(16 691)	(545 478)
Utilization during the period	(12)	-	(1 640)	(1 652)
Other movements	90	(89)	1	2
Balance as at 30 June 2021	**5 417**	**102 530**	**107 722**	**215 669**
Increases due to changes in credit risk	3 853	518 627	131 720	654 200
Decreases due to changes in credit risk	(3 608)	(582 914)	(36 355)	(622 877)
Utilization during the period	-	(1)	-	(1)
Other movements	(191)	41	156	6
Balance as at 31 December 2021	**5 471**	**38 283**	**203 243**	**246 997**
Increases due to changes in credit risk	12 222	170 620	671 820	854 662
Decreases due to changes in credit risk	(3 127)	(204 661)	(604 618)	(812 406)
Utilization during the period	(35)	-	-	(35)
Other movements	(6 304)	16	7 116	828
Balance as at 30 June 2022	**8 227**	**4 258**	**277 561**	**290 046**

In accordance with the accounting policy mentioned on Note 7.16, the Group regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 8.1.

The detail of the securities portfolio by fair value hierarchy is presented in Note 42.

The portfolio securities pledged by the Group are analysed in Note 38.

Loans and advances to Banks

As at 30 June 2022 and 31 December 2021, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Loans and advances to banks in Portugal		
Very short-term placements	1 925	-
Deposits	45	715
Loans	40 835	44 770
Other loans and advances	3	3
	42 808	**45 488**
Loans and advances to banks abroad		
Deposits	5 085	6 089
Loans	2	-
Other loans and advances	15	2
	5 102	**6 091**
	47 910	**51 579**
Impairment losses	(994)	(1 113)
	46 916	**50 466**

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

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

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**430**	**2**	**249 706**	**250 138**
Increases due to changes in credit risk	1 125	11	309	1 445
Decreases due to changes in credit risk	(1 137)	(1)	-	(1 138)
Utilization during the period				
Other movements	6	-	7 808	7 814
Balance as at 30 June 2021	**424**	**12**	**257 823**	**258 259**
Increases due to changes in credit risk	85	530	133 754	134 369
Decreases due to changes in credit risk	(262)	(101)	(132 564)	(132 927)
Utilization during the period	(101 282)	-	(167 728)	(269 010)
Other movements	101 252	33	(90 863)	10 422
Balance as at 31 December 2021	**217**	**474**	**422**	**1 113**
Increases due to changes in credit risk	134	219	-	353
Decreases due to changes in credit risk	(114)	(322)	-	(436)
Utilization during the period	-	-	-	-
Other movements	29	(71)	6	(36)
Balance as at 30 June 2022	**266**	**300**	**428**	**994**

Loans and advances to customers

As at 30 June 2022 and 31 December 2021, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Domestic loans and advances		
Corporate		
Current account loans	1 222 957	1 139 614
Loans	8 992 271	8 917 738
Discounted bills	92 256	76 741
Factoring	651 371	595 334
Overdrafts	4 014	13 457
Financial leases	1 198 125	1 245 885
Other loans and advances	30 465	17 814
Individuals		
Residential Mortgage loans	8 695 716	8 733 283
Consumer credit and other loans	1 212 277	1 193 500
	22 099 452	**21 933 366**
Foreign loans and advances		
Corporate		
Current account loans	66 609	66 348
Loans	1 683 353	1 319 819
Discounted bills	3	2
Factoring	24 777	40 519
Overdrafts	79	54
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 126 533	1 038 286
Consumer credit and other loans	200 981	190 201
	3 102 336	**2 655 230**
Overdue loans and advances and interests		
Under 90 days	13 487	20 010
Over 90 days	325 374	290 050
	338 861	**310 060**
	25 540 649	**24 898 656**
Impairment losses	**(1 237 007)**	**(1 247 917)**
	24 303 642	**23 650 739**
Fair value adjustaments of interest rate hedges (see Note 25)		
Corporate		
Loans	(10 590)	4 035
Individuals		
Residential Mortgage loans	(90 395)	29 762
	(100 985)	**33 797**
	24 202 657	**23 684 536**

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

As at 30 June 2022, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1,190.7 million (31 December 2021: Euro 1,255.1 million), related to securitization operations in which, according to the accounting policy referred to in Note 6, structured entities are consolidated by the Group (see Note 1 and 41). The liabilities associated with these securitization operations were recognized as Debt Securities (see Note 33).

As at 30 June 2022, the caption Loans and advances to customers include Euro 6,075.4 million of mortgage loans related to the issuance of mortgage bonds (31 December 2021: Euro 6,075.1 million) (see Note 33).

As at 30 June 2022, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 13,048 thousand (31 December 2021: Euro 18,614 thousand).

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**61 429**	**310 005**	**1 228 341**	**1 599 775**
Financial assets derecognised	(52)	(2 896)	(155 870)	(158 818)
Increases due to changes in credit risk	7 045	67 571	69 315	143 931
Decreases due to changes in credit risk	(24 212)	(17 504)	(17 534)	(59 250)
Utilization during the period	-	(113)	(52 525)	(52 638)
Other movements	24 440	(20 542)	(2 620)	1 278
Balance as at 30 June 2021	**68 650**	**336 521**	**1 069 107**	**1 474 278**
Financial assets derecognised	(1 230)	(177)	(83 834)	(85 241)
Increases due to changes in credit risk	15 638	55 625	86 232	157 495
Decreases due to changes in credit risk	(23 687)	(39 935)	(29 179)	(92 801)
Utilization during the period	-	(81)	(214 483)	(214 564)
Other movements	4 204	(29 759)	34 305	8 750
Balance as at 31 December 2021	**63 575**	**322 194**	**862 148**	**1 247 917**
Financial assets derecognised	(4)	-	(5 264)	(5 268)
Increases due to changes in credit risk	13 622	26 660	67 962	108 244
Decreases due to changes in credit risk	(48 639)	(19 046)	(21 259)	(88 944)
Utilization during the period	-	(80)	(45 295)	(45 375)
Other movements	46 686	(27 970)	1 717	20 433
Balance as at 30 June 2022	**75 240**	**301 758**	**860 009**	**1 237 007**

The increase of impairment for credit risk during the year 2021 include Euro 71.8 million, reflecting the updating of the information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic (first half of 2021: Euro 35.2 million).

(in thousands of Euros)

	30.06.2022					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 271 952	640 035	12 995 932	359 724	14 267 884	999 759
Mortgage loans	3 463	260	9 829 567	54 990	9 833 030	55 250
Consumer and other loans	148 201	132 937	1 291 534	49 061	1 439 735	181 998
Total	**1 423 616**	**773 232**	**24 117 033**	**463 775**	**25 540 649**	**1 237 007**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee

(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2021					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 329 469	643 005	12 384 556	369 675	13 714 025	1 012 680
Mortgage loans	3 138	155	9 808 875	55 865	9 812 013	56 020
Consumer and other loans	148 390	132 298	1 258 025	46 919	1 406 415	179 217
Total	**1 480 997**	**775 458**	**23 451 456**	**472 459**	**24 932 453**	**1 247 917**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee

(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

Main events in the first half of 2022

The most relevant events during the first half of 2022 and with an impact on the risk cost of the period, in chronological order were:

1. The reinforce of impairment arising from specific adjustments on customers that ended the moratorium in the second half of 2021. In this case, the record resulting from the adjustment to stage 3 of the above mentioned customers where there was credit overdue for more than 45 days during the first half of the year;

2. Reinforce of impairment arising from individual analysis referring to counterparties from countries originating from conflict zone;

3. Record of impairment due to the deterioration of the macroeconomic expectations and the rise from the interest rates of reference.

Regarding to reinforcements of impairment in points 1 and 2 mentioned above, they were accounted in the first quarter of 2022 and they had an affordable impact in risk cost since (1) the exposure to countries originating from conflict zone is low and (2) the level of claims observed in customers who benefited from a moratorium in the second half of 2021 was negligible.

Regarding the impairment records resulting from point 3, these are supported by:

3.1 Effects arising from the continuity of conflict between Russia and Ukraine, with the rise in raw material costs, but also from the general rise in the prices of goods and services. To consider this situation, the practical expedient of adjusting the weights assigned to the scenarios currently used to support the IFRS9 impairment calculation was followed, in this case increasing the weight of the adverse scenario against the remaining scenarios used – base and favorable.

3.2 Effects arising from the increase of interest rates of reference, which impact in impairment was estimated using the LGD risk parameter. The estimation/development of this parameter was supported by interest rate values prior to 2022, where the reference rates assumed negative values. With the recent increase in these rates to positive values, it has become urgent to ensure that the LGD risk parameter and, consequently, the impairment constituted for the loan portfolio at the time incorporate this impact.

In this way, the cost of credit risk verified in 2022 during the first half of the year remained at controlled levels and below those of 2021, reflecting the normal functioning of banking activity.

Sales of credit portfolios

2021

Sale of a non-performing loans portfolio (Project Orion)

novobanco entered into sale and purchase agreements with a consortium of funds managed by WEST INVEST UK LIMITED PARTNERSHIP and LX INVESTMENT PARTNERS III S.À.R.L. for the sale of a non-performing loans and related assets portfolio (Project Orion). The net book value of the receivables at the date of derecognition amounted to Euro 76.1 million (gross book value of Euro 162.9 million), with an impact on net income for the year 2021 of approximately Euro 1.8 million:

(in thousands of Euros)

Impact on the Income Statement	31.12.2021
Gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss	-10 159
Impairments or reversal of impairments of financial assets not measured at fair value through profit or loss	19 295
Provisions or reversal of provisions	-7 310
Impact on Net income	**1 826**

Sale of a non-performing loans portfolio (Project Wilkinson)

On March 5, 2021, **novobanco** entered into a sale and purchase agreement to sell a non-performing loans and related assets portfolio (Project Wilkinson), with a net book value of Euro 62.3 million (gross book value of Euro 210.4 million), with Burlington Loan Management, a company owned by companies affiliated to and advised by Davidson Kempner European Partners, LLP. The impact of this operation on net income for 2021 resulted in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on the Income Statement	31.12.2021
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-1 363
Impairments or reversals of impairments on financial assets not measured at fair value through profit or loss	-3 175
Impact on Net Income	**-4 538**

NOTE 25 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

As at 30 June 2022 and 31 December 2021, the fair value of the hedging derivatives is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Hedging derivatives		
Assets	344 320	19 639
Liabilities	(14 982)	(44 460)
	329 338	**(24 821)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities at amortised cost (see Note 24)	(89 998)	(3 136)
Securities at fair value through other comprehensive income (see Note 24)	(6 159)	-
Loans to customers (see Note 24)	(100 985)	33 797
	(197 142)	**30 661**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting (see Note 13).

The Group calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 42 - financial assets and liabilities held for trading.

As at 30 June 2022, the ineffective part of the fair value hedging operations, which translated into a cost of Euro 6.2 million was recorded in the income statement (31 December 2021: cost of Euro 1.6 million). The Group periodically conducts tests the effectiveness of existing hedging relationships.

NOTE 26 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

(in thousands of Euros)

	Cost of participation		Economic interest (b)		Gross Book Value		Impairment		Net Book Value		Profit / (losses) attributable to the Group	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	30.06.2021
LOCARENT	2 967	2 967	50.00%	50.00%	22 282	21 349	-	-	22 282	21 349	807	169
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40.00%	40.00%	68 438	59 737	(7 406)	(26 361)	61 032	33 376	-	-
EDENRED	4 984	4 984	50.00%	50.00%	1 683	2 692	-	-	1 683	2 692	-	-
UNICRE **a)**	11 497	11 497	17.50%	17.50%	25 976	27 242	-	-	25 976	27 242	1 106	905
ESEGUR	9 634	9 634	44.00%	44.00%	14 377	13 847	(9 203)	(8 673)	5 174	5 174	402	-
Other	7 549	14 445			5 414	11 474	(2 874)	(6 717)	2 540	4 757	138	(121)
	183 400	**190 296**			**138 170**	**136 341**	**(19 483)**	**(41 751)**	**118 687**	**94 590**	**2 453**	**953**

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

In the first half of 2022, dividend income in the amount of Euro 4,692 thousand was recorded in financial assets in investments in associates and subsidiaries, which include dividends received from Unicre in the amount of Euro 3,070 thousand, Euro 614 thousand from Locarent and Euro 1,009 thousand from Edenred (30 June 2021: Euro 6,981 thousand, which includes dividends received from Unicre in the amount of Euro 6,321 thousand and from Edenred in the amount of Euro 660 thousand).

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

(in thousands of Euros)

	30.06.2022	31.12.2021	30.06.2021
Balance at the beginning of the period	**41 751**	**32 268**	**37 963**
Charges	(1 636)	317	361
Utilizations	(1 497)	-	-
Reversals	(19 137)	337	(1 330)
Transfers			-
Foreign exchange differences and other [(a)]	2	8 829	(4 726)
Balance at the end of the period	**19 483**	**41 751**	**32 268**

(a) For 2021 it includes EUR 4,725 thousand impairment for Ijar Leasing transferred during the first half of 2021 to discontinued operations (see Note 32)

NOTE 27 – PROPERTY, PLANT AND EQUIPMENT

This caption as at 30 June 2022 and 31 December 2021 is analysed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Real estate properties		
For own use	246 705	245 988
Improvement in leasehold properties	113 370	120 800
	360 075	**366 788**
Equipment		
Computer equipment	111 409	114 847
Fixtures	46 272	49 276
Furniture	57 550	54 728
Security equipment	20 139	21 775
Machines and tools	8 267	8 407
Transport equipment	583	583
Other	133	146
	244 353	**249 762**
Assets under right of use		
Real estate properties	59 079	55 993
Equipment	7 973	9 819
	67 052	**65 812**
Work in progress		
Improvements in leasehold properties	12 298	952
Real estate properties	19 212	9 891
Equipment	6	6
Others	456	336
	31 972	**11 185**
	703 452	**693 547**
Accumulated impairment	(12 735)	(13 221)
Accumulated depreciation	(422 260)	(441 381)
	268 457	**238 945**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Assets under right of use	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2020	**361 480**	**248 582**	**63 310**	**1 566**	**674 938**
Acquisitions	18 914	4 800	1 626	2 441	27 781
Disposals/write-offs	(16 563)	(10 926)	-	-	(27 489)
Transfers **(a)**	2 090	95	-	(1 402)	783
Foreign exchange differences and other	8	1	-	1	10
Balance as at 30 June 2021	**365 929**	**242 552**	**64 936**	**2 606**	**676 023**
Acquisitions	19 075	20 053	876	14 188	54 192
Disposals/write-offs	(20 998)	(12 909)	-	-	(33 907)
Transfers **(a)**	2 791	65	-	(5 608)	(2 752)
Foreign exchange differences and other	(9)	1	-	(1)	(9)
Balance as at 31 December 2021	**366 788**	**249 762**	**65 812**	**11 185**	**693 547**
Acquisitions	10 138	9 243	3 690	21 051	44 122
Disposals/write-offs	(16 042)	(14 458)	(2 450)	-	(32 950)
Transfers **(b)**	(802)	(209)	-	(265)	(1 276)
Foreign exchange differences and other	(7)	15	-	1	9
Balance as at 30 June 2022	**360 075**	**244 353**	**67 052**	**31 972**	**703 452**
Depreciation					
Balance as at 31 December 2020	**228 197**	**221 033**	**24 706**	**-**	**473 936**
Acquisitions	2 521	5 008	5 774	-	13 303
Disposals/write-offs	(14 999)	(10 828)	-	-	(25 827)
Transfers **(a)**	(281)	(1)	-	-	(282)
Foreign exchange differences and other	137	55	-	-	192
Balance as at 30 June 2021	**215 575**	**215 267**	**30 480**	**-**	**461 322**
Acquisitions	2 870	5 660	5 626	-	14 156
Disposals/write-offs	(16 069)	(12 372)	(7 229)	-	(35 670)
Transfers **(a)**	(1 231)	(284)	-	-	(1 515)
Foreign exchange differences and other	2 964	124	-	-	3 088
Balance as at 31 December 2021	**204 109**	**208 395**	**28 877**	**-**	**441 381**
Acquisitions	2 891	6 446	4 940	-	14 277
Disposals/write-offs	(16 042)	(14 441)	(2 383)	-	(32 866)
Transfers **(b)**	(381)	(208)	-	-	(589)
Foreign exchange differences and other	38	59	(40)	-	57
Balance as at 30 June 2022	**190 615**	**200 251**	**31 394**	**-**	**422 260**
Impairment					
Balance as at 31 December 2020	**13 943**	**-**	**-**	**-**	**13 943**
Impairment loss	3 403	-	-	-	**3 403**
Reversal of impairment losses	(3 904)	-	-	-	**(3 904)**
Transfers	961	-	-	-	**961**
Balance as at 30 June 2021	**14 403**	**-**	**-**	**-**	**14 403**
Impairment loss	81	-	-	-	81
Reversal of impairment losses	(1 263)	-	-	-	**(1 263)**
Transfers	(658)	-	-	-	**(658)**
Foreign exchange differences and other	658	-	-	-	**658**
Balance as at 31 December 2021	**13 221**	**-**	**-**	**-**	**13 221**
Reversal of impairment losses	(486)	-	-	-	(486)
Foreign exchange differences and other	-	-	-	-	-
Balance as at 30 June 2022	**12 735**	**-**	**-**	**-**	**12 735**
Net book value at 30 June 2022	**156 725**	**44 102**	**35 658**	**31 972**	**268 457**
Net book value at 31 December 2021	**149 458**	**41 367**	**36 935**	**11 185**	**238 945**
Net book value at 30 June 2021	**135 951**	**27 285**	**34 456**	**2 606**	**200 298**

(a) Includes Euro 3,471 thousand of fixed assets (property and equipment) and Euro 1,650 thousand of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items.

(b) Includes Euro 1,276 thousand of work in progress (real estate properties and equipment) and Euro 589 thousand of accumulated depreciation related to dicontinued branches that were transferred at net value to the appropriate balance sheet items.

NOTE 28 – INVESTMENT PROPERTIES

The changes in Investment properties is presented as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Balance at the beginning of the period	**625 187**	**592 605**
Acquisitions	10 524	4 973
Disposals	(12 747)	(49 727)
Changes in fair value	89 082	31 179
Other	771	46 157
Balance at the end of the period	**712 817**	**625 187**

According to the accounting policy described in Note 7.19, the book value of investment properties is the fair value of the properties, as determined by a registered and independent appraiser with a recognized professional qualification and experience in the geographical location and category of the property being valued. For the purposes of determining the fair value of these assets, generally accepted criteria and methodologies are used, which integrate analyses by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 42).

Investment properties comprise some assets held by Funds and Real Estate firms, and include commercial properties leased for revenue and properties held for valuation. Most of the lease contracts have no specific tenor, enabling the lessee to cancel it at any time. However, for a small number of these commercial properties leased to third parties there is a non-cancelling clause for approximately 10 years. Subsequent leases are negotiated with the lessee.

In the first half of 2022 the increase in the fair value of investment properties in the amount of Euro 89.1 million (first half of 2021: increase of Euro 0.6 million) (see Note 15), and the rental income recorded from investment properties of Euro 16.1 million (first half of 2021: Euro 9.4 million), are recorded in Other operating income and expenses.

The fair value variation that occurred in the first half of 2022 includes the impact of the promissory purchase and sale agreement signed in May for the sale of a portfolio of real estate assets, mainly related to logistics, resulting from a competitive sales process that amounted to Euro 77.1 million (Euro 58.5 million net of non-controlling interests).

NOTE 29 – INTANGIBLE ASSETS

This caption as at 30 June 2022 and 31 December 2021, is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Goodwill	**13 907**	**13 907**
Impairment losses	(13 907)	(13 907)
	-	-
Internally developed		
Automatic data processing system	69 511	69 511
Other	1	1
Acquired from third parties		
Automatic data processing system	387 646	387 358
	457 158	**456 870**
Work in progress	**19 990**	**13 455**
	477 148	**470 325**
Accumulated amortization	(407 609)	(402 339)
	69 539	**67 986**

The changes in this caption were as follows:

(in thousands of Euros)

	Goodwill and Value In Force	Software	Work in progress	Total
Acquistion cost				
Balance as at 31 December 2020	**13 907**	**423 190**	**21 439**	**458 536**
Acquisitions				
Acquired from third parties	-	187	7 937	8 124
Disposals / write-offs	-	(4)	-	(4)
Transfers	-	-	-	-
Foreign exchange differences and other	-	4	-	4
Balance as at 30 June 2021	**13 907**	**423 377**	**29 376**	**466 660**
Acquisitions				
Acquired from third parties	-	3 312	14 260	17 572
Disposals / write-offs	-	4	-	4
Transfers	-	30 181	(30 181)	-
Foreign exchange differences and other	-	(4)	-	(4)
Balance as at 31 December 2021	**13 907**	**456 870**	**13 455**	**484 232**
Acquisitions				
Acquired from third parties	-	73	6 751	6 824
Disposals / write-offs	-	(4)	-	(4)
Transfers	-	216	(216)	-
Foreign exchange differences and other	-	3	-	3
Balance as at 30 June 2022	**13 907**	**457 158**	**19 990**	**491 055**
Amortizations				
Balance as at 31 December 2020	**-**	**395 796**	**-**	**395 796**
Amortization for the period	-	3 061	-	3 061
Foreign exchange differences and other	-		-	-
Balance as at 30 June 2021	**-**	**398 857**	**-**	**398 857**
Amortization for the period	-	3 484	-	3 484
Foreign exchange differences and other	-	(2)	-	(2)
Balance as at 31 December 2021	**-**	**402 339**	**-**	**402 339**
Amortization for the period	-	5 268	-	5 268
Foreign exchange differences and other	-	2	-	2
Balance as at 30 June 2022	**-**	**407 609**	**-**	**407 609**
Impairment				
Balance as at 31 December 2020	**13 907**	**-**	**-**	**13 907**
Balance as at 30 June 2021	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2021	**13 907**	**-**	**-**	**13 907**
Balance as at 30 June 2022	**13 907**	**-**	**-**	**13 907**
Net balance at 30 June 2022	**-**	**49 549**	**19 990**	**69 539**
Net balance at 31 December 2021	**-**	**54 531**	**13 455**	**67 986**
Net balance at 30 June 2021	**-**	**24 520**	**29 376**	**53 896**

Goodwill is recognized in accordance with the accounting policy described in Note 6, and can be analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Subsidiaries		
Imbassaí	13 526	13 526
GNB Concessões	381	381
	13 907	**13 907**
Impairment losses		
Imbassaí	(13 526)	(13 526)
GNB Concessões	(381)	(381)
	(13 907)	**(13 907)**
	-	**-**

NOTE 30 – INCOME TAXES

Tax assets and liabilities recognized in the balance sheet as at 30 June 2022 and 31 December 2021 can be analysed as follows:

(in thousands of Euros)

	30.06.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Current tax	**36 194**	**7 990**	**35 653**	**12 262**
Corporate Tax recoverable / (payable)	133	7 803	142	12 162
Other	36 061	187	35 511	100
Deferred tax	**812 317**	**3 035**	**744 239**	**3 035**
	848 511	**11 025**	**779 892**	**15 297**

The deferred tax assets and liabilities recognized in the balance sheet as at 30 June 2022 and 31 December 2021 are as follows:

(in thousand of Euros)

	Assets		Liabilities		Net	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021
Financial instruments	110 748	92 300	(12 776)	(78 526)	97 972	13 774
Impairment losses on loans (not covered)	331 476	339 022	-	-	331 476	339 022
Impairment losses on loans (covered)	267 327	267 341	-	-	267 327	267 341
Other tangible assets	-	-	(7 895)	(8 029)	(7 895)	(8 029)
Provisions	73 804	82 240	-	-	73 804	82 240
Pensions	48 769	48 995	-	-	48 769	48 995
Long-term service bonuses	21	21	-	-	21	21
Other	92	124	(3 035)	(3 035)	(2 943)	(2 911)
Tax losses carried forward	751	751	-	-	751	751
Deferred tax asset / (liability)	**832 988**	**830 794**	**(23 706)**	**(89 590)**	**809 282**	**741 204**
Asset / liability set-off for deferred tax purposes	(20 671)	(86 555)	20 671	86 555	-	-
Net Deferred tax asset / (liability)	**812 317**	**744 239**	**(3 035)**	**(3 035)**	**809 282**	**741 204**

As at 30 June 2022 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before the publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Therefore, on December 31, 2021, the Group continued to apply Regulatory Decree no. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework that derives from Notice no. 3/95 of the Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the consolidated financial statements, there will be no additional charges of significant value.

As at 30 June 2022 and 31 December 2021, the Group recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As at 30 June 2022, the amounts held by the novobanco Group referring to these realities amount to approximately Euro 39 million (31 December 2021: Euro 37 million).

Deferred tax assets recoverability analysis

Deferred tax assets are recognized to the extent they are expected to be recovered with future taxable income. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverability of deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2021, this exercise was made based on the latest draft version of the business plan ("MTP") for the period 2022-2024, preliminarily considered by the General Supervisory Board in December 2021 and which, upon final approval, will be submitted to the European Central Bank in the end of March 2022.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2024, it is assumed, thereafter an increase in pre-tax results at a rate of 2.60% from 2024;
- Commercial financial results moderate growth, offsetting the expected cost of debt issuing to meet MREL requirements, as well as the continuing development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous years;
- Progressive recovery of interest rate benchmarks to positive levels;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favorable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes, focusing on the digital component; and
- Credit impairment charges in line with the evolution of the Group's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

Depending on the analysis mentioned above, the amount of deferred taxes not recognized for tax losses, per year of expiry, is as follows:

(in thousand of Euros)

	30.06.2022	31.12.2021
2024-2026	282 173	313 192
2026 and following	1 247 487	1 163 678
	1 529 660	**1 476 870**

In addition, the Group became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. The total amount of deferred tax assets related to these temporary differences, not recognized in the balance sheet, as at 30 June 2022 amounts to Euro 341 million.

Special Regime applicable to Deferred Tax Assets

During 2014, novobanco adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of August 26, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income for the years between 2016 and 2020, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018	2017	2016
Tax Credit	124 721	110 922	161 974	127 575	99 474

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 31 – OTHER ASSETS

As at 30 June 2022 and 31 December 2021, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Collateral deposits placed	368 147	525 229
Derivative products	*249 236*	*399 631*
Collateral CLEARNET and VISA	*37 401*	*33 092*
Collateral deposits relating to reinsurance operations	*81 457*	*92 457*
Other collateral deposits	*53*	*49*
Debtors for mortgage credit interest subsidies	15 738	12 300
Public sector	951 327	956 130
Contingent Capital Agreement	198 180	209 220
Other debtors	420 667	498 681
Income receivable	167 318	138 703
Deferred costs	47 043	48 430
Retirement pensions and health benefits (see Note 16)	28 667	1 684
Precious metals, numismatics, medal collection and other liquid assets	10 332	10 034
Real estate properties [a)]	546 156	589 390
Equipment [a)]	3 228	3 189
Stock exchange transactions pending settlement	26 722	-
Other assets	40 656	25 001
	2 824 181	**3 017 991**
Impairment losses		
Real estate properties [a)]	(349 924)	(390 762)
Equipment [a)]	(2 194)	(2 180)
Other debtors - Shareholder loans, supplementary capital contributions	(88 485)	(110 528)
Other	(93 222)	(71 971)
	(533 825)	**(575 441)**
	2 290 356	**2 442 550**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA). The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

As at 30 June 2022, the caption Other debtors include, among others:

- Euro 2.3 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business which are entirely provisioned (31 December 2021: Euro 2.3 million, entirely provisioned);
- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2021: Euro 111.6 million, entirely provisioned);
- Euro 58.3 million receivable relation to the sale operation of non-performing loans (Project NATA II) (31 December 2021: Euro 61.3 million);
- Euro 0.3 million of receivables related to the property sale operation carried out in 2019 (called "Project Sertorius") (31 December 2021: Euro 1.3 million);
- Euro 2.7 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated "Project Carter"). (December 31, 2021: Euro 4.4 million) (see Note 24);
- Euro 18.8 million of amounts receivable related to the transaction of sale of non-productive credits carried out in 2021 (denominated "Wilkinson Project") (31 December 2021: Euro 29.7 million) (see Note 24); and
- Euro 15.8 million of receivables related to the sale of non-performing loans in 2021 (the "Orion Project") (31 December 2021: Euro 50.3 million) (see Note 24).

As at 30 June 2022, the caption Deferred costs includes the amount of Euro 35,969 thousand (31 thousand 2021: Euro 37,440 thousandrelated to the difference between the nominal amount of the loans and advances granted to Group employees under the

Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

Securities transactions pending settlement reflect the transactions with securities, recorded on the trade date, in accordance with the accounting policy described in Note 7.10, pending settlement.

The captions of Real estate properties and equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Group has the objective of immediate sale.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Group regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Group has to hold foreclosed assets.

During the first half of 2022, an impairment charge of Euro 3.5 million was recorded for the properties in the portfolio (30 June 2021: Euro 3.2 million).

As described in accounting policy 7.27, the Group evaluates at each reporting date, the recoverability of these assets and assesses for signs of impairment, with impairment losses being recognized in the income statement.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021	30.06.2021
Balance at the beginning of the period	**575 441**	**659 643**	**686 099**
Additions	6 791	27 394	7 300
Disposals	(7 446)	(106 684)	(28 042)
Reversals	(4 304)	(11 604)	(4 755)
Foreign exchange differences and others (a)	(36 657)	6 692	(959)
Balance at the end of the period	**533 825**	**575 441**	**659 643**

As at 30 June 2022, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 10,462 thousand (31 December 2021: Euro 9,848 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 5,495 million (31 December 2021: Euro 4,683 million).

NOTE 32 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinued operations if their balance sheet value is recoverable through a sale transaction, which must be ready for immediate sale.

This category includes the subsidiaries and associated companies in the Group's consolidation perimeter, but which the Bank intends to sell and are actively in the process of selling with the net value of assets and liabilities measured at the lower of book value or fair value net of costs to sell.

The breakdown of Non-current assets and liabilities held for sale and discontinued operations on 30 June 2022 and 31 December 2021, net of consolidation adjustments, is as follows:

(in thousands of Euros)

	30.06.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Assets/Liabilities from discontinued operations				
International Investment Bank, S.A. (previous BICV)	1 300	-	1 300	-
Banco Well Link (previous NB Ásia)	2 222	-	2 039	-
Económico FI	3 060	-	3 060	-
Greendraive	1 097	619	1 392	563
Ijar Leasing	9 051	-	9 051	-
Imbassaí	3 229	1 136	1 006	405
	19 959	**1 755**	**17 848**	**968**
Impairment losses				
Económico FI	(2 184)	-	(2 358)	-
Greendraive	(1 097)	-	(1 392)	-
Ijar Leasing	(4 725)	-	(4 725)	-
	(8 006)	**-**	**(8 475)**	**-**
	11 953	**1 755**	**9 373**	**968**

The results of discontinued operations at 30 June 2022 and 2021 are detailed as follows:

(in thousands of Euros)

	30.06.2022	30.06.2021
Profit / (loss) generated by discontinued operations		
Greendraive	(270)	87
novobanco - Spain branch	-	8 796
NB Servicios	-	(3 588)
Novo Vanguarda	-	(37)
Imbassaí	-	(371)
	(270)	**4 887**

The impairment movement for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021	30.06.2021
Balance at the beginning of the period	8 475	201 661	186 072
Charges / (Write-backs)	(391)	(1 024)	10 686
Utilizations	-	(164 954)	-
Foreign exchange differences and other [(a)]	(78)	(27 208)	4 903
Balance at the end of the period	**8 006**	**8 475**	**201 661**

(a) Includes Euro 4,725 thousand of impairment of Ijar Leasing transferred from investments in associates and Euro 8,829 thousand of impairment of ESEGUR reclassified to associates (see Note 26).

During 2021, the associates ESEGUR and Multipessoal were transferred from discontinued operations to investments in associates and the stake in Banco Delle Tre Venezie was transferred to financial assets at fair value through other comprehensive income, following the sale processes were not active at year end.

Ijar Leasing

During 2021 the associated company Ijar Leasing was transferred to non-current assets held for sale as it is in the process of selling assets with the objective of their sale in the short term.

Spanish Branch

Following the accounting policy followed by the Group, and in accordance with IFRS5 5 - Non-current assets held for sale and discontinued operations, during the 2020 the Group transferred its activity in Spain to the caption of Non-current assets and divestiture groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs to sell, which took into account the amounts received from potential interested in partial sales of this activity, the cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of Euro 166.0 million.

On April 2, 2021, novobanco entered into an agreement with ABANCA CORPORACIÓN BANCARIA, S.A to sell a set of assets and liabilities of the Spanish Branch, which took place on 30 November 2021 with the derecognition of the assets and liabilities sold.

The conclusion of this transaction had no impact on the income statement at the date of derecognition, since there was a provision recorded in the balance sheet for Euro 176 million (of which Euro 10 million reinforced already during 2021), which was partially used. The remaining amount of Euro 15.2 million was transferred to Provisions for other contingencies related to this transaction (advisory costs, tax contingencies and other possible claims).

NOTE 33 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 30 June 2022 and 31 December 2021 is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Deposits from banks	9 874 931	10 745 155
Due to customers	29 030 063	27 582 093
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 542 850	1 514 153
Other financial liabilities	450 775	374 593
	40 898 619	**40 215 994**

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	149	53 126
Other funds	7 954 000	7 954 000
	7 954 149	**8 007 126**
Deposits from credit institutions		
Domestic		
Deposits	185 269	158 366
Other funds	22 901	24 523
	208 170	**182 889**
Foreign		
Deposits	366 514	455 484
Loans	531 887	531 973
Operations with repurchase agreements	783 188	1 529 847
Other resources	31 023	37 836
	1 712 612	**2 555 140**
	1 920 782	**2 738 029**
	9 874 931	**10 745 155**

As at 30 June 2022, the balance of the European Resources System of Central Banks caption includes Euro 7,954 million collateralized by the Group's financial assets, within the scope of the third series of long-term refinancing operations of the European Central Bank (TLTRO III). The bonus introduced by the ECB in the interest rate of these operations, in accordance with the stipulated in IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, is being deducted from the financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the requirements of eligibility criteria defined by the ECB.

Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 7.22.

Due to customers

The balance of Due to customers is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Repayable on demand		
Demand deposits	13 849 155	12 858 988
Time deposits		
Time deposits	8 881 418	9 028 713
Other	91	191
	8 881 509	**9 028 904**
Savings accounts		
Retirement saving accounts	224 559	226 362
Other	5 679 872	5 200 726
	5 904 431	**5 427 088**
Other funds		
Other	381 417	254 062
	381 417	**254 062**
	29 030 063	**27 582 093**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	30.06.2022	31.12.2021
Debt securities issued		
Euro Medium Term Notes (EMTN)	448 958	447 453
Bonds	617 099	606 855
	1 066 057	**1 054 308**
Subordinated debt		
Bonds	432 342	415 394
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	1 542 850	**1 514 153**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias*"), which has a maximum amount of Euro 10,000 million, the Group issued covered bonds which, on 30 June 2022, amount to Euro 5,500 million (31 December 2021: Euro 5,500 million), being these covered bonds totally repurchased by the Group. The main characteristics of the outstanding issues as at 30 June 2022 and 31 December 2021 are as follows:

(in thousads of Euros)

30.06.2022									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

(in thousads of Euros)

31.12.2021									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in novobanco Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6 and 8 and Instruction nº 13/2006 of Bank of Portugal. As at 30 June 2022 the assets that collateralize these covered debt securities amount to Euro 6,075.4 million (31 December 2021: Euro 6,075.1 million) (see Note 24).

The changes in the first semester of 2022 and the financial year of 2021 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2021	Issues	Redemptions	LME	Net purchases	Other movements [a)]	Balance as at 30.06.2022
Debt securities issued							
Euro Medium Term Notes (EMTN)	447 453	-	-	-	(244)	1 749	448 958
Bonds	606 855	-	-	-	9 170	1 074	617 099
	1 054 308	-	-	-	8 926	2 823	1 066 057
Subordinated debt							
Bonds	415 394	-	-	-	-	16 948	432 342
Financial liabilities associated to transferred assets							
Asset lending operations	44 451	-	-	-	-	-	44 451
	1 514 153	**-**	**-**	**-**	**8 926**	**19 771**	**1 542 850**

[a)] Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousands of Euros)

	Balance as at 31.12.2020	Issues	Redemptions	LME	Net purchases	Other movements [a)]	Balance as at 31.12.2021
Debt securities issued							
Euro Medium Term Notes (EMTN)	518 866	-	(1 623)	(81 124)	(4 097)	15 431	447 453
Bonds	39 377	580 000	(6 110)	-	(5 000)	(1 412)	606 855
	558 243	580 000	(7 733)	(81 124)	(9 097)	14 019	1 054 308
Subordinated debt							
Bonds	415 234	-	-	-	-	160	415 394
Financial liabilities associated to transferred assets							
Asset lending operations	44 451	-	-	-	-	-	44 451
	1 017 928	**580 000**	**(7 733)**	**(81 124)**	**(9 097)**	**14 179**	**1 514 153**

[a)] Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

[b)] During 2021, the total EMTN 114 issue of NB Finance in the amount of EUR 1,623 thousand and the Class A issue of Lusitano Mortgage nr 6 in the amount of EUR 6,110 thousand were repaid in advance.

Liability Management Exercise (LME)

On July 30, 2021, following a voluntary tender offer (Tender Offer and Solicitation Memorandum), EMTN (i) issued by the Luxembourg branch, with a total nominal value of Euro 84.3 million (representing 31.9% of the total nominal amount issued), and (ii) issued by the subsidiary NB Finance with a total nominal value of Euro 0.1 million (representing 4.8% of the total nominal amount issued). This operation resulted in a loss of Euro 73,480 thousand.

As at 10 December 2020, following an early redemption offer, the EMTN issued by the subsidiary NB Finance with a total nominal amount of Euro 440.8 million (out of a total amount of Euro 453.3 million). This operation resulted in a loss in the amount of Euro 26,980 thousand.

The main characteristics of these liabilities, as at 30 June 2022 and 31 December 2021, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	30.06.2022 Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Class A	EUR	2007	0.18	26 815	2025 a)	Euribor 3M + 0.40%	XDUB
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Class B	EUR	2007	1.00	1 500	2035 a)	Euribor 3M + 0.60%	XDUB
novobanco	PTNOBIOM0014	NB 3.5% 23/07/24 OBRG.	EUR	2021	100.00	308 986	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4.25% 09/23 OBRG.	EUR	2021	100.00	279 798	2022 a)	Euribor 3M + 4.25%	XDUB
Euro Medium Term Notes									
novobanco Luxembourg	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	41 954	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	96 267	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	62 658	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	46 121	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	34 656	2048	Zero Coupon	XLUX
novobanco Luxembourg	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	42 288	2049	Zero Coupon	XLUX
novobanco Luxembourg	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	11 752	2049	Zero Coupon	XLUX
novobanco Luxembourg	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	16 125	2051	Zero Coupon	XLUX
novobanco Luxembourg	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	11 342	2051	Zero Coupon	XLUX
novobanco Luxembourg	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	38 795	2048	Zero Coupon	XLUX
novobanco Luxembourg	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	37 671	2052	Zero Coupon	XLUX
novobanco Luxembourg	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	7 445	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1.00	1 884	2044	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	432 342	2023 a)	8.50%	XDUB
						1 498 399			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	31.12.2021 Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Class A	EUR	2007	0.20	31 767	2025 a)	Euribor 3M + 0.40%	XDUB
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Class B	EUR	2007	1.00	1 500	2035 a)	Euribor 3M + 0.60%	XDUB
novobanco	PTNOBIOM0014	NB 3.5% 23/07/24 OBRG.	EUR	2021	100.00	303 571	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4.25% 09/23 OBRG.	EUR	2021	100.00	270 017	2022 a)	Euribor 3M + 4.25%	XDUB
Euro Medium Term Notes									
novobanco Luxembourg	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 807	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	98 081	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 952	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	47 063	2043	Fixed rate 3.5%	XLUX
novobanco Luxembourg	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	33 649	2048	Zero Coupon	XLUX
novobanco Luxembourg	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	40 947	2049	Zero Coupon	XLUX
novobanco Luxembourg	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	11 375	2049	Zero Coupon	XLUX
novobanco Luxembourg	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	15 602	2051	Zero Coupon	XLUX
novobanco Luxembourg	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	10 974	2051	Zero Coupon	XLUX
novobanco Luxembourg	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	37 479	2048	Zero Coupon	XLUX
novobanco Luxembourg	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	36 512	2052	Zero Coupon	XLUX
novobanco Luxembourg	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	7 192	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1.00	1 820	2044	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 394	2023 a)	8.50%	XDUB
						1 469 702			

a) Date of the next call option

The table below shows the fair value component attributable to the credit risk of the fair value through profit or loss:

(in thousands of Euros)

	30.06.2022	31.12.2021
Fair value attributable to credit risk at the beginning of the period	-	47 935
Recognized in other comprehensive income		
Changes through other comprehensive income	-	10 883
Variation due to debt repurchases	-	(58 818)
Fair value attributable to credit risk at the end of the period	**-**	**-**

The change in fair value attributable to changes in the credit risk of the issues is calculated using the credit spread observed in recent issues of similar debt, adjusted for subsequent changes in the credit spread of the senior debt CDS issued by Group entities. As of January 1, 2018, in accordance with IFRS 9, this liability component is reflected in Other comprehensive income. Within the redemption in 2020, of the issue recorded at fair value through profit or loss, within the scope of LME operation, the Group no longer has associated credit risk. However, the credit risk recognized since 1 January 2018 in the amount of Euro 9,214 thousand, was fixed in the respective credit risk reserve caption, in accordance with IFRS 9 (see Note 37).

The Group did not have capital or interest defaults on its debt issued in the first half of 2022 and in the year of 2021.

NOTE 34 – PROVISIONS

As at 30 June 2022 and 31 December 2021, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Other provisions	Total
Balance as at 31 December 2020	**96 973**	**101 986**	**11 199**	**174 224**	**384 382**
Charge / (Write-back)	-	(18 610)	-	(4 960)	(23 570)
Utilization	(12 792)	-	(10 205)	(14 929)	(37 926)
Foreign exchange differences and other	-	42	-	(41)	1
Balance as at 30 June 2021	**84 181**	**83 418**	**994**	**154 294**	**322 887**
Charge / (Write-back)	10 070	8 770	-	132 565	151 405
Utilization	(47 566)	-	-	(8 444)	(56 010)
Foreign exchange differences and other	1	148	-	24 403	24 552
Balance as at 31 December 2021	**46 686**	**92 336**	**994**	**302 818**	**442 834**
Charge / (Write-back)	-	(4 685)	-	(17 241)	(21 926)
Utilization	(4 999)	-	(355)	(18 613)	(23 967)
Foreign exchange differences and other	-	272	-	-	272
Balance as at 30 June 2022	**41 687**	**87 923**	**639**	**266 964**	**397 213**

In order to meet the financial needs of its customers, the Group assumes several irrevocable commitments and contingent liabilities, consisting of financial guarantees, letters of credit and other credit commitments, which may require the payment by the Group, on behalf of its customers, in the event of specific, contractually prescribed events. Although these commitments are not recorded on the balance sheet, they carry credit risk and, therefore, are part of the Group's overall risk exposure.

The changes in the caption provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**1 316**	**24 069**	**66 778**	**92 163**
Increases due to changes in credit risk	728	792	2 537	4 057
Decreases due to changes in credit risk	(596)	(16 995)	(7 525)	(25 116)
Other movements	117	57	(136)	38
Balance as at 30 June 2021	**1 565**	**7 923**	**61 654**	**71 142**
Increases due to changes in credit risk	145	2 252	12 310	14 707
Decreases due to changes in credit risk	(265)	(838)	(5 298)	(6 401)
Utilised	-	-	-	-
Other movements	18	(2 418)	2 551	151
Balance as at 31 December 2021	**1 463**	**6 919**	**71 217**	**79 599**
Increases due to changes in credit risk	244	779	5 613	6 636
Decreases due to changes in credit risk	(347)	(1 120)	(6 974)	(8 441)
Other movements	53	(232)	454	275
Balance as at 30 June 2022	**1 413**	**6 346**	**70 310**	**78 069**

The changes in the caption provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**5 819**	**4 004**	**-**	**9 823**
Increases due to changes in credit risk	1 360	3 794	35	5 189
Decreases due to changes in credit risk	(865)	(1 858)	(17)	(2 740)
Other movements	428	(444)	20	4
Balance as at 30 June 2021	**6 742**	**5 496**	**38**	**12 276**
Increases due to changes in credit risk	573	3 144	1 862	5 579
Decreases due to changes in credit risk	(978)	(4 121)	(16)	(5 115)
Other movements	219	(290)	68	(3)
Balance as at 31 December 2021	**6 556**	**4 229**	**1 952**	**12 737**
Increases due to changes in credit risk	1 370	105	19	1 494
Decreases due to changes in credit risk	(1 683)	(774)	(1 917)	(4 374)
Other movements	461	(467)	3	(3)
Balance as at 30 June 2022	**6 704**	**3 093**	**57**	**9 854**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Group's sale and restructuring process.

Other provisions amounting to Euro 267.0 million (31 December 2021: Euro 302.8 million), are intended to cover certain identified contingencies arising from the Group's activity, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Group maintains provisions of Euro 31.7 million (31 December 2021: Euro 32.2 million);
- Contingencies associated with legal proceedings amounting to Euro 9.9 million (31 December 2021: Euro 9.5 million);
- Contingencies associated with sales processes in the amount of Euro 12.3 million (31 December 2021: Euro 39.3 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million (31 December 2021: Euro 19.2 million), transferred from the liability items net of the value of the assets of the Pension Fund (see Note 17);
- The remaining amount, of Euro 193.9 million (31 December 2021: Euro 202.6 million), is intended to cover losses arising from the Group's activity, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

The increase occurred in 2021 results from the State Budget Law for 2021 ("LOE 21"), which amended the rules of the Property Transfer Tax Code ("IMT") and the Municipal Property Tax ("IMI"), with the extension of the scope of the aggravated rate of IMI and IMT, and loss of exemptions, to real estate owned by taxpayers that are controlled, directly or indirectly, by an entity that is subject to a more favorable tax regime, included in the list approved by the Minister of Finance.
At this date is pending clarification, as per the request for binding information made to the Tax Authority, the breadth of application of these new rules in terms of subjection to novobanco.

At December 31, 2021, based on the opinions obtained from legal and tax experts, and as a result of internal evaluation, it is not considered possible, with complete assurance, to remove the doubt as to the application of the new rules referred to above, although it is admitted that there may be other interpretations since these are new rules, not yet applied, and therefore subject to interpretation. As of this date, the calculation of the application of the increased IMI rates to all the properties directly and indirectly owned by novobanco amounts to approximately Euro 115.8 million for 2021, and there is no expectation as to the date on which clarification will be obtained from the Tax Authority or other similar entity that will determine the existence or not of an effective increase in liabilities for novobanco. Accordingly, in December 2021 a provision was set up for this contingency with a more probable risk than not of an outflow of resources incorporating economic benefits, in the above-mentioned amount of Euro 115.8 million, which is included in Other provisions and it remains as at 30 June 2022.

NOTE 35 – OTHER LIABILITIES

As at 30 June 2022 and 31 December 2021, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)	30.06.2022	31.12.2021
Public sector	28 080	38 017
Creditors for supply of goods	55 448	59 323
Creditors for insurance operations	333 419	-
Other creditors	91 184	107 873
Non-controlling interests of Open Investment Funds (see Note 37)	122 175	90 206
Career bonuses (see Note 17)	7 390	7 467
Retirement pensions and health-care benefits (see Note 17)	-	22 942
Other accrued expenses	79 541	76 333
Deferred income	3 904	2 077
Foreign exchange transactions pending settlement	542	14
Other transactions pending settlement	32 595	39 185
	754 278	**443 437**

NOTE 36 – SHARE CAPITAL

Ordinary shares

As at 30 June 2022, the Bank's share capital of Euro 6,054,907,314 is represented by 9,954,907,311 registered shares with no par value and is fully subscribed and paid up by the following shareholders (December 31, 2021: share capital of Euro 6,054,907,314 represented by 9,954,907,311 registered shares):

	% Share Capital	
	30.06.2022	**31.12.2021**
Nani Holdings, SGPS, SA [(1)]	75.00%	73.83%
Fundo de Resolução [(2)]	23.44%	24.61%
Direcção-Geral do Tesouro e Finanças	1.56%	1.56%
	100.00%	**100.00%**

[(1)] As a result of the agreements entered into between the Resolution Fund and the shareholder Lone Star in the context of the sale of 75% of the share capital of novobanco, only the Resolution Fund will see its participation diluted with the conversion of the conversion rights, pending the delivery of the shares by the Resolution Fund to Nani Holdings on December 31, 2021. When such delivery occured, at the beggining of 2022, Nani Holdings' shareholding percentage will increased to 75.00% and the Resolution Fund's to 23.44%. Nani Holdings' economic interest in novobanco remains unchanged at 75%.

[(2)] In view of the commitments assumed by the Portuguese State before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

In 2017 and following the acquisition of 75% of novobanco by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised.

In December 2021, a capital increase of Euro 154,907 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the year 2015, which gave the State a 1.56% stake in the novobanco, and which resulted in the issuance of 154,907,314 new ordinary shares (Note 37).

As mentioned in Note 30, novobanco adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that entitle the State to require novobanco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. It is estimated that the conversion rights to be issued and attributed to the State following the negative net results of the years 2015 to 2020 will give it a stake of up to approximately 15.95% of the share capital of novobanco, which will only dilute, in accordance with the sale agreement, the stake of the Resolution Fund.

For the years 2016 and 2018, the Tax Authority has already validated the tax credit, and the final amount of conversion rights attributed to the State represents an additional stake of 7.76% of the share capital of novobanco (9.31% for the years 2015 to

2018). However, novobanco is awaiting the receipt of the 2018 tax credit. This conversion will be exercised in accordance with the procedures and deadlines established in the legal regime.

NOTE 37 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES NON-CONTROLLING INTERESTS

As at 30 June 2022 and 31 December 2021, the accumulated other comprehensive income, retained earnings and other reserves of the Group present the following detail:

(in thousands of Euros)

	30.06.2022	31.12.2021
Other accumulated comprehensive income	**(1 183 107)**	**(1 045 489)**
Retained earnings	**(8 577 074)**	**(8 576 860)**
Other reserves	**6 670 293**	**6 501 374**
Originating reserve	1 848 691	1 848 691
Special reserve	687 132	701 136
Legal reserve	36 594	-
Other reserves and Retained earnings	4 097 876	3 951 547
	(3 089 888)	**(3 120 975)**

Other accumulated comprehensive income

The changes in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income						
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Other variations of other comprehensive income	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2020	**3 695**	**9 214**	**(22 757)**	**(75 210)**	**(14 894)**	**(723 468)**	**(823 420)**
Actuarial deviations	-	-	-	-	-	(41 468)	(41 468)
Fair value changes, net of taxes	-	-	-	(79 967)	-	-	(79 967)
Foreign exchange differences	-	-	-	-	304	-	304
Changes in credit risk of financial liabilities at fair value, net of taxes	-	-	-	-	-	-	-
Impairment reserves of securities at fair value through other comprehensive income	(220)	-	-	-	-	-	(220)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(19 157)	-	-	-	(19 157)
Transactions with non-controlling interests	-	-	-	-	-	-	-
Other comprehensive income of associated companies	-	-	-	(741)	-	-	(741)
Other movements	-	-	-	-	-	-	-
Balance as at 30 June 2021	**3 475**	**9 214**	**(41 914)**	**(155 918)**	**(14 590)**	**(764 936)**	**(964 669)**
Actuarial deviations	-	-	-	-	-	(34 116)	(34 116)
Fair value changes, net of taxes	-	-	-	(45 834)	-	-	(45 834)
Foreign exchange differences	-	-	-	-	(209)	-	(209)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	-	-	-	-	-	-
Impairment reserves of securities at fair value through other comprehensive income	232	-	-	-	-	-	232
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 382)	-	-	-	(1 382)
Transactions with non-controlling interests	-	-	-	-	-	-	-
Other comprehensive income of associated companies	-	-	-	489	-	-	489
Other movements	-	-	-	-	-	-	-
Balance as at 31 December 2021	**3 707**	**9 214**	**(43 296)**	**(201 263)**	**(14 799)**	**(799 052)**	**(1 045 489)**
Actuarial deviations	-	-	-	-	-	52 631	52 631
Fair value changes, net of taxes	-	-	-	(187 736)	-	-	(187 736)
Foreign exchange differences	-	-	-	-	539	-	539
Impairment reserves of securities at fair value through other comprehensive income	(2 210)	-	-	-	-	-	(2 210)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 077)	-	-	-	(1 077)
Transactions with non-controlling interests	-	-	-	-	-	-	-
Other comprehensive income of associated companies	-	-	-	233	-	-	233
Other movements	-	-	-	2	-	-	2
Balance as at 30 June 2022	**1 497**	**9 214**	**(44 373)**	**(388 764)**	**(14 260)**	**(746 421)**	**(1 183 107)**

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	30.06.2022			31.12.2021		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the period	**(157 910)**	**(43 353)**	**(201 263)**	**28 437**	**(103 647)**	**(75 210)**
Changes in fair value	(367 979)	-	(367 979)	(200 897)	-	(200 897)
Foreign exchange differences	5 261	-	5 261	2 351	-	2 351
Disposals in the exercise	47 457	-	47 457	13 560	-	13 560
Impairment in the exercise	43 569	-	43 569	(1 361)	-	(1 361)
Deferred taxes recognized in the period in reserves	-	84 191	84 191	-	60 294	60 294
Balance at the end of the period	**(429 602)**	**40 838**	**(388 764)**	**(157 910)**	**(43 353)**	**(201 263)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Amortised cost of financial assets at fair value through other comprehensive income	3 110 028	7 378 362
Fair value reserve transferred to Results [1]	6 159	
Market value of financial assets at fair value through other comprehensive income	2 679 702	7 220 996
Unrealised gains / (losses) recognized in fair value reserve	(430 326)	(157 366)
Fair value reserves by the equity method	898	665
Fair value reserves of discontinued activities	-	-
Non-controlling Interests	(174)	(1 209)
Total fair value reserve	(429 602)	(157 910)
Deferred Taxes	40 838	(43 353)
Fair value reserve attributable to shareholders of the Bank	**(388 764)**	**(201 263)**

[1] As part of fair value hedge operations (see Note 25)

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to **novobanco**, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 30, the special reserve was created as a result of the adhesion of **novobanco** to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the calculation of a negative net result in the years between 2015 and 2020, with reference to the deferred tax assets eligible at the closing date of these years, from the application of the special regime applicable to deferred tax assets, novobanco recorded a special reserve, in the same amount as the tax credit calculated, increased by 10%, which is broken down as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
2016 (net loss of 2015)	-	14 004
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	140 332	140 332
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 015	122 015
2021 (net loss of 2020)	137 193	137 193
	687 132	**701 136**

With regard to the reserve set up in 2016 (relating to the negative net income of 2015), taking into account the legal deadlines provided for in the Special Regime, in 2021 it was decided to increase the share capital by incorporation of reserves in the amount of Euro 154,907 thousand, with the remaining amount of the reserve in the amount of Euro 14,004 thousand (relating to goodwill), have been incorporated into a special reserve subject to the legal reserve regime under the terms of article 295 of the Commercial Companies Code, during the first half of 2022.

.

Legal reserve

The legal reserve can only be used to cover accumulated losses or to increase capital. The Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law No. 298/92, of 31 December) requires that the legal reserve be credited annually with at least 10% of annual net income, up to a limit equal to the value of share capital or the sum of free reserves constituted and retained earnings, if higher. Additionally, an amount of Euro 14,004 thousand was included in the legal reserve relating to the conversion of tax credits into capital, as referred to in the previous point.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 38 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2021 these assets had a net value of Euro 1.8 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2021: net value of Euro 2.1 billion).

Taking into consideration the losses presented by novobanco at 31 December 2020, 2019, 2018 and 2017, the conditions were met that determined the payment by the Resolution Fund of Euro 429,013 thousand, Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand in 2021, 2020, 2019 and 2018, respectively.

The amount related to the Contingent Capital Agreement recorded in 2020, as receivable by the Resolution Fund (Euro 598,312 thousand), differs from the amount paid as a result of disagreements, between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, leading to a limitation to the immediate access to this amount, which despite being recorded as receivables, the Bank deducted, as at December 31, 2021, to the regulatory capital calculation (EUR 165,442 thousand). novobanco considers this amount to be due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure receipt of the same (see Note 38). Additionally, the variable remuneration of the Executive Board of Directors for 2019 and 2020 (Euro 3,857 thousand) was also deducted.

In 2021 an amount receivable by the Resolution Fund of Euro 209,220 thousand was recorded in relation to the Contingent Capital Agreement, under Other Reserves and which results, on the date of each balance sheet, from losses incurred and regulatory ratios in force at the time of their determination. As a result of the above and in line with the Regulator's guidelines, at 31 December 2021, this value was also deducted from the regulatory capital calculation.

Non-controlling interests

The caption Non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	30.06.2022			31.12.2021		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
NB Património [a)]	-	19 919	43.61%	-	6 007	43.67%
novobanco Açores	21 167	894	42.47%	20 445	2 053	42.47%
Amoreiras	-	(24)	4.76%	9 012	(87)	4.76%
Other	(1 154)	2 384		1 578	(288)	
	20 013	**23 173**		**31 035**	**7 685**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 33)

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 June 2022 and 31 December 2021, are the following:

(in thousands of Euros)

	30.06.2022	31.12.2021
Contingent liabilities		
Guarantees and standby letters	2 324 039	2 234 243
Financial assets pledged as collateral	14 332 916	13 997 048
Open documentary credits	223 467	402 332
	17 022 472	**16 633 623**
Commitments		
Revocable commitments	5 357 223	5 298 799
Irrevocable commitments	522 375	546 458
	5 879 598	**5 845 257**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

As at 30 June 2022, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.5 billion (31 December 2021: Euro 13.2 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 8.7 million (31 December 2021: Euro 9.1 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 64.4 million (31 December 2021: Euro 67.5 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 638.3 million (31 December 2021: Euro 651.4 million);

- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 128.9 million (31 December 2021: Euro 100.5 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Deposit and custody of securities and other items	30 235 747	31 739 971
Amounts received for subsequent collection	173 447	197 567
Securitized loans under management (servicing)	583 085	620 091
Other responsibilities related with banking services	866 499	652 518
	31 858 778	**33 210 147**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the "excluded liabilities" of transfer to novobanco include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On December 29, 2015, Bank of Portugal adopted a new resolution on "Clarification and retransmission of responsibilities and contingencies defined as liabilities excluded in subparagraphs (v) to (vii) of paragraph 2 (b) of Annex 2 to the Resolution of Bank of Portugal of 3 August 2014 (8 pm), as amended by the Resolution of Bank of Portugal of 11 August 2014 (5 pm) ". Under the terms of this resolution, Bank of Portugal came:

(i) Clarify the treatment as liabilities excluded from BES's contingent and unknown liabilities (including litigious liabilities related to pending litigation and liabilities or contingencies resulting from fraud or the violation of regulatory, criminal or administrative offenses or provisions), regardless of their nature (tax, labour, civil or other) and whether or not they are registered in BES's accounts, under the terms of sub-paragraph (v) of paragraph (b) of paragraph 1 of Exhibit 2 of the Resolution of 3 August; and

(i) Clarify that the following BES liabilities have not been transferred from BES to novobanco:
   a. All credits related to preferred shares issued by vehicle companies established by BES and sold by BES;
   b. All credits, indemnities and expenses related to real estate assets that have been transferred to novobanco;
   c. All indemnities related to non-compliance with contracts (purchase and sale of real estate and other assets) signed and executed before 8:00 pm on August 3, 2014;
   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
   e. All credits and indemnities related to the alleged cancellation of certain loan agreement clauses in which BES was the lender;
   f. All indemnities and credits resulting from the cancellation of operations carried out by BES as a provider of financial and investment services; and
   g. Any responsibility that is the subject of any of the processes described in Appendix I of said resolution.

(iii) To the extent that, despite the clarifications made above, it turns out that any liabilities of BES that, under the terms of any of those paragraphs and the Resolution of August 3, were effectively transferred to novobanco legal liabilities, these liabilities will be retransmitted from novobanco to BES, with effect from 8:00 pm on August 3, 2014.

In the preparation of its interim condensed consolidated and separate financial statements for 30 June 2022 (as well as in the previous financial statements), novobanco incorporated the determinations resulting from the resolution measure, as amended, with regard to the perimeter of transfer of assets, liabilities, off-balance sheet items and assets under BES management, as well as the decisions of Banco de Portugal of 29 December 2015, in particular, regarding the clarification of the non-transmission to novobanco of contingent and unknown liabilities and clarifications relating to the liabilities contained in paragraph (ii) above, including the lawsuits listed in that resolution.

Additionally, also by resolution of Bank of Portugal of 29 December 2015, it was decided that the Resolution Fund is responsible for neutralizing, at the level of novobanco, the effects of decisions that are legally binding, outside the will of novobanco and for the which it has not contributed and that, simultaneously, translate into the materialization of responsibilities and contingencies that, according to the transfer perimeter to novobanco, as defined by Bank of Portugal, should remain within the sphere of BES or give rise to the establishment compensation in the context of the execution of annulments of decisions adopted by Bank of Portugal.

Considering that the creation of the Bank results from the application of a resolution measure to BES, which had significant impacts on the equity of third parties, and without prejudice to the decisions of Bank of Portugal of December 29, 2015, there are still relevant litigation risks , although mitigated, namely, regarding the various litigations related to the loan made by Oak Finance to BES, the commercialization by BES of debt instruments and those related to the issue of senior bonds relayed to BES, as well as the risk of non-recognition and / or application of the various decisions of Bank of Portugal by Portuguese or foreign courts (as in the case of courts in Spain) in disputes related to the perimeter of assets, liabilities, off-balance sheet items and assets under BES management transferred to novobanco. These disputes include the two lawsuits brought at the end of January 2016, before the Supreme Court of Justice of Venezuela, by the Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and novobanco, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of US $ 37 million and US $ 335 million, respectively, and in which reimbursement of the amount invested is requested, plus interest, indemnity for the inflation value and costs (in the global value estimated by the respective authors of US $ 96 million and US $ 871 million, respectively). These main actions are still pending before the Supreme Court of Justice of Venezuela.

In the preparation of novobanco's interim condensed individual and consolidated financial statements of 30 June 2022 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Bank of Portugal, in particular the decisions of December 29, 2015. In this context, these financial statements, namely with regard to provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet items and assets under BES management and liabilities transferred to novobanco, as determined by Bank of Portugal and with reference to the current legal bases and the information available at the present date.

Additionally, within the scope of the novobanco sale operation, concluded on October 18, 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Bank of Portugal, of December 29, 2015, regarding the neutralization, at the level of novobanco, of the effects of unfavorable decisions that are legally binding, although, now, with contractual origin, thus maintaining the framework of contingent responsibilities of the Resolution Fund.

Relevant disputes
For the purposes of contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy of setting up provisions with the resolution measure and subsequent decisions of Bank of Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of novobanco Group are, at the present date, insusceptible to determine or quantify:

(i) Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against novobanco and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

(ii) Lawsuit filed by novobanco to challenge the resolution in favor of the insolvent estate of the acts of incorporation and subsequent execution of the pledge on the shares of Companhia de Seguros Tranquilidade, SA, declared by the insolvency administrator of Partran, SGPS, SA, considering that there are no grounds for the resolution of the aforementioned acts, as well as for the return of the amounts received as a price (Euro 25 million corresponding to the initial price and the respective positive adjustments) for the sale of the shares of Companhia de Seguros Tranquilidade , SA. novobanco has judicially challenged the resolution act, running the process attached to the insolvency process of Partran, SGPS, SA;

(iii) Lawsuits brought after the execution of the contract for the purchase and sale of novobanco 's share capital, signed between the Resolution Fund and Lone Star on March 31, 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which novobanco is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the Contingent Capitalization Mechanism is requested.

Regarding the amount requested by novobanco from the Resolution Fund with reference to 2020, there are disagreements between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, which are object of an ongoing arbitration. novobanco considers these amounts (Euro 165 million) to be due under the Contingent Capitalization Mechanism and brought an arbitration action to claim the payment of these amounts. At the end of 2020, there is also another divergence regarding the application by novobanco of the dynamic option of the transitional regime of IFRS 9, which is also under consideration in the same arbitration action. These amounts (Euro 165 million) are recorded as receivables and are subject to a favorable arbitration decision.

Resolution Fund

The Resolution Fund is a public legal person with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the RGICSF and its regulations and whose mission is provide financial support to the resolution measures applied by Bank of Portugal, as the national resolution authority, and to perform all other functions conferred by law in the scope of the execution of such measures.

The Bank, like most financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal based essentially on the amount of its liabilities. As at 30 June 2022, the Group's periodic contribution amounted to Euro 16,364 million (31 December 2021: Euro 15,150 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to novobanco, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of novobanco's share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3,900 million) originated from a loan granted by the Portuguese State.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, SA (Santander Totta), for Euro 150 million, also within the framework of the application of a resolution measure. In the context of this resolution measure, Banif's assets identified as problematic were transferred to an asset management vehicle, created for this purpose - Oitante, S.A. This operation involved public support estimated at Euro 2,255 million, which aimed at covering future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as with the risk of an eventual insufficiency of resources to ensure the fulfilment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the financing conditions granted by the Portuguese State and by the banks participating in the Resolution Fund, in order to preserve financial stability. through the promotion of conditions that provide predictability and stability to the contributory effort for the Resolution Fund. To this end, an amendment to the financing contracts to the Resolution Fund was formalized, which introduced a set of changes on the repayment plans, the remuneration rates and other terms and conditions associated with these loans in order to adjust them. the Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to be charged, to the banks participating in the Resolution Fund, special contributions or any other type of extraordinary contribution.

According to the statement of the Resolution Fund of March 21, 2017, issued following an earlier statement of September 28, 2016 and the statement of the Ministry of Finance issued on the same date, the revision of the conditions of financing granted by the State Portuguese and participating banks aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of its liabilities is ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

On March 31, 2017, Bank of Portugal announced that it had selected the Lone Star Fund for the purchase of novobanco, which was completed on October 18, 2017, through the injection, by the new shareholder, of Euro 750 million, which was followed by a new a capital contribution of Euro 250 million, made on December 21, 2017. The Lone Star Fund now holds 75% of novobanco 's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions materializing, related to: (i) the performance of a restricted set of assets of novobanco and (ii) the evolution of the Bank's capitalization levels. Any payments to be made under this contingent mechanism are subject to an absolute ceiling of EUR 3,890 million;
- An indemnity mechanism to novobanco, if certain conditions are met, it will be sentenced to pay any liability, by a final judicial decision that does not recognize or is contrary to the resolution measure applied by Bank of Portugal, or to the perimeter novobanco's assets and liabilities.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, in view of the renegotiation of the conditions for loans granted to the Resolution Fund by the Portuguese State and a banking union, and to public notices issued by the Resolution Fund and the Office of the Minister of Finance. Finances that state that this possibility will not be used, these financial statements reflect the expectation of the Executive Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the contingent capitalization mechanism and the indemnity mechanism referred to in the preceding paragraphs.

Any changes regarding this matter and the application of these mechanisms may have relevant implications for the Group's financial statements.

NOTE 39 – DISINTERMEDIATION

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 30 June 2022 and 31 December 2021, the value of the assets under management by the Group companies are analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Investment funds	1 098 315	1 309 544
Real estate investment funds	48 349	67 408
Pension funds	2 271 257	2 633 464
Discretionary management	628 442	700 260
	4 046 362	**4 710 676**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 40 – RELATED PARTIES BALANCES AND TRANSACTIONS

The group of entities considered to be related parties by novobanco in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of novobanco); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of novobanco; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which novobanco Group has significantly influence on the company’s financial and operational polices, despite not having control; and (vii) entities under joint control of novobanco (joint ventures).

The Group Balance Sheet balances with related parties as at 30 June 2022 and 31 December 2021, as well as the respective profit and losses, can be summarized as follows:

(in thousands of Euros)

	30.06.2022					31.12.2021				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholders										
NANI HOLDINGS	-	152	-	221	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	198 180	-	-	-	16 364	209 220	11 040	-	-	26 190
Associated companies										
LINEAS	-	3 175	-	-	-	-	3 123	-	2 395	-
LOCARENT	124 812	547	-	599	1 560	121 982	3 146	-	1 040	3 282
ESEGUR	1 527	772	67	-	-	1 894	919	915	-	-
UNICRE	38 190	8	-	316	-	38 193	6	-	522	-
MULTIPESSOAL	2 015	21	273	-	-	2 017	43	273	-	-
BANCO DELLE TRE VENEZIE	-	-	-	-	-	-	222	-	-	-
EDENRED	2	93 221	62	831	12	1	93 081	62	2 039	24
	364 726	**97 896**	**402**	**1 967**	**17 936**	**373 307**	**111 733**	**1 250**	**6 328**	**29 496**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	833	-	-	-	-	4 138
NACIONAL CONTA LDA	340	4	-	-	-	375	18	-	-	-
ESMALGLASS	-	-	-	-	-	-	100	2	-	-
Other	**340**	**4**	**-**	**-**	**833**	**375**	**118**	**2**	**-**	**4 138**

The amount of assets receivable from the Resolution Fund corresponds to the net amount of the triggering of the Contingent Capital Agreement regarding the financial years 2021 and 2020, to be delivered to the Resolution Fund arising from an addendum made in May 2021 to the Contingent Capitalization Mechanism contract.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted, or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

The guarantees related to associated companies included in the table above refer essentially to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 9.6% (the rates correspond to the rates applied according to the original currency of the asset).

As at 30 June 2022 and 30 June 2021, the amount of credit granted and deposits from Key Management Personnel of novobanco was as follows:

Credit Granted
(i) to members of the Executive Board of Directors and their immediate relatives was Euro 275 thousand (31 December 2021: Euro 317 thousand); and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted (December 31, 2021: no exposure);
.

Deposits
(i) members of the Executive Board of Directors and their immediate relatives was Euro 1,511 thousand (31 December 2021: Euro 1,080 thousand); and (ii) the members of the General and Supervisory Board and their immediate relatives was Euro 1,631 thousand (31 December 2021: Euro 1,562 thousand).

NOTE 41 – SECURITISATION OF ASSETS

As at 30 June 2022 and 31 December 2021, the outstanding securitization transactions carried out by the Group were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			30.06.2022	31.12.2021	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	230 641	246 943	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	352 445	373 147	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	336 499	355 513	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	861 998	907 327	Mortgage loans (general scheme)

In accordance with the consolidation rules established in IFRS 10, Lusitano Mortgages No. 6 plc and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousands of Euros)

	30.06.2022	31.12.2021
Cash, cash balances at Central Banks and other demand deposits	122 968	121 856
Loans and advances to customers (net of impairment)	1 190 704	1 255 063
Debt securities issued [(a)]	28 315	33 267

[(a)] see Note 33

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual.

The main characteristics of these operations, as at 30 June 2022 and 31 December 2021, can be analyzed as follows:

(in thousands of Euros)

30.06.2022

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	176 298	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	11 670	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	AA-	-
	Class C	19 200	9 827	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	A-	-
	Class D	24 000	12 284	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	261 346	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	21 392	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	18 014	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	22 518	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	170 107	143 292	138 604	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	57 620	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	34 598	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	14 268	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	18 941	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	389 048	389 048	365 708	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	255 977	October 2064	-	-	BBB-	-	-	-	AA	-
	Class C	180 500	180 500	180 500	125 679	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2021

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	189 071	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	12 515	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	A-	-
	Class C	19 200	10 539	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	BBB-	-
	Class D	24 000	13 174	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	277 689	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	22 729	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	19 141	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	23 926	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	189 723	157 956	152 431	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	61 124	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	33 936	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	12 388	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	8 568	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	437 435	437 434	409 580	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	266 902	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	121 349	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

NOTE 42 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Group's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The valuation models used by type of instrument are as follows:

<u>Money market operations and loans and advances to customers</u>: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Group's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. Note that although the valuations made available by the management companies are accepted, whenever applicable in accordance with the fund regulations, the Group requests the legal certification of accounts issued by independent auditors, in order to obtain the necessary additional comfort to the information made available by the management company. Additionally, and for the largest assets held by real estate investment funds, and according to an annual work plan previously approved by the Executive Board of Directors, a process of challenge to their valuations is carried out, consisting of a detailed technical analysis of the main assumptions considered in the valuations. This process may lead to the need for new valuations, as well as adjustments to the fair value of these assets.

In the specific case of the Restructuring Funds (“Assessed Assets”), their assessment was carried out during the period of 2020 by an independent external international entity (“Appraiser”), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the “Underlying Assets”); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of novobanco's investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1,000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

With regard to information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under development			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.
Valuation methodology	Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach		

Notes:

1. *All the above assumptions were calculated based on the average of the values considered by the external evaluators per property assessed*
2. *The average presented was calculated on the property-weighted average in the sum of the value of the underlying assets per category presented*
3. *Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or projects are included under Real Estate under Development together with their respective property)*
4. *€/m2 consider the gross construction area*

In addition, additional assumptions considered in the fair value measurement of the financial investments held in the restructuring funds are presented below:

Type of Fund	Discount based on P/BV observable market data
Real estate and Tourism	14.5%
Real estate and Tourism/Other	13.6%
Other	10.6%

In 2021, and as had been done in 2020, the observable movement in terms of the evolution of market prices of funds, companies and assets considered comparable to the underlying assets was considered to obtain an objective estimate of the evolution of the fair value of these assets between December 31, 2020 and December 31, 2021.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Group trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

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

The Group chooses not to register "Debt Valuation Adjustment" (DVA), which represents the market value of own credit risk of the group of a certain negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.
Investment properties: its fair value is determined based on periodic evaluations carried out by independent entities specialized in this type of service, however, given the subjectivity of some assumptions used in the assessments, the Group carries out internal analysis on the assumptions used, which may imply additional adjustments to fair value, supported by additional internal or external valuations (see accounting policy in Note 7.19). The market value of properties for which a promissory purchase and sale agreement has been entered into corresponds to the value of that contract.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct price.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
30 June 2022				
Financial assets held for trading	**35 810**	**164 990**	**-**	**200 800**
Securities held for trading	35 810	-	-	35 810
Bonds issued by public entities	*35 810*	-	-	*35 810*
Derivatives held for trading	-	164 990	-	164 990
Exchange rate contracts	-	*27 239*	-	*27 239*
Interest rate contracts	-	*130 382*	-	*130 382*
Others	-	*7 369*	-	*7 369*
Financial assets mandatorily at fair value through profit or loss	**21 272**	**22 503**	**539 537**	**583 312**
Bonds issued by other entities	*11 366*	*50*	*2 378*	*13 794*
Shares	*9 828*	-	*290 675*	*300 503*
Other variable income securities	*78*	*22 453*	*246 484*	*269 015*
Financial assets at fair value through other comprehensive income	**2 578 942**	**32 813**	**67 947**	**2 679 702**
Bonds issued by public entities	*1 975 963*	-	-	*1 975 963*
Bonds issued by other entities	*595 215*	*22 770*	-	*617 985*
Shares	*7 764*	*10 043*	*67 947*	*85 754*
Derivatives - Hedge Accounting	**-**	**344 320**	**-**	**344 320**
Interest rate contracts	-	*344 320*	-	*344 320*
Investment properties	**-**	**-**	**712 817**	**712 817**
Assets at fair value	**2 636 024**	**564 626**	**1 320 301**	**4 520 951**
Financial liabilities held for trading	**16 122**	**145 392**	**1 859**	**163 373**
Derivatives held for trading	-	145 392	1 859	147 251
Exchange rate contracts	-	*26 360*	-	*26 360*
Interest rate contracts	-	*117 084*	*1 859*	*118 943*
Credit	-	-	-	-
Other	-	*1 948*	-	*1 948*
Short selling	16 122	-	-	16 122
Derivatives - Hedge Accounting	**-**	**14 982**	**-**	**14 982**
Interest rate contracts	-	*14 982*	-	*14 982*
Liabilities at fair value	**16 122**	**160 374**	**1 859**	**178 355**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2021				
Financial assets held for trading	**114 465**	**263 199**	**-**	**377 664**
Securities held for trading	114 465	-	-	114 465
Bonds issued by public entities	*114 465*	-	-	*114 465*
Derivatives held for trading	-	263 199	-	263 199
Exchange rate contracts	-	*29 127*	-	*29 127*
Interest rate contracts	-	*225 186*	-	*225 186*
Others	-	*8 886*	-	*8 886*
Financial assets mandatorily at fair value through profit or loss	**190 252**	**22 890**	**586 450**	**799 592**
Bonds issued by other entities	*52 532*	*50*	*2 378*	*54 960*
Shares	*137 607*	-	*290 279*	*427 886*
Other variable income securities	*113*	*22 840*	*293 793*	*316 746*
Financial assets at fair value through other comprehensive income	**7 167 814**	**9 958**	**43 224**	**7 220 996**
Bonds issued by public entities	*5 761 717*	-	-	*5 761 717*
Bonds issued by other entities	*1 398 899*	-	-	*1 398 899*
Shares	*7 198*	*9 958*	*43 224*	*60 380*
Derivatives - Hedge Accounting	**-**	**19 639**	**-**	**19 639**
Interest rate contracts	-	*19 639*	-	*19 639*
Investment properties	**-**	**-**	**625 187**	**625 187**
Assets at fair value	**7 472 531**	**315 686**	**1 254 861**	**9 043 078**
Financial liabilities held for trading	**-**	**304 104**	**1 950**	**306 054**
Derivatives held for trading	-	304 104	1 950	306 054
Exchange rate contracts	-	*34 910*	-	*34 910*
Interest rate contracts	-	*266 012*	*1 950*	*267 962*
Credit	-	-	-	-
Other	-	*3 182*	-	*3 182*
Derivatives - Hedge Accounting	**-**	**44 460**	**-**	**44 460**
Interest rate contracts	-	*44 460*	-	*44 460*
Liabilities at fair value	**-**	**348 564**	**1 950**	**350 514**

The changes occurred in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the first half of 2022 and the financial year 2021, may be analyzed as follows:

(in thousands of Euros)

	30.06.2022					
	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	**Total assets**	Financial liabilities held for trading: Derivatives held for trading	**Total liabilities**
Balance as at 31 December 2021	**586 450**	**43 224**	**625 187**	**1 254 861**	**1 950**	**1 950**
Acquisitions	1 233	716	10 524	12 473	-	-
Attainment of maturity	(38 229)	-	-	(38 229)	-	-
Settlements	-	(371)	-	(371)	-	-
Disposals	-	-	(12 747)	(12 747)	-	-
Changes in value	(9 917)	24 378	89 046	103 507	(91)	(91)
Other movements	-	-	807	807	-	-
Balance as at 30 June 2022	**539 537**	**67 947**	**712 817**	**1 320 301**	**1 859**	**1 859**

(in thousands of Euros)

	31.12.2021					
	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading Derivatives held for trading	Total liabilities
Balance as at 31 December 2020	**709 231**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**
Acquisitions	11 200	556	4 973	16 729	24 117	24 117
Attainment of maturity	(22 352)	-	-	(22 352)	-	-
Settlements	(122 743)	(4 247)	-	(126 990)	(24 117)	(24 117)
Transfers in	2 751	2 300		5 051	-	-
Disposals	-	-	(49 727)	(49 727)	-	-
Changes in value	8 363	1 393	31 179	40 935	(208)	(208)
Other movements	-	-	46 157	46 157	-	-
Balance as at 31 December 2021	**586 450**	**43 224**	**625 187**	**1 254 861**	**1 950**	**1 950**

In the first half of 2022 and the financial year of 2021 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment properties classified in level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves, in accordance with the respective asset accounting policy. The amounts calculated in the six-month periods ended 30 June 2022, 31 December 2021 and 30 June 2021 were as follows:

(in thousands of Euros)

	Six month period ended on								
	30.06.2022			31.12.2021			30.06.2021		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	91	91	-	114	144	-	30	30
Economic hedging derivatives	-	-	-	-	-	(24 117)	-	(24 117)	(24 117)
Financial assets mandatorily at fair value through profit or loss	-	12 806	12 806	-	8 864	21 662	-	12 798	12 798
Financial assets at fair value through other comprehensive income	81 365	-	81 365	(803)	-	9 122	9 925	-	9 925
Investment properties	-	89 082	89 082	-	30 560	31 182	-	622	622
	81 365	**101 979**	**183 344**	**9 122**	**28 871**	**37 993**	**9 925**	**(10 667)**	**(742)**

The following table presents, for assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	30.06.2022						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**539.5**		**(2.4)**		**4.8**
Obligations of other issuers	Discounted cash flow model	Specific Impairment	2.4	-50%	(2.4)	+50%	4.8
Shares			290.7		-		-
	Valuing adjusted management compan	*(b)*	*287.9*		-		-
	Other	*(a)*	*2.8*		-		-
Other variable income securities			246.5		-		-
	Valuing adjusted management compan	*(b)*	*236.1*		-		-
	Valuing adjusted management compan	*(c)*	*10.4*		-		-
Financial assets at fair value through other comprehensive income			**67.9**		**(2.9)**		**0.1**
Shares			67.9		(2.9)		0.1
	Discounted cash flow model	*Renewable energy Rates*	*16.2*		*(2.9)*		*0.1*
	Other	*(a)*	*51.7*		-		-
Total			**607.5**		**(5.3)**		**4.9**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of +5.8% e -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Cenário Favorável	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**586.5**		**(2.4)**		**4.8**
Obligations of other issuers	Discounted cash flow model	Specific Impairment	2.4	-50%	(2.4)	+50%	4.8
Shares			290.3		-		-
	Valuing adjusted management compan	*(b)*	*287.5*				
	Other	*(a)*	*2.8*				
Other variable income securities			293.8		-		-
	Valuing adjusted management compan	*(b)*	*236.5*		-		-
	Valuing adjusted management compan	*(c)*	*57.3*		-		-
Financial assets at fair value through other comprehensive income			**43.2**		**(2.9)**		**0.1**
Shares			43.2		(2.9)		0.1
	Discounted cash flow model	*Renewable energy Rates*	*16.2*		*(2.9)*		*0.1*
	Other	*(a)*	*27.0*		-		-
Total			**629.7**		**(5.3)**		**4.9**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of +5.8% e -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 30 June 2022 and 31 December 2021, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods

(%)

	30.06.2022			31.12.2021		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	-0.5843	1.6500	1.3500	-0.5740	0.0644	0.2100
1 month	-0.5080	1.8950	1.3550	-0.5830	0.1013	0.2400
3 months	-0.1950	2.3750	1.6950	-0.5720	0.2091	0.3900
6 months	0.2630	3.1250	2.1950	-0.5460	0.3388	0.6100
9 months	0.6479	3.5150	2.6950	-0.5235	0.4603	0.6700
1 year	1.0370	3.2670	2.7754	-0.5010	0.5831	0.8246
3 years	1.5735	3.1540	2.8720	-0.1450	1.1495	1.2972
5 years	1.8055	3.0730	2.7780	0.0160	1.3460	1.2910
7 years	1.9710	3.0480	2.6974	0.1300	1.4530	1.2373
10 years	2.1775	3.0730	2.6446	0.3030	1.5610	1.2095
15 years	2.3590	3.1260	2.6096	0.4920	1.6800	1.1817
20 years	2.2910	3.0900	2.5645	0.5480	1.7708	1.1518
25 years	2.1250	2.9850	2.4950	0.5240	1.7316	1.1264
30 years	1.9900	2.8820	2.4826	0.4790	1.7160	1.1030

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(base points)

Index	Series	1 year	3 years	5 years	7 years	10 years
30 June 2022						
CDX USD Main	**37**	0.00	77.94	101.16	119.16	133.07
iTraxx Eur Main	**36**	44.66	96.42	118.57	134.30	146.96
iTraxx Eur Senior Financial	**36**	0.00	0.00	128.43	0.00	155.01
31 December 2021						
CDX USD Main	**37**	0.00	0.00	49.57	68.55	0.00
iTraxx Eur Main	**36**	10.43	26.82	47.76	66.71	87.01
iTraxx Eur Senior Financial	**36**	0.00	0.00	54.86	0.00	85.86

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	30.06.2022			31.12.2021		
	EUR	USD	GBP	EUR	USD	GBP
1 year	111.44	41.91	55.30	23.16	73.74	76.14
3 years	122.19	47.78	60.49	55.79	59.15	63.57
5 years	116.85	46.72	59.58	65.81	56.88	71.17
7 years	111.51	43.93	57.77	68.34	54.59	79.98
10 years	104.17	39.47	54.47	68.98	50.93	88.08
15 years	94.65	-	-	66.28	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	30.06.2022	31.12.2021	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0387	1.1326	9.56	9.28	9.13	9.01	8.94
EUR/GBP	0.8582	0.8403	7.68	7.79	7.82	7.82	7.82
EUR/CHF	0.9960	1.0331	8.04	7.83	7.49	7.37	7.31
EUR/NOK	10.3485	9.9888	10.01	10.18	10.24	10.26	10.26
EUR/PLN	4.6904	4.5969	9.23	9.11	8.98	8.91	8.94
EUR/RUB	117.2010	85.3004	7.51	8.07	8.71	9.29	9.58
USD/BRL [a)]	5.2209	5.5713	19.11	20.67	20.60	20.16	19.73
USD/TRY [b)]	16.6766	13.4500	24.94	30.94	35.90	38.86	40.46

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	30.06.2022	31.12.2021	% Change	1 month	3 months	
DJ Euro Stoxx 50	3 455	4 298	-19.6%	24.84	30.02	26.70
PSI 20	6 045	5 569	8.5%	21.57	19.53	-
IBEX 35	8 099	8 714	-7.1%	21.76	24.86	-
FTSE 100	7 169	7 385	-2.9%	20.99	21.46	22.13
DAX	12 784	15 885	-19.5%	23.96	29.26	26.96
S&P 500	3 785	4 766	-20.6%	28.60	27.59	26.44
BOVESPA	98 542	104 822	-6.0%	19.24	20.25	25.19

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
30 June 2022					
Cash, cash balances at central bank and other demand deposits	6 225 736	-	6 225 736	-	6 225 736
Financial assets at amortised cost					
Debt securities	6 979 236	5 224 405	296 705	1 334 751	6 855 861
Loans and advances to banks	46 916	-	46 916	-	46 916
Loans and advances to customers	24 303 642	-	-	24 783 573	24 783 573
Financial assets	**37 555 530**	**5 224 405**	**6 569 357**	**26 118 324**	**37 912 086**
Financial liabilities measured at amortised cost					
Deposits from banks	9 874 931	-	9 877 452	-	9 877 452
Due to customers	29 030 063	-	-	29 030 063	29 030 063
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 542 850	1 661 009	-	72 169	1 733 178
Other financial liabilities	450 775	-	-	450 775	450 775
Financial liabilities	**40 898 619**	**1 661 009**	**9 877 452**	**29 553 007**	**41 091 468**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2021					
Cash, cash balances at central bank and other demand deposits	5 871 538	-	5 871 538	-	5 871 538
Financial assets at amortised cost					
Debt securities	2 338 697	1 076 479	327 192	1 146 334	2 550 005
Loans and advances to banks	50 466	-	50 466	-	50 466
Loans and advances to customers	23 650 739	-	-	24 028 198	24 028 198
Financial assets	**31 911 440**	**1 076 479**	**6 249 196**	**25 174 532**	**32 500 207**
Financial liabilities measured at amortised cost					
Deposits from banks	10 745 155	-	10 779 351	-	10 779 351
Due to customers	27 582 093	-	-	27 582 093	27 582 093
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 514 153	1 739 388	-	77 349	1 816 737
Other financial liabilities	374 593		-	374 593	374 593
Financial liabilities	**40 215 994**	**1 739 388**	**10 779 351**	**28 034 035**	**40 552 774**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.
Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost
The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers
The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from Central Banks and other banks
The fair value of deposits from Central Banks and other banks is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued, subordinated debt and liabilities associated to transferred assets

The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities
These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 43 – TRANSFER OF ASSETS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational and management conditions to the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds which, through concentration, aggregation, mergers and integrated management, could achieve the required synergies to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and which, in turn, now hold almost all the share capital of certain subsidiaries (subsidiaries of those parent companies) to acquire certain real estate bank loans.

Several assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all the financial assets assigned under these operations were derecognized from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor Banks, appointed on the date of their incorporation and have the following main responsibilities:
- define the entity's purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through Bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent entities and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:
- equity instruments, representing the capital of parent companies in which the cash flow that will enable the company to be recovered come from a wide range of assets provided by the various Banks. These securities are recognized in the assets portfolio mandatorily at fair value through profit or loss being valued to market, with valuation released regularly by the mentioned companies whose accounts are audited at the end of each year;
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred.

The instruments subscribed by novobanco Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the novobanco Group, in accordance with IFRS 9 3.2.7, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has no control either, it proceeded, in accordance with IFRS 9 3.2.6c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amounts of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
Up to 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 970	(23 000)	161 970
Up to 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
Up to 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
Up to 31 December 2015								
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855
Up to 31 December 2016								
Fundo Aquarius	710	602	(108)	600	-	600	-	600
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453
Up to 31 December 2017								
Fundo Aquarius	555	470	(86)	624	-	624	-	624
FLIT SICAV	3 261	3 298	37	-	-	-	-	-
Up to 31 December 2018								
Fundo Aquarius	839	644	(194)	644	-	644	-	644
FLIT SICAV	-	-	-	3 348	-	3 348	-	3 348
Fundo Vallis Construction Sector	-	-	-	(1)	-	(1)	-	(1)
Up to 31 December 2019								
Fundo Aquarius	376	332	(44)	507	-	507	-	507
Up to 31 December 2020								
Fundo Aquarius	1 947	1 488	(458)	1 313	-	1 313	-	1 313
Up to 31 December 2021								
Fundo Aquarius	6 628	6 625	(3)	7 000	-	7 000	-	7 000
Up to 30 June 2022								
Fundo Aquarius	375	375	(0)	-	-	-	-	-
	1 374 292	**1 370 070**	**(4 222)**	**1 305 541**	**119 516**	**1 425 057**	**(106 333)**	**1 318 724**

As at 30 June 2022, the Group's total exposure to securities associated with the assignment operations amounted to Euro 524.1 million (31 December 2021: Euro 524.1 thousand). With the adoption of IFRS 9, these securities were transferred from the fair value portfolio through other comprehensive income to the mandatorily measured at fair value through profit or loss, therefore, the balance sheet value presented below already corresponds to the respective fair value, not requiring register an impairment. The detail is as follows:

(in thousands of Euros)

	30.06.2022						31.12.2021					
	Securities		Shareholder loans or supplementary capital			Unrealised Subscribed Capital	Securities		Shareholder loans or supplementary capital			Unrealised Subscribed Capital
	Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount		Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount	
Fundo Recuperação Turismo, FCR	262 111	87 289	34 824	(34 824)	-	12 342	261 656	87 288	34 824	(34 824)	-	12 796
FLIT SICAV	283 407	158 887	14 900	(14 900)	-	11 878	282 793	158 486	14 900	(14 900)	-	12 423
Discovery Portugal Real Estate Fund	259 527	129 037	-	-	-	3 950	259 527	129 037	-	-	-	3 950
Fundo Recuperação, FCR	206 805	47 193	-	-	-	17 801	206 805	46 960	-	-	-	18 034
Fundo Reestruturação Empresarial	80 719	29 886	-	-	-	5 680	80 719	29 886	-	-	-	5 680
Fundo Aquarius	166 861	71 758	-	-	-	20 980	167 602	72 401	-	-	-	21 073
	1 259 430	**524 050**	**49 724**	**(49 724)**	**-**	**72 631**	**1 259 102**	**524 058**	**49 724**	**(49 724)**	**-**	**73 956**

The Group also maintains an indirect exposure to the financial assets assigned, within the scope of a minority interest in the pool of all assets assigned by other financial institutions, through the shares of the subscribed parent companies. However, there was an operation with the company FLITPTREL VIII in which, due to the fact that the acquiring company substantially holds assets assigned by the Group and considering the holding of junior securities, the variability test resulted in a substantial exposure to all risks and benefits. In this circumstance, the operation, in the initial amount of Euro 60 million, remained recognized in the balance sheet under the heading of loans to customers.

NOTE 44 – NPL DISCLOSURES

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (*Non Performing Loans*) ratio greater than 5% must publish a set of information regarding NPE (*Non Performing Exposures)*, restructured loans and foreclosed assets, according to a standard format, which we present below (we emphasize that this information is prepared from a prudential perspective, whose consolidation perimeter differs from the consolidation perimeter of the interim condensed financial statements presented):

Credit quality of forborne exposure

(in thousands of Euros)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which defaulted	Of which subject to impairment				
Loans and advances	631 990	866 591	866 591	866 591	-70 510	-501 905	673 334	291 543
Central banks	0	0	0	0	0	0	0	0
General governments	0	47	47	47	0	-47	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	308	82 507	82 507	82 507	-14	-29 748	45 826	45 534
Non-financial corporations	496 476	627 385	627 385	627 385	-66 357	-345 258	476 224	218 556
Households	135 206	156 652	156 652	156 652	-4 139	-126 852	151 284	27 453
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	1 718	846	846	846	0	0	0	0
Total	**633 709**	**867 437**	**867 437**	**867 437**	**-70 510**	**-501 905**	**673 334**	**291 543**

Credit quality of performing and non-performing exposures by past due days

(in thousands of Euros)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due < =30 days	Past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <=90 days	Past due > 90 days <=180 days	Past due > 180 days <=1 year	Past due > 1 year <= 2 years	Past due > 2 years >=5 years	Past due > 5 years >=7 years	Past due > 7 years	Of which defaulted
Cash in Central Banks	**6 066 370**	**6 066 370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 893 770**	**23 733 418**	**160 352**	**1 709 839**	**1 005 922**	**71 086**	**251 659**	**69 999**	**136 186**	**79 305**	**95 682**	**1 709 839**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**409 635**	409 543	92	**468**	47	9	0	0	411	0	0	468
Credit institutions	**47 910**	47 910	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**586 800**	586 797	3	**89 888**	42 359	666	35 572	17	2	4 935	6 337	89 888
Non-financial corporations	**11 942 681**	11 823 040	119 641	**1 253 462**	787 258	50 966	99 969	50 316	122 898	70 339	71 716	1 253 462
Of which SMEs	***7 199 618***	*7 116 303*	*83 314*	***835 519***	*486 250*	*47 518*	*74 388*	*35 503*	*69 677*	*50 928*	*71 256*	*835 519*
Households	**10 906 744**	10 866 128	40 616	**366 021**	176 258	19 444	116 118	19 666	12 875	4 030	17 629	366 021
Debt securities	**9 392 757**	**9 392 757**	**0**	**485 773**	**361 414**	**0**	**0**	**0**	**26 554**	**15 330**	**82 475**	**485 773**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**5 486 037**	5 486 037	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**783 020**	783 020	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**465 766**	465 766	0	**46 821**	24 051	0	0	0	7 440	15 330	0	46 821
Non-financial corporations	**2 657 934**	2 657 934	0	**438 952**	337 363	0	0	0	19 114	0	82 475	438 952
Off-balance-sheet exposures	**7 970 259**			**459 171**								**459 171**
Central banks	0			0								0
General governments	157 995			0								0
Credit institutions	497 234			0								0
Other financial corporations	103 330			7 595								7 595
Non-financial corporations	6 022 856			449 326								449 326
Households	1 188 845			2 250								2 250
Total	**47 323 156**	**39 192 545**	**160 352**	**2 654 783**	**1 367 336**	**71 086**	**251 659**	**69 999**	**162 740**	**94 635**	**178 157**	**2 654 783**

Performing and non-performing exposures and related provisions

(in thousands of Euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Das quais, *Stage* 1	Das quais, *Stage* 2		Das quais, *Stage* 2	Das quais, *Stage* 3			
Cash in Central Banks	**6 066 370**	**6 066 370**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 893 770**	**19 833 456**	**4 060 314**	**1 709 839**	**0**	**1 709 839**	**-378 664**	**-76 726**	**-301 939**	**-872 428**	**0**	**-872 428**	**-431 819**	**13 805 481**	**616 509**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	409 635	329 172	80 462	468	0	468	-1 496	-409	-1 087	-447	0	-447	0	34 862	15
Credit institutions	47 910	45 160	2 750	0	0	0	-994	-811	-183	0	0	0	0	0	0
Other financial corporations	586 800	528 953	57 847	89 888	0	89 888	-11 592	-3 793	-7 799	-33 314	0	-33 314	-188 162	212 076	47 373
Non-financial corporations	11 942 681	8 938 332	3 004 349	1 253 462	0	1 253 462	-317 032	-55 740	-261 292	-648 969	0	-648 969	-242 901	3 627 687	418 379
Of which SMEs	7 199 618	5 534 918	1 664 700	835 519	0	835 519	-144 633	-37 128	-107 505	-425 568	0	-425 568	-172 463	2 699 873	303 467
Households	10 906 744	9 991 837	914 907	366 021	0	366 021	-47 551	-15 974	-31 577	-189 697	0	-189 697	-756	9 930 856	150 742
Debt securities	**9 392 757**	**9 354 608**	**38 149**	**485 773**	**2 378**	**483 395**	**-13 991**	**-9 733**	**-4 258**	**-277 561**	**0**	**-277 561**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	5 486 037	5 486 037	0	0	0	0	-3 605	-3 605	0	0	0	0	0	0	0
Credit institutions	783 020	783 020	0	0	0	0	-338	-338	0	0	0	0	0	0	0
Other financial corporations	465 766	465 766	0	46 821	0	46 821	-662	-662	0	-14 164	0	-14 164	0	0	0
Non-financial corporations	2 657 934	2 619 785	38 149	438 952	2 378	436 574	-9 386	-5 128	-4 258	-263 397	0	-263 397	0	0	0
Off-balance-sheet exposures	**7 970 259**	**6 852 095**	**1 118 164**	**459 171**	**0**	**459 171**	**17 656**	**8 221**	**9 435**	**70 273**	**0**	**70 273**		**178 531**	**16 291**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	157 995	151 274	6 721	0	0	0	34	19	15	0	0	0		4 104	0
Credit institutions	497 234	447 543	49 690	0	0	0	106	18	88	0	0	0		733	0
Other financial corporations	103 330	75 672	27 658	7 595	0	7 595	113	42	71	3 316	0	3 316		10 545	0
Non-financial corporations	6 022 856	5 005 716	1 017 140	449 326	0	449 326	13 379	4 339	9 039	66 815	0	66 815		151 925	16 230
Households	1 188 845	1 171 889	16 956	2 250	0	2 250	4 025	3 804	221	142	0	142		11 224	61
Total	**47 323 156**	**42 106 529**	**5 216 627**	**2 654 783**	**2 378**	**2 652 405**	**-375 000**	**-78 238**	**-296 762**	**-1 079 715**	**0**	**-1 079 715**	**-431 819**	**13 984 013**	**632 800**

Collateral obtained by taking possession and execution processes

(in thousands of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**0**	**0**
Other than PP&E	**433 918**	**-205 905**
Residential immovable property	98 970	-29 866
Commercial immovable property	243 534	-150 977
Movable property (auto, shipping, etc.)	3 228	-2 194
Equity and debt instruments	60 793	-11 846
Other	27 394	-11 022
Total	**433 918**	**-205 905**

NOTE 45 – INSURANCE AND REINSURANCE MEDIATION SERVICES

As at 30 June 2022 and 2021, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	30.06.2022	30.06.2021
Life Insurance		
Unit Link and other life commissions	903	927
Credit protection insurance (life)	415	395
Traditional products	9 340	7 786
	10 659	**9 108**
Non-Life Insurance		
Personal lines insurance	3 699	3 913
Corporate insurance	88	88
Credit protection insurance (non-life)	694	594
	4 481	**4 595**
	15 140	**13 703**

Note: the income presented is net of accruals

The Group does not collect insurance premiums on behalf of the Insurers, nor does it move funds relating to insurance contracts. Accordingly, there are no other assets, liabilities, income or charges to be reported relating to the insurance mediation business carried on by the Group, other than those already disclosed.

NOTE 46 – EXPOSURE TO UKRAINE, TO RUSSIA AND BELARUS

On February 24, 2022, the Russian Federation began a military operation on the territory of Ukraine, which triggered a war that currently involves three countries (Russia, Ukraine and Belarus). In response, various sanctions were approved with the aim of impacting on the Russian economy, and also that of Belarus, by a group of countries, including NATO countries, the European Union and others. There is a possibility that novobanco could be impacted by losses in the assets exposed to those countries as a result of those sanctions, as well as the destruction that is taking place in Ukraine as a result of the war. The exposure of novobanco as at 30 June 2022 and 31 December 2021, by type of asset and country is presented as follows:

(in thousands of Euros)

	30.06.2022			
	Russian Federation	**Belarus**	**Ukraine**	**Total**
Loans and advances to customers	5 538	148	978	6 664
Securities	14 076	-	-	14 076
Bonds recorded at fair value through other comprehensive income	*5 985*	-	-	*5 985*
Bonds recorded at amortised cost	*8 091*	-	-	*8 091*
Total Assets	**19 614**	**148**	**978**	**20 740**

(in thousands of Euros)

	31.12.2021			
	Russian Federation	**Belarus**	**Ukraine**	**Total**
Loans and advances to customers	5 049	209	938	6 000
Securities	43 140	-	-	43 140
Bonds recorded at fair value through other comprehensive income	*22 744*	-	-	*22 744*
Bonds recorded at amortised cost	*20 396*	-	-	*20 396*
Total Assets	**48 189**	**209**	**938**	**49 336**

INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF novobanco FIRST HALF OF 2022

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE INCOME STATEMENT
FOR THE THREE AND SIX MONTH ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	Three months period ended on		Six months period ended on	
		30.06.2022	30.06.2021	30.06.2022	30.06.2021
Interest Income	8	186 689	186 964	368 315	375 148
Interest Expenses	8	(51 526)	(40 503)	(98 404)	(81 246)
Net Interest Income		**135 163**	**146 461**	**269 911**	**293 902**
Dividend Income	9	7 064	11 764	7 162	12 063
Fees and commission income	10	76 908	74 428	147 426	139 998
Fees and commission expenses	10	(10 039)	(9 579)	(19 085)	(20 132)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	(34 294)	(2 391)	(52 777)	9 224
Gains or losses on financial assets and liabilities held for trading	11	21 771	(15 501)	147 440	18 909
Gains or losses on financial assets mandatorily at fair value through profit or loss	11	(21 967)	27 762	(26 411)	20 854
Gains or losses from hedge accounting	11	2 440	1 738	936	8 820
Exchanges differences	11	2 223	17 172	(139)	13 553
Gains or losses on derecognition of non-financial assets	12	157	488	1 458	2 010
Other operating income	13	12 074	13 682	21 095	27 998
Other operating expenses	13	(5 735)	(12 403)	(46 087)	(49 065)
Operating Income		**185 765**	**253 621**	**450 929**	**478 134**
Administrative expenses		(88 955)	(86 490)	(176 787)	(174 129)
Staff expenses	14	*(52 258)*	*(54 318)*	*(104 056)*	*(108 560)*
Other administrative expenses	16	*(36 697)*	*(32 172)*	*(72 731)*	*(65 569)*
Contributions to resolution funds and deposit guarantee	17	(40 433)	(40 172)	(40 717)	(40 172)
Depreciation	25, 26	(10 173)	(8 167)	(20 237)	(16 282)
Provisions or reversal of provisions	18	35 926	18 778	56 405	32 396
Commitments and guarantees given		*962*	*17 410*	*4 713*	*18 622*
Other provisions		*34 964*	*1 368*	*51 692*	*13 774*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	18	(36 356)	(44 265)	(61 057)	(100 339)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	18	15 687	-	15 687	-
Impairment or reversal of impairment on non-financial assets	18	3 637	(3 036)	4 331	(12 382)
Profit or loss before tax from continuing operations		**65 098**	**90 269**	**228 554**	**167 226**
Tax expense or income related to profit or loss from continuing operations	27	(10 604)	(14 949)	(16 580)	(17 371)
Current tax		(312)	(727)	(640)	(814)
Deferred tax		(10 292)	(14 222)	(15 940)	(16 557)
Profit or loss after tax from continuing operations		**54 494**	**75 320**	**211 974**	**149 855**
Profit or loss before tax from discontinued operations	29	-	(2 525)	-	(1 319)
Profit or loss for the period		**54 494**	**72 795**	**211 974**	**148 536**
Basic earning per share (in Euros)	19	0.01	0.01	0.02	0.02
Diluted earnings per share (in Euros)	19	0.01	0.01	0.02	0.02
Basic earnings per share of continuing activities (in Euros)	19	0.01	0.01	0.02	0.02
Diluted earnings per share of continuing activities (in Euros)	19	0.01	0.01	0.02	0.02

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

novobanco

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2022	**30.06.2021**	**30.06.2022**	**30.06.2021**
Net profit / (loss) for the period		54 494	72 795	211 974	148 536
Other comprehensive income/(loss)					
Items that will not be reclassified to results		***64 483***	***(45 798)***	***64 924***	***(45 684)***
Actuarial gains / (losses) on defined benefit plans	a)	49 952	(41 687)	49 952	(41 687)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	14 531	(4 111)	14 972	(3 997)
Items that may be reclassified to results		***(36 386)***	***(16 767)***	***(201 533)***	***(93 323)***
Financial assets at fair value through other comprehensive income	a)	(36 386)	(16 767)	(201 533)	(93 323)
Total other comprehensive income/(loss) for the period		**82 591**	**10 230**	**75 365**	**9 529**

a) See INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY

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

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE BALANCE SHEET
AS AT 30 JUNE 2022 AND 31 DECEMBER 2021

(in thousands of Euros)

	Notes	30.06.2022	31.12.2021
ASSETS			
Cash, cash balances at central banks and other demand deposits	20	6 053 289	5 674 461
Financial assets held for trading	21	200 102	377 709
Financial assets mandatorily at fair value through profit or loss	22	1 975 984	2 250 308
Financial assets at fair value through other comprehensive income	22	2 593 258	7 133 508
Financial assets at amortised cost	22	30 286 141	24 977 300
Securities		7 474 496	2 893 829
Loans and advances to banks		183 159	186 089
Loans and advances to customers		22 628 486	21 897 382
Derivatives - Hedge accounting	23	344 371	20 150
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	(191 270)	28 787
Investments in subsidiaries, joint ventures and associates	24	256 153	241 066
Tangible assets		258 868	231 419
Tangible fixed assets	25	258 868	231 419
Intangible assets	26	69 294	67 515
Tax assets	27	843 911	776 769
Current Tax Assets		35 938	35 448
Deferred Tax Assets		807 973	741 321
Other assets	28	2 367 974	2 555 852
Non-current assets and disposal groups classified as held for sale	29	7 055	6 601
TOTAL ASSETS		**45 065 130**	**44 341 445**
LIABILITIES			
Financial liabilities held for trading	21	163 133	305 512
Financial liabilities measured at amortised cost	30	40 999 644	40 346 362
Deposits from banks		10 748 834	11 497 829
(of which, Repurchase Agreement)		*813 932*	*1 529 847*
Due to customers		28 290 244	26 997 858
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 512 651	1 479 066
Other financial liabilities		447 915	371 609
Derivatives - Hedge accounting	23	15 452	44 460
Provisions	31	398 075	478 170
Tax liabilities	27	4 793	4 703
Current Tax Liabilities		4 793	4 703
Other liabilities	32	609 267	362 836
TOTAL LIABILITIES		**42 190 364**	**41 542 043**
EQUITY			
Capital	33	6 054 907	6 054 907
Accumulated other comprehensive income	34	(1 105 596)	(968 987)
Retained earnings	34	(8 577 074)	(8 576 860)
Other reserves	34	6 290 555	6 064 434
Profit or loss attributable to Shareholders of the parent		211 974	225 908
TOTAL EQUITY		**2 874 766**	**2 799 402**
TOTAL LIABILITIES AND EQUITY		**45 065 130**	**44 341 445**

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

NOVO BANCO, S.A.

INTERIM CONDESED SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIODS ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Profit or loss for the period	Total
Balance as at 31 December 2020		**5 900 000**	**(749 259)**	**(7 202 828)**	**6 179 422**	**(1 374 246)**	**2 753 089**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 246)**	**96 412**	**1 374 246**	**96 412**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	*(1 374 246)*	-	*1 374 246*	-
Reserve of Contigent Capital Agreement	34	-	-	-	*96 413*	-	*96 413*
Other movements		-	-	-	*(1)*	-	*(1)*
Total comprehensive income for the period		**-**	**(139 007)**	**-**	**-**	**148 536**	**9 529**
Changes in fair value, net of tax	34	-	*(89 228)*	-	-	-	*(89 228)*
Remeasurement of defined benefit plans, net of tax	*15*	-	*(41 687)*	-	-	-	*(41 687)*
Reserves of impairment of securities at fair value through OCI	34	-	*(228)*	-	-	-	*(228)*
Reserves of sales of securities at fair value through OCI	34	-	*(7 864)*	-	-	-	*(7 864)*
Net income of the period		-	-	-	-	*148 536*	*148 536*
Balance as at 30 June 2021		**5 900 000**	**(888 266)**	**(8 577 074)**	**6 275 834**	**148 536**	**2 859 030**
Capital increase by incorporation of special reserve for deferred taxes		154 907	-	-	(154 907)	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**214**	**(56 493)**	**-**	**(56 279)**
Reserve of Contigent Capital Agreement	34	-	-	-	*(56 493)*	-	*(56 493)*
Other movements		-	-	*214*	-	-	*214*
Total comprehensive income for the period		**-**	**(80 721)**	**-**	**-**	**77 372**	**(3 349)**
Changes in fair value, net of tax	34	-	*(45 334)*	-	-	-	*(45 334)*
Remeasurement of defined benefit plans, net of tax	*15*	-	*(33 962)*	-	-	-	*(33 962)*
Reserves of impairment of securities at fair value through OCI	34	-	*229*	-	-	-	*229*
Reserves of sales of securities at fair value through OCI	34	-	*(1 654)*	-	-	-	*(1 654)*
Net income of the period		-	-	-	-	*77 372*	*77 372*
Balance as at 31 December 2021		**6 054 907**	**(968 987)**	**(8 576 860)**	**6 064 434**	**225 908**	**2 799 402**
Outros aumentos/diminuições do capital próprio		**-**	**-**	**(214)**	**226 121**	**(225 908)**	**(1)**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	-	*225 908*	*(225 908)*	-
Other movements		-	-	*(214)*	*213*	-	*(1)*
Total comprehensive income for the period		**-**	**(136 609)**	**-**	**-**	**211 974**	**75 365**
Changes in fair value, net of tax	34	-	*(183 269)*	-	-	-	*(183 269)*
Remeasurement of defined benefit plans, net of tax	15	-	*49 952*	-	-	-	*49 952*
Reserves of impairment of securities at fair value through OCI	34	-	*(2 213)*	-	-	-	*(2 213)*
Reserves of sales of securities at fair value through OCI	34	-	*(1 079)*	-	-	-	*(1 079)*
Net income of the period		-	-	-	-	*211 974*	*211 974*
Balance as at 30 June 2022		**6 054 907**	**(1 105 596)**	**(8 577 074)**	**6 290 555**	**211 974**	**2 874 766**

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

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE CASH FLOW STATEMENT
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2022 AND 2021

(in thousands of Euros)

	Notes	30.06.2022	30.06.2021
Cash flows from operating activities			
Interest received		352 732	720 698
Interest paid		(76 374)	(159 657)
Fees and commissions received		147 426	287 013
Fees and commissions paid		(19 085)	(40 296)
Recoveries on loans previously written off		12 306	15 508
Cash contributions to resolution funds and deposit guarantee schemes		(40 717)	(40 172)
Cash payments to employees and suppliers		(205 405)	(306 733)
		170 883	**476 361**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(62 066)	115 801
Financial assets mandatorily at fair value through profit or loss		253 017	95 294
Financial assets designated at fair value through profit or loss		183 604	220 309
Financial assets at fair value through other comprehensive income		4 198 217	57 779
Financial assets at amortised cost		(5 309 785)	(268 722)
Debt securities		*(4 558 667)*	*(127 871)*
Loans and advances to banks		*3 023*	*(82 227)*
Loans and advances to customers		*(754 141)*	*(58 624)*
Financial liabilities at amortised cost		597 885	1 200 686
Deposits from banks		*(696 209)*	*405 383*
Due to customers		*1 294 094*	*795 303*
Derivatives - Hedge accounting		(133 172)	1 821
Other operating assets and liabilites		541 727	103 304
Net cash from operating activities before corporate income tax		**440 310**	**2 002 633**
Corporate income taxes paid		(33 801)	(39 465)
Net cash from operating activities		**406 509**	**1 963 168**
Cash flows from investing activities			
Acquistions of investments in subsidiaries and associated companies		5 003	-
Dividends received		7 162	18 400
Acquisition of tangible fixed assets		(43 860)	(25 420)
Sale of tangible fixed assets		1 986	2 136
Acquisition of intangible assets		(6 818)	(7 995)
Net cash from investing activities		**(36 527)**	**(12 879)**
Cash flows from financing activities			
Contigent Capital Agreement		-	317 013
Reimbursement of bonds and other debt securities		(244)	(291)
Net cash from financing activities		**(244)**	**316 722**
Net changes in cash and cash equivalents		**369 738**	**2 267 011**
Cash and cash equivalents at the beginning of the period		**5 409 506**	**2 261 646**
Net changes in cash and cash equivalents		369 738	2 189 639
Cash and cash equivalents at the end of the period		**5 779 244**	**4 451 285**
Cash and cash equivalents include:			
Cash	20	150 126	139 350
Deposits with Central Banks	20	5 792 283	4 494 747
(of which, Restricted balances)		(274 045)	(264 903)
Deposits with banks	20	110 880	82 091
Total		**5 779 244**	**4 451 285**

The accompanying explanatory notes are an integral part of these interim condesed separate financial statements

novobanco

Notes to the interim condensed separate financial statements as at 30 June 2022

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

NOTE 1 – ACTIVITY

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

As a result of the resolution measure applied, Fundo de Resolução ("Resolution Fund") became the sole owner of the share capital of novobanco, in the amount of Euro 4.900 million, which acquired the status of a transition bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of novobanco. On 18 October the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North-American Group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively.

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

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

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

As at 30 June 2022, novobanco has a retail network comprising 285 branches in Portugal and abroad (31 December 2021: 292 branches), branches in Spain and Luxembourg and 2 representative offices in Switzerland (31 December 2021: 4 representative offices).

NOTE 2 – BASIS OF PRESENTATION

The interim condensed separate financial statements of novobanco are presented as at 30 June 2022, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Bank in the preparation are consistent with those used in the preparation of the financial statements as at 31 December 2021. The changes to the most relevant accounting policies are described in Note 5.

These were prepared on the assumption of continuity of operations from the accounting records and following the principle of historical cost, with the exception of assets and liabilities recorded at their fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in their component being hedged.

The interim condensed separate financial statements and the Management Report of June 30, 2022 were approved at a meeting of the Executive Board of Directors on 28 July of 2022.

NOTE 3 – STATEMENT OF COMPLIANCE

The separate financial statements of novobanco have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union in force on January 1, 2021, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of July 19, 2002, and Notice nº 5/2015 of Bank of Portugal.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and its predecessor body the Standing Interpretations Committee (SIC).

---

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

The interim condensed separate financial statements of novobanco are presented as at 30 June 2022. These interim condensed separate financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Consequently, these interim condensed separate financial statements do not include all the information required by IFRS, and therefore they should be read together with the financial statements for the year ended on 31 December 2021. The accounting policies used by the Bank are consistent with the ones used in the preparation of the financial statements as at 31 December 2021, except for the new standards issued.

NOTE 4 – PRESENTATION OF FINANCIAL STATEMENTS

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

NOTE 5 – CHANGES IN ACCOUNTING POLICIES

In the preparation of its financial statements with reference to 30 June 2022, the Bank did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Bank are as follows:

Norms, interpretations, amendments, and revisions that came into force in the fiscal year
The following norms, interpretations, amendments, and revisions adopted ("endorsed") by the European Union have mandatory application for the first time in the fiscal year beginning January 1, 2022:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	Description
Amendments to IFRS 3 - References to the Framework for Financial Reporting	1-Jan-2022	This amendment updates the references to the Framework in the text of IFRS 3, with no changes being made to the accounting requirements for business combinations. It also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. The amendment is of prospective application.
Amendments to IAS 16 - Income Earned Before Start-Up	1-Jan-2022	Clarifies the accounting treatment given to the consideration obtained with the sale of products that result from the production in test phase of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognizes the income obtained from the sale of such products and the costs of their production in results.
Amendments to IAS 37 - Onerous Contracts - costs of fulfilling a contract	1-Jan-2022	This amendment specifies that in assessing whether or not a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labor and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses for tangible assets used to perform the contract. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract. This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without restating the comparative.
Amendments to IFRS 1 - Subsidiary as a first-time adopter of IFRS (included in the annual improvements for the 2018-2020 cycle)	1-Jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.

Amendments to IFRS 9 - Derecognition of financial liabilities - Fees to be included in the '10 per cent' change test (included in the annual improvements for the 2018 2020 cycle)	1-Jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.
Amendments to IAS 41 - Taxation and fair value measurement (included in the annual improvements for the 2018-2020 cycle)	1-Jan-2022	This improvement eliminates the requirement to exclude tax cash flows in the fair value measurement of biological assets.

These standards and changes had no material impact on the Bank's financial statements.

NOTE 6 – MAIN ACCOUNTING POLICIES

6.1. Foreign currency transactions

6.1.1 Functional and presentational currency

The Bank’s separate financial statements are prepared in Euro, which is novobanco functional currency.

6.1.2 Transactions and balances

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

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

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

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

6.2. Recognition of interest income and expense

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

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

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

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

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities held for trading (see Note 6.5).

6.3. Recognition of fee and commission income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:
- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 6.2.

6.4. Measurement categories for financial assets and liabilities

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

6.5. Net trading income

Net income from financial assets and liabilities held for trading includes changes in fair value, interest or expenses and dividends, as well as income from derivatives held for economic hedging that do not qualify as hedging derivatives.

6.6. Net gain or loss on financial assets and liabilities designated at fair value through profit or loss

Net gain or loss on financial assets and liabilities designated at fair value through profit or loss includes the net gain or loss from financial assets and financial liabilities designated as at fair value through profit or loss and also from non-trading assets measured at fair value through profit or loss, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

6.7. Net gain or loss on derecognition of financial assets measured at amortized cost

Net loss on derecognition of financial assets measured at amortized cost includes loss (or income) recognized on sale or derecognition of financial assets measured at amortized cost calculated as the difference between the net book value (including impairment until the recoverable amount) and the proceeds received.

6.8. Financial Instruments – Initial recognition and measurement

6.8.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

6.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in 6.10 Financial instruments are initially measured at their fair value (as defined in Note 6.9), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

6.8.3. Day one profit

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

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

6.8.4. Measurement categories for financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
• Amortized cost, as explained in Note 6.10.1;
• Fair Value of through Other Comprehensive Income, as explained in Notes 6.10.1, 6.10.2 and 6.10.3;
• Fair Value Through Profit or Losses, as set out in Note 6.10.4;
• Mandatorily measured at fair value through profit or loss, as set out in Note 6.10.4.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Note 6.10.5. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.10.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative.

6.9. Fair value of Financial Assets and Liabilities

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Bank proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)
This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favour of a specific price.

This category includes, amongst others, the following financial instruments:
(i) Derivatives traded on an organized market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with observable market quotes;
(vi) Financial instruments with market offers even if these are not available at the normal information sources (e.g., securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)
In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations, but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:
(i) Bonds without observable market valuations valued using observable market inputs; and
(ii) Derivatives (OTC) over-the-counter valued using observable market inputs; and
(iii) Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)
This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:
(i) Debt securities valued using non-observable market inputs;
(ii) Unquoted shares;
(iii) Closed real estate funds;
(iv) Hedge funds;
(v) Private equities;
(vi) Restructuring funds; and
(vii) Over the counter (OTC) derivatives with prices provided by third parties

6.10. Financial Assets and Liabilities

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

6.10.1 Financial Assets at amortized cost or accounted at fair value through other comprehensive income

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

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

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

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

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

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

6.10.2 Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:
- The financial asset is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise to, on specific dates, cash flows that are solely payments of principal and interests on the principal amount outstanding.

Debt instruments classified as fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in Other Comprehensive Income, until the assets are derecognized, at which time the accumulated amount of potential gains and losses recorded without reserves is transferred to results under the heading of gains or losses on financial assets and liabilities accounted for at fair value through profit or loss. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 6.2.

.

The expected credit loss calculation for debt instruments at fair value through other comprehensive income is explained in Note 6.16. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis.

6.10.3. Equity instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are
recorded in OCI.

Equity instruments at FVOCI are not subject to an impairment assessment.

6.10.4. Financial assets at fair value through profit or loss

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

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement, with the exception of changes resulting from the change in the Group's own risk the Debt Valuation Adjustment (DVA), which are recognized in other comprehensive income. **novobanco** does not records any gain arising from own credit risk.

6.10.5. Assets and liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking.

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions, and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

6.10.6. Derivative financial instruments and hedge accounting

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

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

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 28 and 32) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting
- Classification criteria

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

(i) Hedging instruments and hedged items are eligible for the hedge relationship;

(ii) At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

(iii) There is an economic relationship between the hedged item and the hedging instrument;

(iv) The effect of credit risk does not dominate the changes in value that result from this economic relationship;

(v) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

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

The use of derivatives is framed in the Bank’s risk management strategy and objectives.

- Fair Value Hedge

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

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

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

- Cash Flow Hedge

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

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

Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 6.9.

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

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

These embedded derivatives are measured at fair value with the changes in fair value being recognized in the income statement.

6.10.7. Financial Liabilities

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

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

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

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

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

Reclassifications between categories of liabilities are not allowed.

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

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

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

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

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

6.10.8. Financial and performance guarantees

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

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

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

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

6.11. Reclassifications of financial assets and liabilities

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

6.12. Modification of financial assets and liabilities

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors. When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in loan currency;
- Introduction of an equity feature;
- Change in counterparty;
- Whether the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Bank's accounting policy in respect of forborne loans is set out in note 6.13.

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortized cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognized immediately in the result. For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability.

6.13. Derecognition

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

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

6.14. Forborne modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Global Risk Department. Forbearance may involve extending the payment arrangements and/or the agreement of new loan conditions. If modifications are substantial, the loan is derecognized, as explained in Note 6.12. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. The Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 39 and whether the assets should be classified as Stage 3.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contracts that are more than 30 days past due.

6.15. Offsetting of financial instruments

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

.

6.16. Impairment of financial assets

Impairment principles

The Bank record impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;

- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Equity instruments are not subject to impairment under IFRS 9.

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

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

Impairment is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- *Stage* 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

- *Stage* 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit impaired. The Bank records an allowance for the LTECL.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit adjusted EIR. The ECL allowance is only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The calculation of ECL

The Bank calculates ECL based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD *Probability of Default*- The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- EAD *Exposure at Default* - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD *The Loss Given Default* - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognized separately.

Scenarios

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

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

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

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

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

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

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

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

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case and an upside case.

The mechanics of the ECL method are summarized below:

- *Stage* 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above;

- *Stage* 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR;

- *Stage* 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR;

- Irrevocable commitments and letters of credit. When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan;

- For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized within Provisions.

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

For POCI financial assets, the Bank only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.
The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Individual impairment analysis process

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

6.17. Collateral and Financial Guarantees Valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

6.18. Foreclosed properties and non-current assets held for sale

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

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans or through foreclosure, during financial year 2016 the Bank changed the classification of this real estate properties from Non-current assets held for sale to Other assets due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. For real estate properties recorded in the balance sheet of novobanco, the immediate sale value is considered to be the respective fair value. The market value of property for which a promissory contract of sale and purchase has been signed corresponds to the value of that contract.

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

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

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

(iii) *Cost Method*

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

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

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

For assets of greater relevance, the challenge of the appraisals that serve as a basis for the valuation of the real estate assets is carried out by a specialized area of the Bank that is independent of this valuation process, in accordance with an annual work plan previously approved by the Executive Board of Directors.

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

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell. Where the carrying value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to Level 3.

6.19. *Write-offs*

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

(i) The total amount of the credit has been demanded, that is, the credit must be fully recognized (totally or partially) as overdue credit. Exemptions from this requirement are (i) debt restructuring/pardon carried out within the scope of extra-judicial, PER and Insolvency agreements, in which part of the credit may remain performing and the remainder of the debt will be written off by judicial/extra-judicial decision and (ii) situations in which that despite the contract not having expired in its entirety, the Group understands that it is facing a scenario of total or partial loss;

(ii) All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered

(iii) The credit recovery expectations are very low, being necessary that the amount to be written off (whether total or partial write-off of the debt) to be fully covered by impairment and under management by the central credit recovery application. It is necessary to ensure that the amount to be written off from the asset is 100% impaired (constituted at least in the month prior to the write-off); and

(iv) A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered.

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

6.20. Cash and cash equivalents

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

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

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

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognized in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 6.10. Securities received under borrowing agreements are not recognized in the balance sheet.

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

6.22. Property, plant and equipment

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

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

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

	Number of Years
Self-Serviced Buildings	35 to 50
Leasehold improvements	10
IT equipment	4 to 8
Furniture and fixtures	4 to 10
Interior installations	5 to 10
Security equipment	4 to 10
Machines and tools	4 to 10
Transport equipment	4
Other equipment	5

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

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

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

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

6.23. Leases

Lease Definition
The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee
As a lessee, the Bank leases various assets, including real estate, vehicles and IT equipment. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

The Bank presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred and less any lease incentives received.

The Bank presents the lease liabilities under "Other liabilities" in the statement of financial position. The lease liability corresponds to the present value of the future cash flows to be paid during the lease contract. The lease rents include fixed amounts, variable amounts that depend on an interest rate, amounts to be payable relating to guarantees on the residual value of the asset. Any options are also included if they are reasonably expected to be exercised.

Variable amounts that do not depend on interest rate are recognized as cost in the period to which they relate. During the lease period, the lease liability increases by the interest accrual and decreases by the lease rents payment. The value of the lease liability changes if the terms of the lease (such as the term or the value of the index) change or if the valuation of the exercise of the option to acquire the asset changes.

As Lessor

Financial leases

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

Operating leases

All lease transactions that do not fall under the definition of finance lease are classified as operating leases. Revenues relating to these contracts are recognized on a straight-line basis over the lease term and recorded in “Other operating income”.

6.24. Intangible assets

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

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

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

6.25. Impairment of non-financial assets

The Bank assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asse or cash generating unit fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Bank bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Bank’s cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year (perpetuity).

Impairment losses of continuing operations are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the assets or cash generating unit recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

The Bank assesses where climate risks may have a significant impact, such as the introduction of emissions reduction legislation that may increase production costs. These risks in relation to climate-related issues are included as key assumptions when they materially affect the impairment measurement. These assumptions have been included in the cash flow forecasts in the value in use assessment.

6.26. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 15, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

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

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

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

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

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

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

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

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

Health-care benefits

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

SAMS provides its beneficiaries with services and/or contributions on medical assistance expenses, auxiliary diagnostic means, medication, hospital admissions and surgical interventions, in accordance with its financial resources and internal regulations.

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

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

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

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

Employees' variable remuneration and other obligations
The Bank recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Bank recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.
- Obligations with holidays, holiday subsidy and Christmas subsidy
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

6.27. Provisions and Contingent Liabilities

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

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

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

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

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

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

6.28. Income Taxes

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

Corporate income tax comprises current tax and deferred tax.

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

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

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

Deferred tax

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

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

The taxable profit or tax loss determined by the Bank can be adjusted by the Portuguese Tax Authorities within a period of four years, except in the case of any deduction or use of tax credit, in which the expiry period is the exercise of that right (5 or 12 years in the case of tax losses, depending on the year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in the interpretation of tax legislation, will not have a materially relevant effect on the financial statements.

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

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

6.29. Treasury shares

Own equity instruments of the Bank which are acquired by it are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized on the result of the purchase, sale, issue or cancellation of own equity instruments. At 31 December 2021, the Bank does not hold own equity instruments.

6.30. Disintermediation

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Bank.

6.31. Dividends

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

6.32. Reserves

The reserves recorded in equity on the Bank's statement of financial position include:

- Other Comprehensive Income:
    - Fair value reserves which comprise: (i) The cumulative net change in the fair value of debt instruments classified at fair value through other comprehensive income, minus the allowance for expected credit loss, when applicable; (ii) The cumulative net change in fair value of equity instruments at fair value through other comprehensive income;
    - Impairment reserves of debt instruments classified at fair value through other comprehensive income;
    - Reserves associated with sales of equity instruments classified as fair value through other comprehensive income, which include the proceeds from sales of these securities;
    - Actuarial deviation reserves that correspond to actuarial gains and losses, resulting from differences between the actuarial assumptions used and the values actually verified (experience gains and losses) and from changes in actuarial assumptions and the gains and losses arising from the difference between the income expected from the fund's assets and the values obtained;
    - Own credit revaluation reserve, which comprises the cumulative changes in the fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in the Bank's own credit risk;
    - Cash flow hedge reserve, which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge;
    - Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
    - Other capital reserve, which includes the portion of compound financial liabilities that qualify for treatment as equity.
- Retained earnings, which corresponds to earnings of the Bank carried over from previous years;

- Other reserves (originary reserve, special reserve and other reserves).

6.33. Earnings per share

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

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

6.34. The accounting standards and interpretations

The accounting standards and interpretations recently issued but not yet effective and that the Bank has not yet applied in the preparation of its financial statements may be analyzed as follows:

Standards, interpretations, amendments and revisions that become effective in future years:

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

Standard / Interpretation	Applicable in the European Union for fiscal years beginning on or after	Description
IFRS 17 - Insurance Contracts	1-Jan-2023	IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IAS 1 – Presentation of financial statements - Classification of current and non-current liabilities	1-Jan-2023(*)	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise that right), or by events occurring after the reporting date, such as the breach of a “covenant”. However, if the right to defer settlement for at least twelve months is subject to certain conditions being met after the reporting date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or noncurrent. This amendment also includes a new definition of "settlement" of a liability and is retrospective.
Amendments to IAS 8 – Definition of accounting estimates	1-Jan-2023	The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 1 – Disclosure of accounting policies	1-jan-2023	These amendments are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However, due to the absence of this concept in IFRS, it was decided to replace it by the concept "materiality", a concept already known to users of financial statements. In assessing the materiality of accounting policies, the entity has to consider not only the size of the transactions but also other events or conditions and the nature of these.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	1-jan-2023	The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgment whether such deductions are attributable to the liability that is recognized in the financial statements or the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability.

		According to these amendments, the initial recognition exception is not applicable to transactions that have given rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not equal.

(*) In July 2021, the Council provisionally decided to postpone the effective date of the changes from 2020 to no earlier than 1 January 2024.

The Bank did not early adopt any of these standards in its interim condensed separate financial statements for June 30, 2022. No significant impacts on the financial statements are expected as a result of their adoption.

NOTE 7 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

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

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

7.1. Impairment of financial assets at amortized cost and at fair value through other comprehensive income

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

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortized cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the accounting policy 6.16, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by novobanco and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with novobanco. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Bank monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: the Bank uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS 9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

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

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

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarized in Note 38.

7.3. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period, and evidenced in Note 27.

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

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

7.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 15 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries, and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the novobanco for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

7.5. Provisions and Contingent liabilities

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

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

7.6. Investment properties, Foreclosed assets and Non-current assets held for sale

Foreclosed assets and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations carried out by independent entities specializing in this type of service, using the market, income or cost methods defined in Note 6.18. The valuation reports are analyzed internally, namely comparing the sales values with the revalued values of the properties to maintain the valuation parameters and processes aligned with the market evolution.

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

7.7 Significant judgment in determining contract lease term

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

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

NOTE 8 – NET INTEREST INCOME

The breakdown of this caption as at 30 June 2022 and 2021 is as follows:

(in thousands of Euros)

	For the six month period ended on									
	30.06.2022					30.06.2021				
	Effective Interest Rate Method			Other		Effective Interest Rate Method			Other	
	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances to customers	243 118	6 799	-	-	249 917	242 281	6 327	-	-	248 608
Interest from deposits with and loans and advances to / deposits from banks	377	-	40 373	-	40 750	7 718	-	36 640	-	44 358
Interest from securities	45 247	24 086	-	5 200	74 533	32 644	35 893	-	9 972	78 509
Interest from derivatives	-	-	781	2 214	2 995	-	-	973	2 493	3 466
Other interest and similar income	120	-	-	-	120	207	-	-	-	207
	288 862	**30 885**	**41 154**	**7 414**	**368 315**	**282 850**	**42 220**	**37 613**	**12 465**	**375 148**
Interest Expenses										
Interest on debt securities issued	29 337	-	-	-	29 337	16 404	-	-	-	16 404
Interest on amount due to customers	20 944	-	-	-	20 944	26 006	-	-	-	26 006
Interest on deposits from / deposits with and loans and advances to banks	4 989	-	9 804	-	14 793	4 548	-	3 826	-	8 374
Interest on subordinated liabilities	16 948	-	-	-	16 948	16 943	-	-	-	16 943
Interest from derivatives	-	-	5 484	6 941	12 425	-	-	3 668	5 990	9 658
Other interest and similar expenses	3 470	-	487	-	3 957	3 355	-	506	-	3 861
	75 688	**-**	**15 775**	**6 941**	**98 404**	**67 256**	**-**	**8 000**	**5 990**	**81 246**
	213 174	**30 885**	**25 379**	**473**	**269 911**	**215 594**	**42 220**	**29 613**	**6 475**	**293 902**

On 30 June 2022, interest from loans and advances to customers includes Euro 14,275 thousand related to financial lease operations (30 June 2021: Euro 15,885 thousand).

In relation to operations with repurchase agreements, interest from deposits with and loans and advances to banks, interest on amounts due to customers and interest on deposits from banks include, as at 30 June 2022, the amount of Euro -157 thousand, Euro 1,077 thousand and Euro 2,783 thousand, respectively (30 June 2021: Euro 587 thousand of resources from credit institutions).

Interest income and expense items related to derivative interest include interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 6.10.6 e 6.10.7.

NOTE 9 – DIVIDEND REVENUE

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Financial assets mandatorily at fair value through profit or loss		
Shares	**98**	**1 970**
Euronext NV	-	1 801
Visa Inc CL C	98	169
Participation units	**164**	**2 050**
Explorer III B	164	2 050
Financial assets at fair value through other comprehensive income		
Shares	**2 208**	**1 062**
SIBS SGPS	1 866	785
ESA Energia	238	275
Other	104	2
Investments in associates and subsidiaries	**4 692**	**6 981**
Unicre	3 070	6 321
Locarent	613	-
Edenred	1 009	660
	7 162	**12 063**

NOTE 10 – FEES AND COMMISSIONS INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Fees and commissions income		
From banking services	107 443	99 082
From guarantees provided	15 467	16 768
From transaction of securities	2 785	3 203
From commitments to third parties	3 280	4 013
From transactions carried out on behalf of third parties - cross-selling	17 217	15 722
Other fee and commission income	1 234	1 210
	147 426	**139 998**
Fees and commissions expenses		
With banking services rendered by third parties	13 901	15 135
With guarantees received	1 353	813
With transaction of securities	1 116	1 156
Other fee and commission income	2 715	3 028
	19 085	**20 132**
	128 341	**119 866**

NOTE 11 – GAINS OR LOSSES ON FINANCIAL OPERATIONS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2022			30.06.2021		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss						
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by the government and public entities	28 614	44 216	(15 602)	14 331	8 595	5 736
Issued by other entities	2 976	36 710	(33 734)	9 511	323	9 188
	31 590	**80 926**	**(49 336)**	**23 842**	**8 918**	**14 924**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by the government and public entities	2	-	2	-	-	-
Issued by other entities	-	4 364	(4 364)	-	142	(142)
Loans	2 164	1 243	921	5 221	10 779	(5 558)
	2 166	**5 607**	**(3 441)**	**5 221**	**10 921**	**(5 700)**
	33 756	**86 533**	**(52 777)**	**29 063**	**19 839**	**9 224**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by the government and public entities	1 803	22 662	(20 859)	2 038	11 768	(9 730)
Issued by other entities	10	-	10	38	20	18
Financial Derivatives						
Foreign exchange rate contracts	43 235	38 923	4 312	33 717	42 648	(8 931)
Interest rate contracts	420 326	257 700	162 626	252 412	215 937	36 475
Equity / Index contracts	1 171	1 324	(153)	20 600	20 004	596
Credit default contracts	-	-	-	16	18	(2)
Other	8 307	6 633	1 674	637	154	483
Other	-	170	(170)	-	-	-
	474 852	**327 412**	**147 440**	**309 458**	**290 549**	**18 909**
Gains or losses on financial assets mandatorily at fair value through profits or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	15 971	17 031	(1 060)	21 040	5 505	15 535
Shares	2 634	12 629	(9 995)	17 112	-	17 112
Other variable income securities	5 013	20 369	(15 356)	10 503	22 296	(11 793)
	23 618	**50 029**	**(26 411)**	**48 655**	**27 801**	**20 854**
Gains or losses from hedge accounting						
Fair value changes of hedging instruments						
Foreign exchange rate contracts	420 198	177 735	242 463	62 326	30 584	31 742
Fair value changes of hedging item attributable to hedged risk	1 751	243 278	(241 527)	4 612	27 534	(22 922)
	421 949	**421 013**	**936**	**66 938**	**58 118**	**8 820**
Foreign exchange revaluation	**794 095**	**794 234**	**(139)**	**673 997**	**660 444**	**13 553**
	1 748 270	**1 679 221**	**69 049**	**1 128 111**	**1 056 751**	**71 360**

Gains or losses on financial assets and financial liabilities held for trading

In accordance with the accounting policy described in Note 6.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

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

As at 30 June 2022, gains recognized in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 1,499 thousand (30 June 2021: Euro 773 thousand).

Gains or losses on hedge

Gains or losses on hedge accounting include the fair value variations of the hedging instrument (derivative) and the fair value variations of the hedged item attributable to the hedged risk. In the case where the hedge operations are interrupted early, there may occur the payment/receipt of compensation, which is recorded in Other operating expenses/ Other operating income. As at 30 June 2022, the amount of compensation received amounted to Euro 88 thousand (30 June 2021: Euro 1,166 thousand).

Exchange differences

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 6.1.

NOTE 12 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Real Estate	1 539	894
Equipment	(307)	(62)
Other	226	1 179
	1 458	**2 010**

NOTE 13 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Other operating income		
Gains / (losses) on recoveries of loans	12 306	15 508
Non-recurring consulting services	217	245
Other income	8 572	12 245
	21 095	**27 998**
Other operating expenses		
Direct and indirect taxes	(566)	(277)
Contribution on the banking sector and solidarity additional	(33 410)	(33 545)
Membership fees and donations	(1 041)	(1 252)
Charges with Supervisory entities	(1 167)	(927)
Other expenses	(9 903)	(13 064)
	(46 087)	**(49 065)**
Other operating income / (expenses)	**(24 992)**	**(21 067)**

As at 30 June 2022, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 88 thousand (30 June 2021: Euro 1,166 thousand) (see Note 11).

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the national amount of derivative financial instruments, and whose regime has been extended.
As at 30 June 2022, novobanco recognized Banking Levy charges as a cost in the amount of Euro 28,270 thousand (31 December 2021: Euro 28,334 thousand). The cost recognized as at 30 June 2022 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures provided for in Economic and Social Stabilization Program (SSPE) and following the art. 18 of Law no. 27 -A / 2020, of July 24, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates.

As at 30 June 2022, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,140 thousand (31 December 2021: Euro 5,090 thousand). The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

NOTE 14 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	**30.06.2021**
Wages and salaries	79 874	83 036
Remuneration	79 874	82 650
Career bonuses (see Note 15)	-	386
Mandatory social charges	23 019	23 626
Costs with post-employment benefits (see Note 15)	262	377
Other costs	901	1 521
	104 056	**108 560**

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

As at 30 June 2022, the number of employees of the Bank is 3,893 (31 December 2021: 3,918).

NOTE 15 –EMPLOYEE BENEFITS

Pension and health-care benefits

As mentioned in accounting policy 6.26, the Bank has undertaken to provide its employees, or their families, with cash benefits for old-age retirement, disability and survivors' pensions and other liabilities such as a Serviço de Assistência Médico-Social (SAMS), managed by the Union.

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

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

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

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

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

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

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

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

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

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

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

On 1 June 2016, an amendment was made to *Fundo de Pensões* NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 30 June 2022, the amount of Euro 272 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2021: Euro 553 thousand).

During 2021, two changes were made to the Pension Fund:

- Inclusion of Social Security Pension – Pensioners
  Until 2020, the methodology applied considered pensions in payment by the Pension Fund for the calculation of liabilities with pensioners. In 2021, this methodology was changed for pensioners who started a pension after 2011, and do not have a Social Security pension. For this group of pensioners with age below the normal retirement age of the General Social Security Regime (RGSS), the liability arising from a Social Security pension, to be paid from the normal retirement age of the RGSS, was deducted. As for pensioners over the normal retirement age of the RGSS, the liability arising from a Social Security pension, to be paid from the moment of assessment, was deducted.

- Inclusion of acquired rights (Clause 98 ACT)
  In 2021, liabilities with former employees who left novobanco after 2011, and who can claim rights to the Pension Fund under Clause 98 of the ACT, were included.

The Bank's liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 6.26 - Employee benefits, reportable as at 30 June 2022 and December 2021 are analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 482 285)**	**(1 887 967)**
Pensioners	(1 081 804)	(1 312 843)
Employees	(400 481)	(575 124)
Coverage		
Fair value of plan assets	**1 506 069**	**1 865 405**
Net assets / (liabilities) in the balance sheet (See Notes 28 and 32)	**23 784**	**(22 562)**
Accumulated actuarial deviations recognized in other comprehensive income	**731 292**	**781 244**

According to the policy defined in Note 6.26 - Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

	30.06.2022		31.12.2021	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	3.40%	-17.46%	1.35%	-0.24%
Discount rate	3.40%	-	1.35%	-
Pension increase rate	0.75%	1.26%	0.50%	0.36%
Salary increase rate	1.00%	0.80%	0.75%	2.05%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-3 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as of 30 June 2022 and 31 December 2021 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

The evolution of actuarial deviations on the balance sheet can be analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**781 244**	**705 595**
Actuarial (gains) / losses in the exercise:		
- Changes in assumptions		
- Financial assumptions	(437 208)	12 260
- Plan assets return (excluding net of interests)	387 257	63 388
Other	(1)	1
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**731 292**	**781 244**

The costs of retirement pensions and healthcare benefits for the six month periods ended 30 June 2022 and 2021, can be analysed as follows:

(in thousands of Euros)

	30.06.2022	30.06.2021
Current service cost	-	214
Net interest	1 281	1 329
Early retirements	262	163
Post-employment benefits costs	**1 543**	**1 706**

In the first half of 2022, the value of early retirements amounted to Euro 2.2 million (30 June 2021: Euro 7.1 million), of which Euro 2.0 million are part of the Bank's restructuring process and, as such, they were recognized against the use of the provision for restructuring (see Note 31).

Career Bonuses

As at 30 June 2022, the liabilities assumed by the Bank amounted to Euro 7,258 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 6.26 – Employee benefits (31 December 2021: Euro 7,335 thousand) (see Note 32).

No costs with career bonuses were recognized in the first half of 2022 (30 June 2021: Euro 386 thousand) (see Note 14).

NOTE 16 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Rentals	2 872	2 724
Advertising	2 663	2 257
Communication	4 468	4 475
Maintenance and repairs expenses	4 659	4 539
Travelling and representation	912	708
Transportation of valuables	1 458	2 484
Insurance	3 583	2 666
IT services	18 248	17 676
Independent work	1 285	702
Temporary work	403	437
Electronic payment systems	5 515	5 119
Legal costs	3 710	2 302
Consultancy and audit fees	10 557	7 418
Water, energy and fuel	1 466	1 470
Consumables	772	826
Other costs	10 160	9 766
	72 731	**65 569**

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

NOTE 17 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

This caption on 30 June 2022 and 2021 is analyzed as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Contribution to the Fundo Único de Resolução	24 416	25 276
Contribution to the Fundo de Resolução Nacional	16 017	14 854
Contribution to the Fundo de Garantia de Depósitos	284	42
	40 717	**40 172**

NOTE 18 – IMPAIRMENT

This caption on 30 June 2022 and 2021 is analyzed as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2022			30.06.2021		
	Charges	Reversals	Total	Charges	Reversals	Total
Provisions or reversal of provisions (see Note 31)						
Provisions for guarantees	6 619	(8 422)	(1 803)	3 765	(24 784)	(21 019)
Provisions for commitments	1 409	(4 319)	(2 910)	5 115	(2 718)	2 397
Other provisions	2 564	(54 256)	(51 692)	3 984	(17 758)	(13 774)
	10 592	**(66 997)**	**(56 405)**	**12 864**	**(45 260)**	**(32 396)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (see Note 22)						
Securities at fair value through other comprehensive income	1 201	(1 801)	(600)	417	(495)	(78)
Securities at amortised cost	854 659	(813 143)	41 516	561 447	(545 725)	15 722
Loans and advances to banks	252	(533)	(281)	647	(248)	399
Loans and advances to customers	106 102	(85 680)	20 422	136 784	(52 488)	84 296
	962 214	**(901 157)**	**61 057**	**699 295**	**(598 956)**	**100 339**
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 24)	**-**	**(15 687)**	**(15 687)**	**-**	**-**	**-**
Impairment or reversal of impairment on non-financial assets						
Non-current assets and disposal groups classified as held for sale and discontinued operations (see Note 29)	-	-	-	10 000	-	10 000
Tangible fixed assets (see Note 25)	-	(425)	(425)	3 403	(3 874)	(471)
Other assets (see Note 28)	5 287	(9 193)	(3 906)	4 766	(1 913)	2 853
	5 287	**(9 618)**	**(4 331)**	**18 169**	**(5 787)**	**12 382**
	978 093	**(993 459)**	**(15 366)**	**730 328**	**(650 003)**	**80 325**

NOTE 19 – EARNINGS PER SHARE

Basic earnings per share

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

(in thousands of Euros)

	Six month period ended on	
	30.06.2022	30.06.2021
Net consolidated profit / (loss) attributable to shareholder of the Bank	**211 974**	**148 536**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of novobanco (in Euros)	**0.02**	**0.02**
Basic earnings per share from continuing activities attributable to shareholders of novobanco (in Euros)	**0.02**	**0.02**

Diluted earnings per share

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

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

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

As at 30 June 2022 and 31 December 2021, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Cash	**150 126**	**144 220**
Demand deposits with Central Banks		
Bank of Portugal	5 790 840	5 261 912
Other Central Banks	1 443	2 717
	5 792 283	**5 264 629**
Deposits in other domestic credit institutions		
Repayable on demand	16 338	63 116
Uncollected checks	55 586	162 783
	71 924	**225 899**
Deposits with banks abroad		
Repayable on demand	38 956	39 713
	38 956	**39 713**
	6 053 289	**5 674 461**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 261.7 million (31 December 2021: Euro 250.3 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 30 June 2022 and 31 December 2021, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 30 June 2022 was included in the observation period running from 15 June 2022 to 26 July 2022.

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

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 30 June 2022 and 31 December 2021, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Financial assets held for trading		
Securities		
Securities held for trading		
Bonds and other fixed income securities		
Issued by government and public entities	35 810	114 465
	35 810	**114 465**
Derivatives		
Derivatives held for trading with positive fair value	164 292	263 244
	164 292	**263 244**
	200 102	**377 709**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	147 011	305 512
Short selling	16 122	-
	163 133	**305 512**

Securities held for trading

In accordance with the accounting policy described in Note 6.10.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 38.

Derivatives

As at 30 June 2022 and 31 December 2021, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2022			31.12.2021		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for negotiation						
Foreign exchange rate contracts	1 709 825	26 705	26 371	1 364 318	29 172	34 690
Interest rate contracts	2 942 114	130 235	118 943	5 731 824	225 196	267 889
Equity / Index contracts	462 532	7 352	1 697	525 436	8 180	2 359
Commodities contracts	-	-	-	29 633	696	574
		164 292	**147 011**		**263 244**	**305 512**

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 6.10.6 and 6.10.7, and which the Bank has not designated for hedge accounting.

In the first half of 2022, the Bank recognized a loss of Euro -1,236 thousand related to the CVA of derivative instruments (31 December 2021: loss of Euro 454 thousand). The way of determining the CVA is explained in Note 38.

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

As at 30 June 2022 and 31 December 2021, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2022				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	1 975 984	2 593 258	7 474 496	(89 998)	11 953 740
Loans and advances to banks	-	-	183 159	-	183 159
Loans and advances to customers	-	-	22 628 486	(101 272)	22 527 214
	1 975 984	**2 593 258**	**30 286 141**	**(191 270)**	**34 664 113**

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

(in thousands of Euros)

	31.12.2021				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 250 308	7 133 508	2 893 829	(3 136)	12 274 509
Loans and advances to banks	-	-	100 009	-	186 080
Loans and advances to customers	-	-	21 897 382	31 923	21 929 305
	2 250 308	**7 133 508**	**#VALUE!**	**28 787**	**34 389 894**

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

Securities

As at 30 June 2022 and 31 December 2021 the detail of securities portfolio is as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Securities mandatorily at fair value through profit or loss		
Obrigações e outros títulos de rendimento fixo		
De outros emissores	520 877	559 227
Shares	299 284	425 363
Other variable income securities	1 155 823	1 265 718
	1 975 984	**2 250 308**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	1 902 681	5 685 067
From other issuers	617 985	1 398 899
Shares	72 592	49 542
	2 593 258	**7 133 508**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	3 499 948	371 273
From other issuers	4 264 632	2 770 328
Impairment	(290 084)	(247 772)
	7 474 496	**2 893 829**
Value adjustments for interest rate risk hedging (see Note 23)	(89 998)	(3 136)
	11 953 740	**12 274 509**

The securities mandatorily accounted at fair value through profit or loss include the participation units held by the Bank in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 6.10.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

At the financial year of 2020, novobanco completed the independent assessment of the restructuring funds. These funds are “level 3” assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and novobanco requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets, which led to the recording of a loss of Euro -300.2 million in the year 2020 recorded under the heading of gains or losses with financial assets mandatorily accounted for at fair value through profit or loss. This assessment included the establishment of assumptions for the valuation of assets included in the funds, a discount at the level of the fund based on parameters equivalent to quoted funds and an appreciation of the potential evolution of the fund (see Note 38).

As at 30 June 2022 and 31 December 2021, the breakdown of securities at fair value through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [(1)]	Fair value reserve		Fair value reserve transferred to Results [(2)]	Book value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities						
From public issuers	**1 907 124**	**300**	**(4 743)**	**-**	**1 902 681**	**(1 055)**
Residents	1 553 361	300	(3 440)	-	1 550 221	(841)
Non residents	353 763	-	(1 303)	-	352 460	(214)
From other issuers	**670 919**	**172**	**(59 265)**	**6 159**	**617 985**	**(400)**
Residents	29 604	-	(2 387)	-	27 217	(3)
Non residents	641 315	172	(56 878)	6 159	590 768	(397)
Shares	**398 225**	**33 773**	**(359 406)**	**-**	**72 592**	**-**
Residents	328 268	32 481	(297 128)	-	63 621	-
Non residents	69 957	1 292	(62 278)	-	8 971	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Non residents	-	-	-	-	-	-
Balance as at 30 June 2022	**2 976 271**	**34 245**	**(423 417)**	**6 159**	**2 593 258**	**(1 455)**

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

[(2)] As part of fair value hedge operations (see Note 23)

(in thousands of Euros)

	Cost [1]	Fair value reserve		Book value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**5 484 078**	**204 864**	**(3 875)**	**5 685 067**	**(2 995)**
Residents	2 406 121	86 400	-	2 492 521	(1 466)
Non residents	3 077 957	118 464	(3 875)	3 192 546	(1 529)
From other issuers	**1 374 554**	**30 008**	**(5 663)**	**1 398 899**	**(673)**
Residents	29 609	63	(2 335)	27 337	(3)
Non residents	1 344 945	29 945	(3 328)	1 371 562	(670)
Shares	**398 186**	**11 810**	**(360 454)**	**49 542**	**-**
Residents	328 230	10 567	(298 226)	40 571	-
Non residents	69 956	1 243	(62 228)	8 971	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**
Residents	3	-	(3)	-	-
Balance as at 31 December 2021	**7 256 821**	**246 682**	**(369 995)**	**7 133 508**	**(3 668)**

[1] Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

During the first half of 2022, the Bank sold Euro 4,084.0 million of financial instruments classified at fair value through other comprehensive income (31 December 2021: Euro 934.4 million), with a loss of Euro 49.3 million (31 December 2021: gain of Euro 12.3 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 1.0 million that were transferred from revaluation reserves to sales-related reserves (31 December 2021: loss of Euro 9.5 million), from the sale of equity instruments.

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**3 667**	**-**	**-**	**3 667**
Increases due to changes in credit risk	417	-	-	417
Decreases due to changes in credit risk	(495)	-	-	(495)
Utilization during the period	(163)	-	-	(163)
Other movements	13	-	-	13
Balance as at 30 June 2021	**3 439**	**-**	**-**	**3 439**
Increases due to changes in credit risk	835	-	-	835
Decreases due to changes in credit risk	(400)	-	-	(400)
Utilization during the period	(221)	-	-	(221)
Other movements	15	-	-	15
Balance as at 31 December 2021	**3 668**	**-**	**-**	**3 668**
Increases due to changes in credit risk	1 201	-	-	1 201
Decreases due to changes in credit risk	(1 781)	-	(20)	(1 801)
Utilization during the period	(1 645)	-	-	(1 645)
Other movements	12	-	20	32
Balance as at 30 June 2022	**1 455**	**-**	**-**	**1 455**

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

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**5 180**	**87 620**	**109 660**	**202 460**
Increases due to changes in credit risk	5 427	539 628	16 392	561 447
Decreases due to changes in credit risk	(4 404)	(524 630)	(16 691)	(545 725)
Utilization during the period	(12)	-	(1 640)	(1 652)
Other movements	89	(88)	1	2
Balance as at 30 June 2021	**6 280**	**102 530**	**107 722**	**216 532**
Increases due to changes in credit risk	3 837	518 619	131 720	654 176
Decreases due to changes in credit risk	(3 670)	(582 914)	(36 355)	(622 939)
Utilization during the period	-	(1)	-	(1)
Other movements	(201)	49	156	4
Balance as at 31 December 2021	**6 246**	**38 283**	**203 243**	**247 772**
Increases due to changes in credit risk	12 219	170 620	671 820	854 659
Decreases due to changes in credit risk	(3 864)	(204 661)	(604 618)	(813 143)
Utilization during the period	(34)	-	-	(34)
Other movements	(6 302)	16	7 116	830
Balance as at 30 June 2022	**8 265**	**4 258**	**277 561**	**290 084**

In accordance with the accounting policy mentioned on Note 6.16, the Bank regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 7.1.

The detail of the securities portfolio by fair value hierarchy is presented in Note 38.

The portfolio securities pledged by the Bank are analyzed in Note 35.

Loans and advances to Banks

As at 30 June 2022 and 31 December 2021, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Loans and advances to banks in Portugal		
Very short-term placements	1 925	-
Deposits	136 162	136 408
Loans	40 835	44 770
Other loans and advances	3	3
	178 925	**181 181**
Loans and advances to banks abroad		
Deposits	5 085	6 089
Loans	2	-
Other loans and advances	15	2
	5 102	**6 091**
Impairment losses	**(868)**	**(1 183)**
	183 159	**186 089**

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

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

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**445**	**2**	**249 706**	**250 153**
Increases due to changes in credit risk	327	11	309	647
Decreases due to changes in credit risk	(247)	(1)	-	(248)
Other movements	1	-	7 811	7 812
Balance as at 30 June 2021	**526**	**12**	**257 826**	**258 364**
Increases due to changes in credit risk	87	530	133 754	134 371
Decreases due to changes in credit risk	(297)	(101)	(132 564)	(132 962)
Utilization during the period	(101 282)	-	(167 728)	(269 010)
Other movements	101 250	33	(90 863)	10 420
Balance as at 31 December 2021	**284**	**474**	**425**	**1 183**
Increases due to changes in credit risk	33	219	-	252
Decreases due to changes in credit risk	(139)	(394)	-	(533)
Other movements	(41)	1	6	(34)
Balance as at 30 June 2022	**137**	**300**	**431**	**868**

Loans and advances to customers

As at 30 June 2022 and 31 December 2021, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Domestic loans and advances		
Corporate		
Current account loans	1 173 691	1 097 525
Loans	8 878 617	8 819 590
Discounted bills	90 390	75 502
Factoring	649 816	593 512
Overdrafts	4 007	13 453
Financial leases	1 198 133	1 245 885
Other loans and advances	30 417	17 693
Individuals		
Residential Mortgage loans	7 291 545	7 260 274
Consumer credit and other loans	1 104 987	1 063 923
	20 421 603	**20 187 357**
Foreign loans and advances		
Corporate		
Current account loans	66 609	66 348
Loans	1 683 228	1 319 819
Discounted bills	2	2
Factoring	24 751	40 519
Overdrafts	79	54
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 122 097	1 037 140
Consumer credit and other loans	190 231	180 412
	3 086 998	**2 644 295**
Overdue loans and advances and interests		
Under 90 days	12 350	18 931
Over 90 days	333 520	282 556
	345 870	**301 487**
	23 854 471	**23 133 139**
Impairment losses	**(1 225 985)**	**(1 235 757)**
	22 628 486	**21 897 382**
Fair value adjustaments of interest rate hedges (see Note 23)		
Corporate		
Loans	(10 590)	4 035
Individuals		
Residential Mortgage loans	(90 682)	27 888
	(101 272)	**31 923**
	22 527 214	**21 929 305**

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

As at 30 June 2022, the caption Loans and advances to customers include Euro 6,075.4 million (31 December 2021: Euro 6,075.1 million) of mortgage loans related to the issuance of covered bonds (see Note 30).

As at 30 June 2022, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 12,893 thousand (31 December 2021: Euro 17,773 thousand).

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	*Stage 2*	*Stage 3*	Total
Balance as at 31 December 2020	**60 127**	**306 444**	**1 220 432**	**1 587 003**
Financial assets derecognised	(52)	(2 896)	(155 870)	(158 818)
Increases due to changes in credit risk	6 542	66 569	63 673	136 784
Decreases due to changes in credit risk	(23 597)	(17 208)	(11 683)	(52 488)
Utilization during the period	-	(113)	(52 268)	(52 381)
Other movements	24 284	(20 122)	(2 786)	1 376
Balance as at 30 June 2021	**67 304**	**332 674**	**1 061 498**	**1 461 476**
Financial assets derecognised	(1 230)	(177)	(83 834)	(85 241)
Increases due to changes in credit risk	15 218	53 503	83 697	152 418
Decreases due to changes in credit risk	(22 846)	(39 325)	(27 437)	(89 608)
Utilization during the period	-	(81)	(214 010)	(214 091)
Other movements	3 610	(29 323)	36 516	10 803
Balance as at 31 December 2021	**62 056**	**317 271**	**856 430**	**1 235 757**
Financial assets derecognised	(4)	-	(5 264)	(5 268)
Increases due to changes in credit risk	13 415	26 096	66 591	106 102
Decreases due to changes in credit risk	(46 455)	(18 459)	(20 766)	(85 680)
Utilization during the period	-	(80)	(44 862)	(44 942)
Other movements	44 753	(26 653)	1 916	20 016
Balance as at 30 June 2022	**73 765**	**298 175**	**854 045**	**1 225 985**

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

<u>Main events in the first half of 2022</u>

The most relevant events during the first half of 2022 and with an impact on the risk cost of the period, in chronological order were:

1. The reinforce of impairment arising from specific adjustments on customers that ended the moratorium in the second half of 2021. In this case, the record resulting from the adjustment to stage 3 of the above mentioned customers where there was credit overdue for more than 45 days during the first half of the year;
2. Reinforce of impairment arising from individual analysis referring to counterparties from countries originating from conflict zone;
3. Record of impairment due to the deterioration of the macroeconomic expectations and the rise from the interest rates of reference.

Regarding to reinforcements of impairment in points 1 and 2 mentioned above, they were accounted in the first quarter of 2022 and they had an affordable impact in risk cost since (1) the exposure to countries originating from conflict zone is low and (2) the level of claims observed in customers who benefited from a moratorium in the second half of 2021 was negligible.

Regarding the impairment records resulting from point 3, these are supported by:

3.1 Effects arising from the continuity of conflict between Russia and Ukraine, with the rise in raw material costs, but also from the general rise in the prices of goods and services. To consider this situation, the practical expedient of adjusting the weights assigned to the scenarios currently used to support the IFRS9 impairment calculation was followed, in this case increasing the weight of the adverse scenario against the remaining scenarios used – base and favorable.

3.2 Effects arising from the increase of interest rates of reference, which impact in impairment was estimated using the LGD risk parameter. The estimation/development of this parameter was supported by interest rate values prior to 2022, where the reference rates assumed negative values. With the recent increase in these rates to positive values, it has become urgent to ensure that the LGD risk parameter and, consequently, the impairment constituted for the loan portfolio at the time incorporate this impact.

In this way, the cost of credit risk verified in 2022 during the first half of the year remained at controlled levels and below those of 2021, reflecting the normal functioning of banking activity.

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

At 30 June 2022 and 31 December 2021, the fair value of the hedging derivatives is analyzed as follows

(in thousands of Euros)

	30.06.2022	31.12.2021
Hedging derivatives		
Assets	344 371	20 150
Liabilities	(15 452)	(44 460)
	328 919	**(24 310)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities at amortised cost (see Note 22)	(89 998)	(3 136)
Securities at fair value through other comprehensive income (see Note 22)	(6 159)	-
Loans to customers (see Note 22)	(101 272)	31 923
	(197 429)	**28 787**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting (see Note 11).

The Bank calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 38 - Financial assets and liabilities held for trading.

As at 30 June 2022, the ineffective portion of the fair value hedging operations resulted in a loss of Euro 5.5 million that was recognized in the income statement (31 December 2021: loss of Euro 0.2 million). The bank periodically conducts tests of the effectiveness of existing hedging relationships.

NOTE 24 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

(in thousands of Euros)

	30.06.2022						31.12.2021					
	Number of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Book Value	Number of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Book Value
novobanco dos Açores	2 144 404	57.53%	5.00	10 308	-	10 308	2 144 404	57.53%	5.00	10 308	-	10 308
NB Finance	100 000	100.00%	1.00	1 700	-	1 700	100 000	100.00%	1.00	1 700	-	1 700
BEST	62 999 700	100.00%	1.00	100 418	(17 501)	82 917	62 999 700	100.00%	1.00	100 418	(17 501)	82 917
ES Tech Ventures	71 500 000	100.00%	1.00	71 500	(48 293)	23 207	71 500 000	100.00%	1.00	71 500	(48 293)	23 207
GNB GA	2 350 000	100.00%	5.00	86 722	-	86 722	2 350 000	100.00%	5.00	86 722	-	86 722
GNB Concessões	942 306	98.96%	5.00	20 602	(4 915)	15 687	942 306	98.96%	5.00	20 602	(20 602)	-
ESEGUR	242 000	44.00%	5.00	9 634	(4 460)	5 174	242 000	44.00%	5.00	9 634	(4 460)	5 174
ES Representações	49 995	99.99%	0.16	8	(8)	-	49 995	99.99%	0.16	8	(8)	-
Locarent	525 000	50.00%	5.00	2 967	-	2 967	525 000	50.00%	5.00	2 967	-	2 967
NB África	13 300 000	100.00%	5.00	66 500	(55 514)	10 986	13 300 000	100.00%	5.00	66 500	(55 514)	10 986
Unicre	350 029	17.50%	5.00	11 497	-	11 497	350 029	17.50%	5.00	11 497	-	11 497
Edenred Portugal	101 477 601	50.00%	0.01	4 984	-	4 984	101 477 601	50.00%	0.01	4 984	-	4 984
Multipessoal	20 000	22.52%	5.00	100	(100)	-	20 000	22.52%	5.00	100	(100)	-
Aroleri	3 500	100.00%	1.00	4	-	4	3 500	100.00%	1.00	604	-	604
				386 944	**(130 791)**	**256 153**				**387 544**	**(146 478)**	**241 066**

The changes in impairment losses for investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2022	31.12.2021	30.06.2021
Balance at the beginning of the period	**146 478**	**191 608**	**199 643**
Reversals	(15 687)	(49 691)	-
Foreign exchange differences and other [(a)]	-	4 561	(8 035)
Balance at the end of the period	**130 791**	**146 478**	**191 608**

(a) In the first half of 2021, it includes Euros 8,035 thousand of parity for Ijar Leasing transferred to discontinuing operations (see Note 29)

NOTE 25 – TANGIBLE FIXED ASSETS

This caption as at 30 June 2022 and 31 December 2021 is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Real estate properties		
For own use	184 027	181 868
Improvement in leasehold properties	110 298	117 734
	294 325	**299 602**
Equipment		
Computer equipment	106 160	109 729
Fixtures	39 204	41 687
Furniture	53 956	51 116
Security equipment	19 587	21 223
Machines and tools	7 754	7 898
Transport equipment	562	562
Other	121	134
	227 344	**232 349**
Assets under right of use		
Real estate properties	109 102	107 573
Equipment	6 839	8 468
	115 941	**116 041**
Work in progress		
Improvements in leasehold properties	11 715	431
Real estate properties	14 989	5 685
Others	456	336
	27 160	**6 452**
	664 770	**654 444**
Accumulated impairment	(11 646)	(12 071)
Accumulated depreciation	(394 256)	(410 954)
	258 868	**231 419**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Assets under right of use	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2020	**353 230**	**236 768**	**78 264**	**1 418**	**669 680**
Acquisitions	13 437	4 719	5 182	2 082	25 420
Disposals/write-offs	(9 693)	(10 572)	(7 010)	-	(27 275)
Transfers **(a)**	2 091	95		(1 402)	784
Other movements	1	1		1	3
Balance as at 30 June 2021	**359 066**	**231 011**	**76 436**	**2 099**	**668 612**
Acquisitions	16 576	19 465	41 000	14 169	91 210
Disposals/write-offs	(78 828)	(18 192)	(1 395)	(4 206)	(102 621)
Transfers **(a)**	2 789	66	-	(5 609)	(2 754)
Foreign exchange differences and other	(1)	(1)	-	(1)	(3)
Balance as at 31 December 2021	**299 602**	**232 349**	**116 041**	**6 452**	**654 444**
Acquisitions	10 127	9 106	3 655	20 972	43 860
Disposals/write-offs	(15 668)	(14 110)	(3 755)	-	(33 533)
Transfers	265	-	-	(265)	-
Other movements	(1)	(1)		1	(1)
Balance as at 30 June 2022	**294 325**	**227 344**	**115 941**	**27 160**	**664 770**
Depreciation					
Acquisitions	**225 160**	**210 715**	**31 452**	**-**	**467 327**
Acquisitions	2 485	4 696	6 179	-	13 360
Disposals/write-offs	(9 693)	(10 564)	(5 366)	-	(25 623)
Transfers **(a)**	(281)	-	-	-	(281)
Foreign exchange differences and other	547	75	-	-	622
Balance as at 30 June 2021	**218 218**	**204 922**	**32 265**	**-**	**455 405**
Acquisitions	2 661	5 348	6 233	-	14 242
Disposals/write-offs	(41 489)	(17 660)	(822)	-	(59 971)
Transfers **(a)**	(1 231)	(137)	-	-	(1 368)
Foreign exchange differences and other	2 721	(76)	1	-	2 646
Balance as at 31 December 2021	**180 880**	**192 397**	**37 677**	**-**	**410 954**
Depreciations of the period	2 432	6 109	6 657	-	15 198
Disposals/write-offs	(15 668)	(14 102)	(2 221)	-	(31 991)
Foreign exchange differences and other	35	60	-	-	95
Balance as at 30 June 2022	**167 679**	**184 464**	**42 113**	**-**	**394 256**
Impairment					
Balance as at 31 December 2020	**13 385**	**-**	**-**	**-**	**13 385**
Impairment loss	3 403	-	-	-	3 403
Reversal of impairment loss	(3 874)	-	-	-	(3 874)
Transfers	961	-	-	-	961
Balance as at 30 June 2021	**13 875**	**-**	**-**	**-**	**13 875**
Impairment loss	81	-	-	-	81
Reversal of impairment loss	(1 227)	-	-	-	(1 227)
Transfers	(658)	-	-	-	(658)
Balance as at 31 December 2021	**12 071**	**-**	**-**	**-**	**12 071**
Reversal of impairment loss	(425)	-	-	-	(425)
Balance as at 30 June 2022	**11 646**	**-**	**-**	**-**	**11 646**
Net book value at 30 June 2022	**115 000**	**42 880**	**73 828**	**27 160**	**258 868**
Net book value at 31 December 2021	**106 651**	**39 952**	**78 364**	**6 452**	**231 419**
Net book value at 30 June 2021	**126 973**	**26 089**	**44 171**	**2 099**	**199 332**

(a) Includes Euro 3,471 thousand of fixed assets (property and equipment) and Euro 1,650 thousand of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items.

(b) Includes Euro 1,276 thousand of work in progress (real estate properties and equipment) and Euro 589 thousand of accumulated depreciation related to dicontinued branches that were transferred at net value to the appropriate balance sheet items.

In the second half of 2021, as part of the reorganization of the Real Estate Funds held by the novobanco, the Bank sold own service properties to the Real Estate Funds, recording a loss of EUR 14,751 thousand. These properties were subsequently leased to the Bank and are being recorded in accordance with IFRS 16.

NOTE 26 – INTANGIBLE ASSETS

This caption as at 30 June 2022 and 31 December 2021 is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Internally developed		
Automatic data processing system	65 373	65 373
Acquired from third parties		
Automatic data processing system	380 065	379 779
	445 438	**445 152**
Work in progress	**19 942**	**13 410**
	465 380	**458 562**
Accumulated amortization	(396 086)	(391 047)
	69 294	**67 515**

Internally generated intangible assets include expenses incurred by the Bank's units specializing in the implementation of IT solutions that will bring future economic benefits (see Note 6.24).

The changes in this caption were as follows:

(in thousands of Euros)

	Software	Work in progress	Total
Acquistion cost			
Balance as at 31 December 2020	**411 762**	**21 420**	**433 182**
Acquisitions			
Acquired from third parties	60	7 935	7 995
Balance as at 30 June 2021	**411 822**	**29 355**	**441 177**
Acquisitions			
Acquired from third parties	3 149	14 236	17 385
Transfers	30 181	(30 181)	-
Balance as at 31 December 2021	**445 152**	**13 410**	**458 562**
Acquisitions			
Acquired from third parties	70	6 748	6 818
Balance as at 30 June 2022	**445 438**	**19 942**	**465 380**
Amortizations			
Balance as at 31 December 2020	**384 851**	**-**	**384 851**
Amortization for the period	2 922	-	2 922
Balance as at 30 June 2021	**387 773**	**-**	**387 773**
Amortization for the period	3 275	-	3 275
Foreign exchange differences and other	(1)	-	(1)
Balance as at 31 December 2021	**391 047**	**-**	**391 047**
Amortization for the period	5 039	-	5 039
Balance as at 30 June 2022	**396 086**	**-**	**396 086**
Net balance at 30 June 2022	**49 352**	**19 942**	**69 294**
Net balance at 31 December 2021	**54 105**	**13 410**	**67 515**
Net balance at 30 June 2021	**24 049**	**29 355**	**53 404**

NOTE 27 – INCOME TAXES

Tax assets and liabilities recognized in the balance sheet as at 30 June 2022 and 31 December 2021 can be analyzed as follows:

(in thousands of Euros)

	30.06.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Current tax	**35 938**	**4 793**	**35 448**	**4 703**
Corporate Tax recoverable / (payable)	-	4 606	-	4 606
Other	35 938	187	35 448	97
Deferred tax	**807 973**	**-**	**741 321**	**-**
	843 911	**4 793**	**776 769**	**4 703**

The deferred tax assets and liabilities recognized in the balance sheet as at 30 June 2022 and 31 December 2021 are as follows:

(in thousand of Euros)

	Assets		Liabilities		Net	
	30.06.2022	31.12.2021	30.06.2022	31.12.2021	30.06.2022	31.12.2021
Financial instruments	108 255	91 763	(11 494)	(77 349)	96 761	14 414
Impairment losses on loans (not covered)	329 989	337 267	-	-	329 989	337 267
Impairment losses on loans (covered)	267 086	267 043	-	-	267 086	267 043
Other tangible assets	-	-	(7 895)	(8 029)	(7 895)	(8 029)
Intagible assets	-	-			-	-
Investments in subsidiaries and associates	-	-	-	-	-	-
Provisions	73 682	82 092	-	-	73 682	82 092
Pensions	48 350	48 534	-	-	48 350	48 534
Long-term service bonuses	-	-	-	-	-	-
Temporary differences in branches	-	-	-	-	-	-
Other	-	-	-	-	-	-
Tax losses carried forward	-	-	-	-	-	-
Deferred tax asset / (liability)	**827 362**	**826 699**	**(19 389)**	**(85 378)**	**807 973**	**741 321**
Asset / liability set-off for deferred tax purposes	(19 389)	(85 378)	19 389	85 378	-	-
Net Deferred tax asset / (liability)	**807 973**	**741 321**	**-**	**-**	**807 973**	**741 321**

As at 30 June 2022 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, (31 December 2021: 31%), resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the above mentioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Thus, on 30 June 2022, the Bank continued to apply Regulatory Decree nº 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework resulting from Notice Noº 3/95 of Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the separate financial statements, there will be no additional charges of significant value.

In 30 June 2022 and 31 December 2021, the Bank recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As at 30 June 2022, the amounts held by the Bank referring to these realities amount to approximately Euro 39 million (31 December 2021: Euro 37 million).

Recoverability analysis of deferred tax assets

Deferred tax assets are recognized to the extent they are expected to be recovered with future taxable income. The bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverability of deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of deferred tax assets is carried out annually. On December 31, 2021, the exercise was performed based on the provisional version of the Medium-Term Plan ("MTP") prepared for the period 2022-2024, preliminary assessed by the General Supervisory Board in December 2021 and which, after final approval, will be referred to the European Central Bank in the end of March 2022.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2024, it is assumed, thereafter an increase in pre-tax results at a rate of 2.60% from 2024;
- Financial results moderate growth compensating the expected cost of debt issuing to meet MREL requirements as well as the continued development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous fiscal years;
- Progressive recovery of interest rate benchmarks to positive levels;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favorable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes, focusing on the digital component; and
- Credit impairment charges in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

Depending on the analysis mentioned above, the amount of deferred taxes not recognized for tax losses, per year of expiry, is as follows:

(in thousand of Euros)

	30.06.2022	31.12.2021
2024-2026	282 173	313 192
2026 and following	1 247 487	1 163 678
	1 529 660	**1 476 870**

In addition, during the financial year 2020, the Bank became aware of the Tax Authority’s position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. The overall amount of deferred tax assets relating to these temporary differences, not recognized in the balance sheet, on 30 June 2022 amounts to Euro 341 million.

Special Regime applicable to Deferred Tax Assets

During 2014, novobanco adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income for the years between 2016 and 2020, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018	2017	2016
Tax Credit	124 721	110 922	161 974	127 575	99 474

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 28 – OTHER ASSETS

As at 30 June 2022 and 31 December 2021, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Collateral deposits placed	368 147	525 229
Derivative products	*249 236*	*399 631*
Collateral CLEARNET and VISA	*37 401*	*33 092*
Collateral deposits relating to reinsurance operations	*81 457*	*92 457*
Other collateral deposits	*49*	*49*
Debtors for mortgage credit interest subsidies	15 339	11 961
Public sector	932 082	934 717
Contingent Capital Agreement	198 180	209 220
Other debtors	519 806	591 267
Income receivable	168 787	132 929
Deferred costs	45 722	47 166
Retirement pensions and health benefits (see Note 15)	23 784	-
Precious metals, numismatics, medal collection and other liquid assets	10 287	9 989
Real estate properties [a)]	354 239	357 644
Equipment [a)]	3 228	3 189
Stock exchange transactions pending settlement	41 787	70 918
Other assets	39 315	22 048
	2 720 703	**2 916 277**
Impairment losses		
Real estate properties [a)]	(191 065)	(192 413)
Equipment [a)]	(2 194)	(2 180)
Other debtors - Shareholder loans, supplementary capital contributions	(85 681)	(107 724)
Other	(73 789)	(58 108)
	(352 729)	**(360 425)**
	2 367 974	**2 555 852**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organized markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA). The CSAs take the form of collateral agreements established between two parties negotiating Over-the-Counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

The caption Other debtors includes, amongst others:

- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2021: Euro 111.6 million, entirely provisioned);
- Euro 57.5 million million receivable relation to the sale operation of non-performing loans (Project NATA II) (31 December 2021: Euro 60.5 million);
- Euro 0.3 million of receivables related to the property sale operation carried out in 2019 (called “Project Sertorius”) (31 December 2021: Euro 1.1 million);
- Euro 2.4 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated “Project Carter”). (December 31, 2021: Euro 4,2 million) (see Note 22);
- Euro 18.8 million of amounts receivable related to the transaction of sale of non-productive credits carried out in 2021 (denominated "Wilkinson Project") (31 December 2021: Euro 29.7 million) (see Note 22);
- Euro 15.5 million of receivables related to the sale of non-performing loans in 2021 (the "Orion Project") (31 December 2021: Euro 50.0 million) (see Note 22).

As at 30 June 2022, the caption Deferred costs includes the amount of Euro 35,384 thousand (31 December 2021: Euro 36,855 thousand) related to the difference between the nominal amount of the loans and advances granted to Bank employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

The securities transactions to be settled reflect the transactions with securities, recorded on the trade date, which were pending settlement, in accordance with the accounting policy described in Note 6.10.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Bank has the objective of immediate sale.

The bank implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the bank regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the holding period for properties acquired on repayment of own credit.

During the first half of 2022, an impairment charge of Euro 2.8 million was recorded for the properties in the portfolio (31 December 2021: Euro 4.2 million).

As described in accounting policy 6.25, the Bank evaluates at each reporting date, the recoverability of these assets and assesses for signs of impairment, with impairment losses being recognized in the income statement.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2022	**31.12.2021**	**30.06.2021**
Balance at the beginning of the period	**360 425**	**426 207**	**435 063**
Additions	5 287	12 777	4 766
Disposals	(2 576)	(70 819)	(10 749)
Reversals	(9 193)	(11 944)	(1 913)
Foreign exchange differences and others	(1 214)	4 204	(960)
Balance at the end of the period	**352 729**	**360 425**	**426 207**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	30.06.2022	**31.12.2021**
Balance at the beginning of the period	**357 644**	**500 917**
Entries	8 123	34 066
Sales	(8 576)	(123 600)
Other movements (a)	(2 952)	(53 739)
Balance at the end of the period	**354 239**	**357 644**

(a) In 2021 It includes Euros 50,208 thousand of real estate assets sold to Real Estate Funds of the Group, with an associated gain of Euro 4.1 million.

NOTE 29 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

This caption as at 30 June 2022 and 31 December 2021 is analyzed as follows:

(in thousands of Euros)

	30.06.2022	**31.12.2021**
Assets/Liabilities non-current held for sale		
Banco Well Link (previous NB Ásia)	2 222	2 039
Ijar Leasing Algerie	12 868	12 597
Other	50	50
	15 140	**14 686**
Impairment losses		
Ijar Leasing Algerie	(8 035)	(8 035)
Other	(50)	(50)
	(8 085)	**(8 085)**
	7 055	**6 601**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

The movement of the non-current assets held for sale is as follow:

(in thousands of Euros)

	Six month period ended on		
	30.06.2022	31.12.2021	30.06.2021
Balance at the beginning of the period	**8 085**	**197 271**	**179 236**
Charges / (Write-backs)	-	-	10 000
Utilizations	-	(164 954)	-
Foreign exchange differences and other	-	(24 232)	8 035
Balance at the end of the period	**8 085**	**8 085**	**197 271**

The results of discontinued operations as at 30 June 2022 and 2021 is as follows:

(in thousands of Euros)

	30.06.2022	30.06.2021
Results from discontinued operations		
novobanco - Spain branch	-	(1 319)
	-	**(1 319)**

During 2021 the associate Ijar Leasing Algérie was transferred to non-current assets held for sale as it is in the process of selling assets with a view to their disposal in the short term. The associates ESEGUR and Multipessoal were transferred from non-current assets held for sale to investments in associates and the investment in Banco Delle Tre Venezie was transferred to assets at fair value through other comprehensive income, as the sale processes are not active at financial year end.

Spanish Branch

Following the accounting policy followed by the Bank, and in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, during 2020 the Bank transferred its activity in Spain to the caption Non-current assets and disposal groups classified as held for sale, as it is expected that its value will be recovered through a sale transaction and this is highly probable, and the respective assets are in immediate sale conditions. The determination of fair value less costs of sale, carried out by an independent external entity, took into consideration the amounts received from potential parties interested in partial sales of this activity, the cost of sale of selected credit portfolios, and the cost of discontinuing the remaining residual activity, and resulted in a need for impairment of Euro 166.0 million.

On April 2, 2021, novobanco entered into an agreement to sell a number of assets and liabilities of the Spanish Branch with ABANCA CORPORACIÓN BANCARIA, S.A, which was completed on November 30, 2021 with the derecognition of the assets and liabilities sold.

The completion of this transaction had no impact on the income statement at the date of derecognition, since there was a provision recorded in the balance sheet for Euro 176 million (of which Euro 10 million reinforced already during 2021), which was partially used. The remaining amount of Euro 15.2 million was transferred to Provisions for other contingencies related to this transaction (advisory costs, tax contingencies and other possible claims).

NOTE 30 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 30 June 2022 and 31 December 2021 is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Deposits from banks	10 748 834	11 497 829
Due to customers	28 290 244	26 997 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 512 651	1 479 066
Other financial liabilities	447 915	371 609
	40 999 644	**40 346 362**

Deposits from Banks

The balance of Deposits from Banks is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	149	53 126
Other funds	7 954 000	7 954 000
	7 954 149	**8 007 126**
Deposits from credit institutions		
Domestic		
Deposits	1 087 779	968 975
Operations with repurchase agreements	30 744	-
Other funds	22 912	24 534
	1 141 435	**993 509**
Foreign		
Deposits	337 531	426 711
Loans	531 887	531 973
Operations with repurchase agreements	783 188	1 529 847
Other resources	644	8 663
	1 653 250	**2 497 194**
	2 794 685	**3 490 703**
	10 748 834	**11 497 829**

As at 30 June 2022, the caption Other funds from the European System of Central Banks includes Euro 7,954 million covered by Bank financial assets pledged as collateral, as part of the third series of longer-term refinancing operations of the European Central Bank (TLTRO III) (31 December 2021: Euro 7,954 million). The bonus introduced by the ECB in the interest rate of these transactions, in accordance with the provisions of IAS 20, is being deducted from financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the eligibility requirements set by the ECB.

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 6.21.

Due to customers

The balance of Deposits due to customers is composed, as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Repayable on demand		
Demand deposits	13 466 807	12 388 794
Time deposits		
Time deposits	8 625 893	9 011 648
Other	80	180
	8 625 973	**9 011 828**
Savings accounts		
Retirement saving accounts	224 205	226 003
Other	5 604 183	5 125 652
	5 828 388	**5 351 655**
Other funds		
Other	369 076	245 581
	369 076	**245 581**
	28 290 244	**26 997 858**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption breaks down as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Debt securities issued		
Euro Medium Term Notes (EMTN)	447 074	445 633
Bonds	588 784	573 588
	1 035 858	**1 019 221**
Subordinated debt		
Bonds	432 342	415 394
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	1 512 651	**1 479 066**

Under the Covered Bonds Program ("Programa de Emissão de Obrigações Hipotecárias"), which has a maximum amount of Euro 10,000 million, the Bank issued covered bonds which amount to Euro 5,500 million (31 December 2021: Euro 5,500 million), being these covered bonds totally repurchased by the Bank. The main characteristics of the outstanding issues as at 30 June 2022 and 31 December 2021 are as follows:

(in thousands of Euros)

30.06.2022									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2021									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in NOVO BANCO Bank's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6, 8 of 2006 and Instruction No. 13/2006 of Bank of Portugal. As at 30 June 2022, the assets that collateralize these covered debt securities amount to Euro 6,075.4 million (31 December 2021: Euro 6,075.1 million) (see Note 22).

The changes in the first semester of 2022 and the financial year of 2021 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousand of Euros)

	Balance as at 31.12.2021	Issues	Net purchases	Other movements a)	Balance as at 30.06.2022
Debt securities issued					
Euro Medium Term Notes (EMTN)	445 633	-	(244)	1 685	447 074
Bonds	573 588	-	-	15 196	588 784
	1 019 221	-	(244)	16 881	1 035 858
Subordinated debt					
Bonds	415 394	-	-	16 948	432 342
Financial liabilities associated to transferred assets					
Asset lending operations	44 451	-	-	-	44 451
	1 479 066	**-**	**(244)**	**33 829**	**1 512 651**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousand of Euros)

	Balance as at 31.12.2020	Issues	Net purchases	Other movements a)	Balance as at 31.12.2021
Debt securities issued					
Euro Medium Term Notes (EMTN)	515 311	-	(84 916)	15 238	445 633
Bonds	-	575 000	-	(1 412)	573 588
	515 311	575 000	(84 916)	13 826	1 019 221
Subordinated debt					
Bonds	415 234	-	-	160	415 394
Financial liabilities associated to transferred assets					
Asset lending operations	44 451	-	-	-	44 451
	44 451	**575 000**	**(84 916)**	**13 986**	**1 479 066**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

Liability Management Exercise (LME)

On July 30, 2021, following a voluntary tender offer (Tender Offer and Solicitation Memorandum), EMTN issued by the Luxembourg branch were redeemed, with a total nominal value of Euro 84.3 million (representing 31.9% of the total nominal amount issued). This operation resulted in a loss of Euro 73,415 thousand.

The main characteristics of the debt securities issued and the subordinated debt, as at 30 June 2022 and 31 December 2021 are as follows:

(in thousands of Euros)

			30.06.2022						
Entity	**ISIN**	**Description**	**Currency**	**Issue date**	**Unit Price (€)**	**Carrying Book value**	**Maturity**	**Interest rate**	**Market**
Bonds									
novobanco	PTNOBIOM0014	NB 3.5% 23/07/24 OBRG.	EUR	2021	100.00	308 986	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4.25% 09/23 OBRG.	EUR	2021	100.00	279 798	2022 a)	Euribor 3M + 4,25%	XDUB
Euro Medium Term Notes									
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	41 954	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	96 267	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	62 658	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	46 121	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	34 656	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	42 288	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	11 752	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	16 125	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	11 342	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	38 795	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	37 671	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	7 445	2046	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	432 342	2023 a)	8.50%	XDUB
						1 468 200			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	31.12.2021 Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
novobanco	PTNOBIOM0014	NB 3.5% 23/07/24 OBRG.	EUR	2021	100.00	303 571	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4.25% 09/23 OBRG.	EUR	2021	100.00	270 017	2022 a)	Euribor 3M + 4,25%	XDUB
Euro Medium Term Notes									
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 807	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	98 081	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 952	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	47 063	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	33 649	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	40 947	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	11 375	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	15 602	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	10 974	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	37 479	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	36 512	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	7 192	2046	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 394	2023 a)	8.50%	XDUB
						1 434 615			

a) Date of the next call option

The Bank did not present any capital or interest defaults regarding debt issued during the first half of 2022 and the financial year 2021.

NOTE 31 – PROVISIONS

As at 30 June 2022 and 31 December 2021, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Other provisions	Total
Balance as at 31 December 2020	**96 973**	**101 484**	**11 199**	**228 916**	**438 572**
Charge / (Write-back)	-	(18 622)	-	(13 774)	(32 396)
Utilization	(12 792)	-	(10 205)	(14 863)	(37 860)
Foreign exchange differences and other	-	41	-	(1)	40
Balance as at 30 June 2021	**84 181**	**82 903**	**994**	**200 278**	**368 356**
Charge / (Write-back)	10 070	8 722	-	125 374	144 166
Utilization	(47 566)	-	-	(11 220)	(58 786)
Foreign exchange differences and other	1	150	-	24 283	24 434
Balance as at 31 December 2021	**46 686**	**91 775**	**994**	**338 715**	**478 170**
Charge / (Write-back)	-	(4 713)	-	(51 692)	(56 405)
Utilization	(4 999)	-	(355)	(18 612)	(23 966)
Foreign exchange differences and other	-	275	-	1	276
Balance as at 30 June 2022	**41 687**	**87 337**	**639**	**268 412**	**398 075**

In order to meet the financial needs of its customers, the Bank assumes several irrevocable commitments and contingent liabilities, consisting of financial guarantees, letters of credit and other credit commitments, which may require the payment by the Bank, on behalf of its customers, in the event of specific, contractually prescribed events. Although these commitments are not recorded on the balance sheet, they carry credit risk and, therefore, are part of the Bank's overall risk exposure.

The changes in the caption provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**1 314**	**24 005**	**66 586**	**91 905**
Increases due to changes in credit risk	451	792	2 522	3 765
Decreases due to changes in credit risk	(319)	(16 991)	(7 474)	(24 784)
Other movements	117	58	(136)	39
Balance as at 30 June 2021	**1 563**	**7 864**	**61 498**	**70 925**
Increases due to changes in credit risk	145	2 214	12 311	14 670
Decreases due to changes in credit risk	(274)	(835)	(5 298)	(6 407)
Other movements	11	(2 413)	2 553	151
Balance as at 31 December 2021	**1 445**	**6 830**	**71 064**	**79 339**
Increases due to changes in credit risk	246	775	5 598	6 619
Decreases due to changes in credit risk	(349)	(1 113)	(6 960)	(8 422)
Other movements	54	(233)	454	275
Balance as at 30 June 2022	**1 396**	**6 259**	**70 156**	**77 811**

The changes in the caption provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**5 623**	**3 956**	**-**	**9 579**
Increases due to changes in credit risk	1 312	3 768	35	5 115
Decreases due to changes in credit risk	(848)	(1 853)	(17)	(2 718)
Other movements	415	(433)	20	2
Balance as at 30 June 2021	**6 502**	**5 438**	**38**	**11 978**
Increases due to changes in credit risk	564	3 089	1 862	5 515
Decreases due to changes in credit risk	(932)	(4 108)	(16)	(5 056)
Other movements	221	(290)	68	(1)
Balance as at 31 December 2021	**6 355**	**4 129**	**1 952**	**12 436**
Increases due to changes in credit risk	1 312	78	19	1 409
Decreases due to changes in credit risk	(1 642)	(760)	(1 917)	(4 319)
Other movements	435	(438)	3	-
Balance as at 30 June 2022	**6 460**	**3 009**	**57**	**9 526**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Bank's sale and restructuring process.

Other provisions amounting to Euro 268.4 million (31 December 2021: Euro 338.7 million), are intended to cover certain identified contingencies related to the Bank’s activities, the most relevant being:

- Contingencies associated with ongoing tax processes, for which the Bank maintains provisions of Euro 21.6 million (31 December 2021: Euro 21.9 million);
- Contingencies associated with legal proceedings in the amount of Euro 4.7 million (31 December 2021: to Euro 4.2 million);
- Contingencies associated with sales processes in the amount of Euro 12.3 million (31 December 2021: Euro 39.3 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million, transferred from the liability items net of the value of the assets of the Pension Fund (31 December 2021: Euro 19.2 million) (see Note 15);
- The remaining amount, of Euro 210.6 million (31 December 2021: Euro 254.1 million), is intended to cover losses arising from the Bank's normal activity, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

The increase occurred in 2021 results from the State Budget Law for 2021 ("LOE 21"), which amended the rules of the Property Transfer Tax Code ("IMT") and the Municipal Property Tax ("IMI"), with the extension of the scope of the aggravated rate of IMI and IMT, and loss of exemptions, to real estate owned by taxpayers that are controlled, directly or indirectly, by an entity that is subject to a more favorable tax regime, included in the list approved by the Minister of Finance. At this date, the extent of the application of these new rules in terms of subjection to novobanco is pending clarification, according to a binding information request made to the Tax Authority.

As at 31 December 2021, based on the opinions obtained from legal and tax experts, and as a result of internal evaluation, it is not considered possible, with complete assurance, to remove the doubt as to the application of the new rules referred to above, although it is admitted that there may be other interpretations since these are new rules, not yet applied, and therefore subject to interpretation. As of this date, the calculation of the application of the increased IMI rates to all the properties directly and indirectly owned by novobanco amounts to approximately Euro 115.8 million for 2021, and there is no expectation as to the date on which clarification will be obtained from the Tax Authority or other similar entity that will determine the existence or not of an effective increase in liabilities for Novobanco. Thus, in December 2021 a provision was set up for this contingency with a more probable risk than not of an outflow of resources incorporating economic benefits, in the above-mentioned amount of Euro 115.8 million, which is included in Other provisions and it remains as at 30 June 2022.

NOTE 32 – OTHER LIABILITIES

As at 30 June 2022 and 31 December 2021, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Public sector	26 224	36 290
Creditors for supply of goods	92 573	98 983
Creditors for insurance operations	333 419	-
Other creditors	55 043	92 499
Career bonuses (see Note 15)	7 258	7 335
Retirement pensions and health-care benefits (see Note 15)	-	22 562
Other accrued expenses	71 173	69 069
Deferred income	1 067	888
Foreign exchange transactions pending settlement	-	14
Other transactions pending settlement	22 510	35 196
	609 267	**362 836**

NOTE 33 – SHARE CAPITAL

Ordinary shares

As at 30 June 2022, the Bank's share capital of Euro 6,054,907,314 is represented by 9,954,907,311 registered shares with no par value and is fully subscribed and paid up by the following shareholders (31 December 2021: share capital of Euro 6,054,907,314 represented by 9,954,907,311 registered shares):

	% Share Capital	
	30.06.2022	31.12.2021
Nani Holdings, SGPS, SA [(1)]	75.00%	73.83%
Fundo de Resolução [(2)]	23.44%	24.61%
Direcção-Geral do Tesouro e Finanças	1.56%	1.56%
	100.00%	**100.00%**

[(1)] As a result of the agreements entered into between the Resolution Fund and the shareholder Lone Star in the context of the sale of 75% of the share capital of novobanco, only the Resolution Fund will see its participation diluted with the conversion of the conversion rights, pending the delivery of the shares by the Resolution Fund to Nani Holdings on December 31, 2021. When such delivery occured, at the beggining of 2022, Nani Holdings' shareholding percentage will increased to 75.00% and the Resolution Fund's to 23.44%. Nani Holdings' economic interest in novobanco remains unchanged at 75%.

[(2)] In view of the commitments assumed by the Portuguese State before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

In the financial year 2017 and following the acquisition of 75% of the share capital of novobanco by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised.

In December 2021, a capital increase of Euro 154,907 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the year 2015, which gave the State a 1.56% stake in the novobanco, and which resulted in the issuance of 154,907,314 new ordinary shares (see Note 34).

As mentioned in Note 30, novobanco adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that entitle the State to require novobanco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. It is estimated that the conversion rights to be issued and attributed to the State following the negative net results of the years between 2015 and 2020 will give it a stake of up to approximately 15.95% of the share capital of novobanco, which will only dilute, in accordance with the sale agreement, the stake of the Resolution Fund.

For the years 2016 and 2018, the Tax Authority has already validated the tax credit, and the final amount of conversion rights attributed to the State represents an additional 7.76% stake in the share capital of novobanco (9.31% for the years 2015 to 2018). However, novobanco is awaiting the receipt of the 2018 tax credit. This conversion will be exercised in accordance with the procedures and deadlines established in the legal regime.

NOTE 34 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES

As at 30 June 2022 and 31 December 2021, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	30.06.2022	31.12.2021
Other accumulated comprehensive income	**(1 105 596)**	**(968 987)**
Retained earnings	**(8 577 074)**	**(8 576 860)**
Other reserves	**6 290 555**	**6 064 434**
Originating reserve	1 848 691	1 848 691
Special reserve	687 132	701 136
Legal reserve	36 594	-
Other reserves and Retained earnings	3 718 138	3 514 607
	(3 392 115)	**(3 481 413)**

Other accumulated comprehensive income

The movements in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income					
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2020	**3 667**	**9 214**	**(24 788)**	**(31 757)**	**(705 595)**	**(749 259)**
Actuarial deviations	-	-	-	-	(41 687)	(41 687)
Fair value changes, net of taxes	-	-	-	(89 228)	-	(89 228)
Impairment reserves of securities at fair value through other comprehensive income	(228)	-	-	-	-	(228)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(7 864)	-	-	(7 864)
Balance as at 30 June 2021	**3 439**	**9 214**	**(32 652)**	**(120 985)**	**(747 282)**	**(888 266)**
Actuarial deviations	-	-	-	-	(33 962)	(33 962)
Fair value changes, net of taxes	-	-	-	(45 334)	-	(45 334)
Impairment reserves of securities at fair value through other comprehensive income	229	-	-	-	-	229
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 654)	-	-	(1 654)
Balance as at 31 December 2021	**3 668**	**9 214**	**(34 306)**	**(166 319)**	**(781 244)**	**(968 987)**
Actuarial deviations	-	-	-	-	49 952	49 952
Fair value changes, net of taxes	-	-	-	(183 269)	-	(183 269)
Impairment reserves of securities at fair value through other comprehensive income	(2 213)	-	-	-	-	(2 213)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 079)	-	-	(1 079)
Balance as at 30 June 2022	**1 455**	**9 214**	**(35 385)**	**(349 588)**	**(731 292)**	**(1 105 596)**

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	30.06.2022			31.12.2021		
	Reservas de justo valor			Reservas de justo valor		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the period	**(123 313)**	**(43 006)**	**(166 319)**	**70 520**	**(102 277)**	**(31 757)**
Changes in fair value	(317 743)	-	(317 743)	(191 007)	-	(191 007)
Foreign exchange differences	5 261	-	5 261	2 351	-	2 351
Disposals in the period	47 877	-	47 877	(5 177)	-	(5 177)
Impairment in the period	(1 254)	-	(1 254)	-	-	-
Deferred taxes recognized in the period in reserves	-	82 590	82 590	-	59 271	59 271
Balance at the end of the period	**(389 172)**	**39 584**	**(349 588)**	**(123 313)**	**(43 006)**	**(166 319)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Amortised cost of financial assets at fair value through other comprehensive income	2 976 271	7 256 821
Fair value reserve transferred to Results [(1)]	6 159	-
Market value of financial assets at fair value through other comprehensive income	2 593 258	7 133 508
Unrealised gains / (losses) recognized in fair value reserve	(389 172)	(123 313)
Deferred Taxes	39 584	(43 006)
Fair value reserve attributable to shareholders of the Bank	**(349 588)**	**(166 319)**

[(1)] As part of fair value hedge operations (see Note 23)

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to novobanco, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 27, the special reserve was created as a result of the adhesion of novobanco to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the clearance of a negative net result in the years between 2015 and 2020, with reference to deferred tax assets eligible at the date of closures of those financial years, the application of that special regime applicable to deferred tax assets, novobanco recorded a special reserve, in the same amount of the tax credit calculated, increased by 10%, which has the following decomposition:
:

(in thousands of Euros)

	30.06.2022	31.12.2021
2016 (net loss of 2015)	-	14 004
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	140 332	140 332
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 015	122 015
2021 (net loss of 2020)	137 193	137 193
	687 132	**701 136**

With regard to the reserve set up in 2016 (relating to the negative net income of 2015), taking into account the legal deadlines provided for in the Special Regime, in 2021 it was decided to increase the share capital by incorporation of reserves in the amount of Euro 154,907 thousand, with the remaining amount of the reserve in the amount of Euro 14,004 thousand (relating to goodwill), have been incorporated into a special reserve subject to the legal reserve regime under the terms of article 295 of the Commercial Companies Code, during the first half of 2022.

Legal reserve

The legal reserve can only be used to cover accumulated losses or to increase capital. The Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law No. 298/92, of 31 December) requires that the legal reserve be credited annually with at least 10% of annual net income, up to a limit equal to the value of share capital or the sum of free reserves constituted and retained earnings, if higher. Additionally, an amount of Euro 14,004 thousand was included in the legal reserve relating to the conversion of tax credits into capital, as referred to in the previous point.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 35 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2021 these assets had a net value of Euro 1.8 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2020: net value of Euro 2.1 billion).

Taking into consideration the losses presented by novobanco on December 31, 2020, 2019, 2018 and 2017, the conditions were met that determined the payment by the Resolution Fund of Euro 429,013 thousand, Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand in 2021, 2020, 2019 and 2018, respectively.

The amount related to the Contingent Capital Agreement recorded in 2020 as receivable by the Resolution Fund (Euro 598,312 thousand) differs from the amount paid as a result of disagreements, between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, leading to a limitation to the immediate access to this amount, which despite being recorded as receivables, the Bank deducted, as at 31 December 2021, to the regulatory capital calculation (Euro 165,442 thousand). novobanco considers this amount to be due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure receipt of the same (see Note 35). Additionally, the variable remuneration of the Executive Board of Directors for 2019 and 2020 (Euro 3,857 thousand) was also deducted.

In 2021, an amount receivable by the Resolution Fund of Euro 209,220 thousand was recorded in relation to the Contingent Capital Agreement, under Other Reserves and which results, on the date of each balance sheet, from the losses incurred and the regulatory ratios in force at the time of its determination. As a result of the above and in line with the Regulator's guidelines, on 31 December 2021, this value was also deducted from the regulatory capital calculation.

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 June 2022 and 31 December 2021, are the following:

(in thousands of Euros)

	30.06.2022	31.12.2021
Contingent liabilities		
Guarantees and standby letters	2 316 099	2 221 575
Financial assets pledged as collateral	14 422 294	14 086 256
Open documentary credits	223 467	402 332
Other	142 050	32 929
	17 103 910	**16 743 092**
Commitments		
Revocable commitments	5 338 688	5 305 121
Irrevocable commitments	520 017	544 160
	5 858 705	**5 849 281**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As at 30 June 2022, the caption financial assets pledged as collateral includes:
- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in
- the amount of Euro 13.4 billion (31 December 2021: Euro 13.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 7.4 million (31 December 2021: Euro 7.9 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 63.2 million (31 December 2021: Euro 66.1 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 638.3 million (31 December 2021: Euro 651.4 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 128.9 million (31 December 2021: Euro 100.5 million);
- Deposits delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 100.0 million (31 December 2021: Euro 100.0 million).

The above-mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Bank (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	30.06.2022	31.12.2021
Deposit and custody of securities and other items	30 341 582	31 812 211
Amounts received for subsequent collection	173 980	197 907
Securitized loans under management (servicing)	2 018 237	2 118 806
Other responsibilities related with banking services	620 753	437 388
	33 154 552	**34 566 312**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the “excluded liabilities” of transfer to novobanco include “any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ”.

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include “any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions”.

On 29 December 2015, Bank of Portugal adopted a new deliberation for the “Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of Bank of Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Bank of Portugal of 11 August 2014 (5 p.m.)”. Through this deliberation, Bank of Portugal:

(i) Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labour, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of 3 August; and

(ii) Clarified that the following liabilities had not been transferred from BES to novobanco:
   a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;
   b. All liabilities, damages and expenses related to real estate assets that were transferred to novobanco;
   c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 8 p.m. on 3 August 2014;
   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
   e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;
   f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and
   g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

(iii) To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to novobanco which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES’s legal sphere, said liabilities will be retransmitted from novobanco to BES, with effect as at 8 p.m. of 3 August 2014.

In the preparation of its consolidated and separate financial statements as at 30 June 2022 (as well as in the previous financial statements), novobanco incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet items and assets under management of BES, as well as from the deliberation of 29 December 2015 of Bank of Portugal, in particular, with regards to the clarification of the non-transmission to novobanco of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by the deliberation of Bank of Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to neutralize, at the Bank level, the effects of decisions that are legally binding, beyond the control of novobanco and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the perimeter of the transfer to novobanco as defined by Bank of Portugal, should remain in BES’s scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Bank of Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Bank of Portugal of 29 December 2015, there are still relevant litigation risks, although mitigated, namely regarding the various disputes relating to the loan made by Oak Finance to

BES and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to novobanco. These disputes include the two lawsuits of late January 2016, with the Supreme Court of Justice of Venezuela, Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and novobanco, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of 37 million dollars and 335 million dollars, respectively, and which requests the reimbursement of the amount invested, plus interest, compensation for the value of inflation and costs (in a total estimated amount by the claimants of 96 and 871 million dollars, respectively). In accordance with resolution measure, these responsibilities were not transferred to novobanco and the main actions and precautionary seizure procedures are still pending before the Supreme Court of Venezuela.

In the preparation of the separate and consolidated financial statements of the Bank as at 30 June 2022 (as well as in the previous ones), the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Bank of Portugal, in particular the decisions of 29 December 2015. In this context, the present financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management and liabilities transferred from BES to novobanco, as determined by Bank of Portugal and taking as reference the current legal bases and the information available at the present date.

Additionally, within the scope of the novobanco sale operation, concluded on October 18, 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Bank of Portugal, of December 29, 2015, regarding the neutralization, at the level of novobanco, of the effects of unfavourable decisions that are legally binding, although, now, with contractual origin, thus maintaining the framework of contingent responsibilities of the Resolution Fund.

Relevant disputes

For the purpose of determining the contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely regarding the conformity of the policy for the constitution of provisions with the resolution measure and subsequent decisions of Bank of Portugal (and the criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of NOVO BANCO are, on this date, not susceptible of determination or quantification:

(i) Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against novobanco and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

(ii) Lawsuit filed by novobanco to challenge the resolution in favour of the insolvent estate of the acts of incorporation and subsequent execution of the pledge on the shares of Companhia de Seguros Tranquilidade, SA, declared by the insolvency administrator of Partran, SGPS, SA, considering that there are no grounds for the resolution of the aforementioned acts, as well as for the return of the amounts received as a price (Euro 25 million corresponding to the initial price and the respective positive adjustments) for the sale of the shares of Companhia de Seguros Tranquilidade, SA. novobanco has judicially challenged the resolution act, running the process attached to the insolvency process of Partran, SGPS, SA.;

(iii) Lawsuits brought after the execution of the contract for the purchase and sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on March 31, 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which novobanco is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the CCA is requested.

Regarding the amount requested by novobanco from the Resolution Fund with reference to 2020, there are disagreements between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, which are object of an ongoing arbitration. novobanco considers these amounts (Euro 165 million) to be due under the Contingent Capitalization Mechanism and brought an arbitration action to claim the payment of these amounts. At the end of 2020, there is also another divergence regarding the application by novobanco of the dynamic option of the transitional regime of IFRS 9, which is also under consideration in the same arbitration action. These amounts (Euro 165 million) are recorded as receivables and are subject to a favorable arbitration decision.

Resolution Fund

Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law No. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Bank of Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal, based, essentially, on the amount of its liabilities. As at 30 June 2022 the periodic contribution made by the Bank amounted to Euro 16,017 thousand (31 December 2021: Euro 14,854 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to novobanco, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of novobanco's share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3,900 million) originated from a loan granted by the Portuguese State.

In December 2015, national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, S.A. (Santander Totta), for Euro 150 million, also in the scope of the application of a resolution measure. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A.. This operation involved public support estimated at Euro 2,255 million, which aimed to cover future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as with the risk of an eventual insufficiency of resources to ensure the fulfilment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and by the banks participating in Resolution Fund in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Resolution Fund. To this end, an addendum to the financing agreements with Resolution Fund was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Resolution Fund for special contributions or any other extraordinary contribution.

According to the statement of the Resolution Fund of March 21, 2017, issued following an earlier statement of September 28, 2016 and the statement of the Ministry of Finance issued on the same date, the revision of the conditions of financing granted by the State Portuguese and participating banks aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of its liabilities is ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

On March 31, 2017, Bank of Portugal announced that it had selected the Lone Star Fund for the purchase of novobanco, which was completed on October 18, 2017, through the injection, by the new shareholder, of Euro 750 million, which was followed by a new a capital contribution of Euro 250 million, made on December 21, 2017. The Lone Star Fund now holds 75% of NOVO BANCO's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions materializing, related to: (i) the performance of a restricted set of assets of novobanco and (ii) the evolution of the Bank's capitalization levels. Any payments to be made under this contingent mechanism are subject to an absolute ceiling of EUR 3,890 million;
- An indemnity mechanism to novobanco, if certain conditions are met, it will be sentenced to pay any liability, by a final judicial decision that does not recognize or is contrary to the resolution measure applied by Bank of Portugal, or to the perimeter novobanco's assets and liabilities.

Notwithstanding the possibility under the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Resolution Fund by the Portuguese State and by a syndicate of banks, and of the public press releases made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTE 36 – RELATED PARTIES TRANSACTIONS

The group of entities considered to be related parties by novobanco in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of novobanco); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of novobanco; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which novobanco has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of novobanco (joint ventures).

The Bank balances with related parties as at 30 June 2022 and 31 December 2021, as well as the respective profit and losses, can be summarized as follows:

(in thousands of Euros)

	30.06.2022					31.12.2021				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	152	-	221	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	198 180	-	-	-	16 017	209 220	11 040	-	-	25 894
Subsidiary companies										
GNB RECUPERAÇÃO DE CRÉDITO	-	-	-	-	-	-	-	-	-	42
GNB CONCESSÕES	83 473	39 220	-	-	-	83 473	39 264	-	-	-
GNB GA	3 457	82 249	4 025	3 204	-	2 261	73 201	6	6 486	-
ES TECH VENTURES	46 732	71 175	-	-	-	46 732	70 348	-	-	-
BEST	2 768	682 792	37	1 616	1 781	1 716	605 863	37	2 250	3 112
novobanco AÇORES	154 148	251 635	102 438	553	1 158	145 649	204 898	102 503	967	1 381
FCR PME	-	371	-	-	-	-	218	-	-	-
SPE-LM6	264 178	1 385	-	174	-	268 623	1 909	-	287	-
SPE-LM7	747 364	2 779	-	477	-	797 831	4 586	-	985	-
FCR NB CAPITAL GROWTH	15 050	3 457	-	-	-	15 050	3 357	-	-	-
NB ÁFRICA	-	7 127	-	-	-	-	7 145	-	-	-
FUNGEPI	-	30 209	1 232	18	152	-	25 614	1 232	45	83
FUNGEPI II	-	21 902	35	14	233	-	84 523	35	5 681	3 631
FUNGERE	-	44 123	1 182	12	1	-	57 841	1 182	28	4
IMOINVESTIMENTO	-	4 419	-	10	-	-	3 196	-	25	-
PREDILOC	-	3 831	-	-	-	-	2 668	-	-	-
IMOGESTÃO	-	514	-	21	1	-	38 787	-	-	3
ARRABIDA	-	5 141	-	-	-	-	2 553	-	-	1
INVESFUNDO VII	-	1 020	-	2	-	-	1 088	-	4	-
NB LOGÍSTICA	-	36 846	-	-	1	-	29 741	-	-	3
NB PATRIMÓNIO	-	73 832	387	-	2 207	-	60 365	-	-	4 433
FUNDES	-	20 575	-	-	1	-	16 796	-	-	1
AMOREIRAS	-	29 670	-	-	-	-	30 168	-	-	-
FIMES ORIENTE	16	13 799	-	-	-	18	13 948	-	-	1
NB ARRENDAMENTO	-	800	-	-	-	-	797	-	-	-
NB FINANCE	-	7 005	1 884	-	71	-	6 968	1 820	16	331
FEBAGRI	-	1 008	71	-	-	-	913	71	-	-
AUTODRIL	-	-	-	-	-	-	63	-	-	-
GREENWOODS	-	7 844	-	-	-	-	3 156	-	-	-
QUINTA DA AREIA	-	15	-	-	-	-	7	-	-	-
VÁRZEA DA LAGOA	-	82	-	-	-	-	42	-	-	-
HERDADE DA BOINA	-	11	-	-	-	-	6	-	-	-
RIBAGOLFE	-	32	-	-	-	-	49	-	-	-
BENAGIL	-	71	-	-	-	-	101	-	-	-
QUINTA DA RIBEIRA	-	266	-	-	-	-	247	-	-	-
PROMOFUNDO	-	102	-	-	-	-	124	-	-	-
GREENDRAIVE	6 445	9	106	-	-	6 445	252	106	-	-
FIVE STARS	-	5 285	-	-	830	-	4 634	-	4 811	17 468
AROLERI	4 262	-	-	-	-	-	-	-	-	-
IMALGARVE	-	11 358	-	-	-	-	-	-	-	-
	1 526 073	**1 462 111**	**111 397**	**6 322**	**22 453**	**1 577 018**	**1 406 629**	**106 992**	**21 917**	**56 388**
Associated companies										
LINEAS	-	3 175	-	-	-	-	3 123	-	2 395	-
LOCARENT	124 812	547	-	599	1 558	121 982	3 146	-	1 040	3 278
ESEGUR	1 527	772	67	-	-	1 894	919	915	-	-
UNICRE	38 190	8	-	316	-	38 193	6	-	522	-
MULTIPESSOAL	2 015	21	273	-	-	2 017	43	273	-	-
OUTRAS	2	76 109	-	831	5	1	76 197	-	2 039	11
	166 546	**80 632**	**340**	**1 746**	**1 563**	**164 087**	**83 434**	**1 188**	**5 996**	**3 289**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	833	-	-	-	-	4 138
NACIONAL CONTA LDA	340	4	-	-	-	375	18	-	-	-
ESMALGLASS	-	-	-	-	-	-	100	2	-	-
Other	**340**	**4**	**-**	**-**	**833**	**375**	**118**	**2**	**-**	**4 138**

The amount of assets receivable from the Resolution Fund corresponds to the net amount of the triggering of the Contingent Capital Agreement regarding the financial years 2021 and 2020, amount to be delivered to the Resolution Fund arising from an addendum made in May 2021 to the Contingent Capitalization Mechanism contract.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted or debt securities acquired in the scope of the Bank's activity. The liabilities relate mainly to bank deposits taken.

The guarantees relating to associated undertakings included in the table above mainly refer to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0.00% and 9.60% (the rates correspond to the rates applied according to the original currency of the asset).

As at 30 June 2022 and 31 December 2021, the value of loans and deposits of members of the Key Management Personnel of the novobanco was as follows:

Credit granted
(i) to members of the Executive Board of Directors and their direct relatives was Euro 275 thousand (31 December 2021: Euro 317 thousand); and (ii) members of the General and Supervisory Board and their direct relatives had no credit liabilities (31 December 2021: no exposure).

Deposits
(i) of members of the Executive Board of Directors and their direct relatives was Euro 1,511 thousand (31 December 2021: Euro 1,080 thousand); and (ii) of members of the General and Supervisory Board and their direct relatives was Euro 1,631 thousand (31 December 2021: Euro 1,562 thousand).

NOTE 37 – SECURITISATION OF ASSETS

As at 30 June 2022 and 31 December 2021, the outstanding securitization transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current Amount		Asset securitized
			30.06.2022	31.12.2021	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	230 641	246 943	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	352 445	373 147	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	336 499	355 513	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	861 998	907 327	Mortgage loans (general scheme)

The main characteristics of these operations, as at 30 June 2022 and 31 December 2021, can be analyzed as follows:

(in thousands of Euros)

30.06.2022														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	176 298	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	11 670	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	AA-	-
	Class C	19 200	9 827	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	A-	-
	Class D	24 000	12 284	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	261 346	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	21 392	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	18 014	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	22 518	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	170 107	143 292	138 604	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	57 620	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	34 598	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	14 268	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	18 941	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	389 048	389 048	365 708	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	255 977	October 2064	-	-	BBB-	-	-	-	AA	-
	Class C	180 500	180 500	180 500	125 679	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2021															
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds				
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	189 071	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	12 515	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	A-	-
	Class C	19 200	10 539	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	BBB-	-
	Class D	24 000	13 174	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	277 689	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	22 729	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	19 141	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	23 926	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	189 723	157 956	152 431	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	61 124	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	33 936	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	12 388	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	8 568	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	437 435	437 434	409 580	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	266 902	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	121 349	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

NOTE 38 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures, and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of a quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of recent transaction prices, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in the fair value hierarchy 3, whose quotation is provided by a third-party using parameters that are not observable in the market, the Bank proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The valuation models used by type of instrument are as follows:

<u>Money market operations and loans and advances to customers</u>: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

<u>Commercial paper</u>: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

<u>Debt instruments (bonds) with liquidity</u>: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

<u>Debt instruments (bonds) with reduced liquidity</u>: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analyzed.

<u>Convertible bonds</u>: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

<u>Shares and quoted funds</u>: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realized. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company. Additionally, and for the major assets held by the real estate investment funds, and according to an annual work plan previously approved by the Executive Board of Directors, a process of challenge to their valuations is carried out, consisting of a detailed technical analysis of the main assumptions considered in the valuations. This process may lead to the need of new valuations as well as to adjustments to the fair value of those assets.

In the specific case of the Restructuring Funds (“Assessed Assets”), their assessment was carried out during the year 2020 by an independent external international entity (“Appraiser”), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the “Underlying Assets”); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of novobanco investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1,000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

With regards to information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under development			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.
Valuation methodology	Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach		

Notes:

1. *All the above assumptions were calculated based on the average of the values considered by the external evaluators per property assessed*
2. *The average presented was calculated on the property-weighted average in the sum of the value of the underlying assets per category presented*
3. *Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or projects are included under Real Estate under Development together with their respective property)*
4. *€/m2 consider the gross construction area*

In addition, additional assumptions considered in the fair value measurement of the financial investments held in the restructuring funds are presented below:

Type of Fund	Discount based on P/BV observable market data
Real estate and Tourism	14.5%
Real estate and Tourism/Other	13.6%
Other	10.6%

In 2021, and as had been done in 2020, the observable movement in terms of the evolution of market prices of funds, companies and assets considered comparable to the underlying assets was considered in order to obtain an objective estimate of the evolution of the fair value of these assets between December 31, 2020 and December 31, 2021.

Derivative instruments: if these are traded on organized markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- *Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;*
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Bank trades these products on an organized market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organized market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

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

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

The validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices assigned. More specifically, this area is responsible for carrying out independent verification of the prices for mark-to-market valuations, and for mark-to-model valuations, it validates the models used and any changes thereto, whenever they exist. For prices provided by external entities, the validation performed consists in confirming the use of correct prices.

The fair value of the financial assets and liabilities and non-financial assets of the Bank measured at fair value is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
30 June 2022				
Financial assets held for trading	**35 810**	**164 292**	**-**	**200 102**
Securities held for trading	35 810	-	-	35 810
Bonds issued by public entities	*35 810*	-	-	*35 810*
Derivatives held for trading	-	164 292	-	164 292
Exchange rate contracts	-	*26 705*	-	*26 705*
Interest rate contracts	-	*130 235*	-	*130 235*
Others	-	*7 352*	-	*7 352*
Financial assets mandatorily at fair value through profit or loss	**19 975**	**22 747**	**1 933 262**	**1 975 984**
Bonds issued by other entities	*11 366*	*50*	*509 461*	*520 877*
Shares	*8 609*	-	*290 675*	*299 284*
Other variable income securities	-	*22 697*	*1 133 126*	*1 155 823*
Financial assets at fair value through other comprehensive income	**2 505 660**	**29 402**	**58 196**	**2 593 258**
Bonds issued by public entities	*1 902 681*	-	-	*1 902 681*
Bonds issued by other entities	*595 215*	*22 770*	-	*617 985*
Shares	*7 764*	*6 632*	*58 196*	*72 592*
Derivatives - Hedge Accounting	**-**	**344 371**	**-**	**344 371**
Interest rate contracts	-	*344 371*	-	*344 371*
Assets at fair value	**2 561 445**	**560 812**	**1 991 458**	**5 113 715**
Financial liabilities held for trading	**-**	**145 152**	**1 859**	**147 011**
Derivatives held for trading	-	145 152	1 859	147 011
Exchange rate contracts	-	*26 371*	-	*26 371*
Interest rate contracts	-	*117 084*	*1 859*	*118 943*
Other	-	*1 697*	-	*1 697*
Short selling	16 122	-	-	*16 122*
Derivatives - Hedge Accounting	**-**	**15 452**	**-**	**15 452**
Credit	-	*15 452*	-	*15 452*
Liabilities at fair value	**-**	**160 604**	**1 859**	**162 463**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2021				
Financial assets held for trading	**114 465**	**263 244**	**-**	**377 709**
Securities held for trading	114 465	-	-	114 465
Bonds issued by public entities	*114 465*	-	-	*114 465*
Derivatives held for trading	-	263 244	-	263 244
Exchange rate contracts	-	*29 172*	-	*29 172*
Interest rate contracts	-	*225 196*	-	*225 196*
Others	-	*8 876*	-	*8 876*
Financial assets mandatorily at fair value through profit or loss	**187 621**	**26 309**	**2 036 378**	**2 250 308**
Bonds issued by other entities	*52 532*	*50*	*506 645*	*559 227*
Shares	*135 089*	-	*290 274*	*425 363*
Other variable income securities	-	*26 259*	*1 239 459*	*1 265 718*
Financial assets at fair value through other comprehensive income	**7 091 159**	**6 624**	**35 725**	**7 133 508**
Bonds issued by public entities	*5 685 067*	-	-	*5 685 067*
Bonds issued by other entities	*1 398 899*	-	-	*1 398 899*
Shares	*7 193*	*6 624*	*35 725*	*49 542*
Derivatives - Hedge Accounting	**-**	**20 150**	**-**	**20 150**
Interest rate contracts	-	*20 150*	-	*20 150*
Assets at fair value	**7 393 245**	**316 327**	**2 072 103**	**9 781 675**
Financial liabilities held for trading	**-**	**303 562**	**1 950**	**305 512**
Derivatives held for trading	-	303 562	1 950	305 512
Exchange rate contracts	-	*34 690*	-	*34 690*
Interest rate contracts	-	*265 939*	*1 950*	*267 889*
Credit	-	*574*	-	*574*
Other	-	*2 359*	-	*2 359*
Derivatives - Hedge Accounting	**-**	**44 460**	**-**	**44 460**
Credit	-	*44 460*	-	44 460
Liabilities at fair value	**-**	**348 022**	**1 950**	**349 972**

The changes occurred in financial assets and liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the first semester of 2022 and the financial year of 2021, may be analyzed as follows:

(in thousands of Euros)

	30.06.2022				
	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	**Total assets**	Financial liabilities held for trading Derivatives held for trading	**Total liabilities**
Balance as at 31 December 2021	**2 036 378**	**35 725**	**2 072 103**	**1 950**	**1 950**
Acquisitions	1 233	715	1 948	-	-
Attainment of maturity	(91 265)	-	(91 265)	-	-
Settlements	-	(357)	(357)	-	-
Changes in value	(13 084)	22 113	9 029	(91)	(91)
Balance as at 30 June 2022	**1 933 262**	**58 196**	**1 991 458**	**1 859**	**1 859**

(in thousands of Euros)

	31.12.2021				
	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	**Total assets**	Financial liabilities held for trading Derivatives held for trading	**Total liabilities**
Balance as at 31 December 2020	**2 188 519**	**35 733**	**2 224 252**	**2 158**	**2 158**
Acquisitions	81 650	556	82 206	24 117	24 117
Attainment of maturity	(138 500)	-	(138 500)	-	-
Settlements	(122 392)	(4 246)	(126 638)	(24 117)	(24 117)
Transfers in	2 751	2 300	5 051	-	-
Changes in value	24 350	1 382	25 732	(208)	(208)
Balance as at 31 December 2021	**2 036 378**	**35 725**	**2 072 103**	**1 950**	**1 950**

In the first half of 2022 and the financial year of 2021 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated in the six-month periods ended 30 June 2022, 31 December 2021 and 30 June 2021 were as follows:

(in thousands of Euros)

	30.06.2022			31.12.2021			30.06.2021		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	91	91	-	144	144	-	30	30
Economic hedging derivatives	-	-	-	-	(24 117)	(24 117)	-	(24 117)	(24 117)
Financial assets mandatorily at fair value through profit or loss	-	(4 095)	(4 095)	-	29 501	29 501	-	3 674	3 674
Financial assets at fair value through other comprehensive income	22 414	-	22 414	9 122	-	9 122	9 925	-	9 925
	22 414	**(4 004)**	**18 410**	**9 122**	**5 528**	**14 650**	**9 925**	**(20 413)**	**(10 488)**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	30.06.2022						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**1 933.3**		**(47.9)**		**53.4**
Obligations of other issuers			509.5				
	Discounted cash flow model	Specific Impairment	*2.4*	*-50%*	*(2.4)*	*+50%*	*4.8*
	Discounted cash flow model	*Discount rate*	*507.1*	*(-) 100 bps*	*(45.5)*	*(+) 100 bps*	*48.7*
Shares			290.7		-		-
	Valuing adjusted management company	(b)	287.9		-		-
	Other	*(a)*	*2.8*		-		-
Other variable income securities			1 133.1		-		-
	Valuing adjusted management company	*(b)*	*236.1*		-		-
	Valuing adjusted management company	*(c)*	*897.0*		-		-
Financial assets at fair value through other comprehensive income			**58.2**		**(1.7)**		**0.1**
Shares			58.2		*(1.7)*		*0.1*
	Discounted cash flow model	*Renewable energy Rates*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*48.6*		-		-
Total			**1 991.5**		**(49.6)**		**53.5**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of +5.8% e -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**2 036.4**		**(37.6)**		**58.7**
Obligations of other issuers			506.6				
	Discounted cash flow model	*Specific Impairment*	*2.4*	*-50%*	*(2.4)*	*+50%*	*4.8*
	Discounted cash flow model	*Discount rate*	*504.3*	*(-) 100 bps*	*(35.2)*	*(+) 100 bps*	*54.0*
Shares			290.3		-		-
	Valuing adjusted management company	(b)	287.5		-		-
	Other	*(a)*	*2.8*				
Other variable income securities			*1 239.5*		-		-
	Valuing adjusted management company	*(b)*	*236.5*		-		-
	Valuing adjusted management company	*(c)*	*1 002.9*				
Financial assets at fair value through other comprehensive income			**35.7**		**(3.5)**		**0.1**
Shares			35.7		*(1.7)*		*0.1*
	Discounted cash flow model	*Renewable energy Rates*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*26.1*		-		-
Total			**2 072.1**		**(41.0)**		**58.8**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of +5.8% e -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 30 June 2022 and 31 December 2021, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	30.06.2022			31.12.2021		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.5843	1.6500	1.3500	-0.5740	0.0644	0.2100
1 month	-0.5080	1.8950	1.3550	-0.5830	0.1013	0.2400
3 months	-0.1950	2.3750	1.6950	-0.5720	0.2091	0.3900
6 months	0.2630	3.1250	2.1950	-0.5460	0.3388	0.6100
9 months	0.6479	3.5150	2.6950	-0.5235	0.4603	0.6700
1 year	1.0370	3.2670	2.7754	-0.5010	0.5831	0.8246
3 years	1.5735	3.1540	2.8720	-0.1450	1.1495	1.2972
5 years	1.8055	3.0730	2.7780	0.0160	1.3460	1.2910
7 years	1.9710	3.0480	2.6974	0.1300	1.4530	1.2373
10 years	2.1775	3.0730	2.6446	0.3030	1.5610	1.2095
15 years	2.3590	3.1260	2.6096	0.4920	1.6800	1.1817
20 years	2.2910	3.0900	2.5645	0.5480	1.7708	1.1518
25 years	2.1250	2.9850	2.4950	0.5240	1.7316	1.1264
30 years	1.9900	2.8820	2.4826	0.4790	1.7160	1.1030

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(base points)

Index	Series	1 year	3 years	5 years	7 years	10 years
30 June 2022						
CDX USD Main	**38**	-	77.94	101.16	119.16	133.07
iTraxx Eur Main	**37**	44.66	96.42	118.57	134.30	146.96
iTraxx Eur Senior Financial	**37**	-	-	128.43	-	155.01
31 December 2021						
CDX USD Main	**37**	0.00	0.00	49.57	68.55	0.00
iTraxx Eur Main	**36**	10.43	26.82	47.76	66.71	87.01
iTraxx Eur Senior Financial	**36**	0.00	0.00	54.86	0.00	85.86

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	30.06.2022			31.12.2021		
	EUR	USD	GBP	EUR	USD	GBP
1 year	111.44	41.91	55.30	23.16	73.74	76.14
3 years	122.19	47.78	60.49	55.79	59.15	63.57
5 years	116.85	46.72	59.58	65.81	56.88	71.17
7 years	111.51	43.93	57.77	68.34	54.59	79.98
10 years	104.17	39.47	54.47	68.98	50.93	88.08
15 years	94.65	-	-	66.28	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	**30.06.2022**	**31.12.2021**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.0387	1.1326	9.56	9.28	9.13	9.01	8.94
EUR/GBP	0.8582	0.8403	7.68	7.79	7.82	7.82	7.82
EUR/CHF	0.9960	1.0331	8.04	7.83	7.49	7.37	7.31
EUR/NOK	10.3485	9.9888	10.01	10.18	10.24	10.26	10.26
EUR/PLN	4.6904	4.5969	9.23	9.11	8.98	8.91	8.94
EUR/RUB	117.2010	85.3004	7.51	8.07	8.71	9.29	9.58
USD/BRL [a)]	5.2209	5.5713	19.11	20.67	20.60	20.16	19.73
USD/TRY [b)]	16.6766	13.4500	24.94	30.94	35.90	38.86	40.46

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Bank uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	30.06.2022	**31.12.2021**	**% Change**	**1 month**	**3 months**	
DJ Euro Stoxx 50	3 455	4 298	-19.62%	24.84	30.02	26.70
PSI 20	6 045	5 569	8.53%	21.57	19.53	-
IBEX 35	8 099	8 714	-7.06%	21.76	24.86	-
FTSE 100	7 169	7 385	-2.92%	20.99	21.46	22.13
DAX	12 784	15 885	-19.52%	23.96	29.26	26.96
S&P 500	3 785	4 766	-20.58%	28.60	27.59	26.44
BOVESPA	98 542	104 822	-5.99%	19.24	20.25	25.19

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

		Fair Value			
	Assets / liabilities recorded at amortised cost	**Quoted market prices (Level 1)**	**Valuation models based on observable market parameters (Level 2)**	**Valuation models based on unobservable market parameters (Level 3)**	**Total fair value**
30 June 2022					
Cash, cash balances at central bank and other demand deposits	6 053 289	-	6 053 289	-	6 053 289
Financial assets at amortised cost					
Debt securities	7 474 496	5 216 116	296 705	1 854 937	7 367 758
Loans and advances to banks	183 159	-	183 159	-	183 159
Loans and advances to customers	22 628 486	-	-	23 084 466	23 084 466
Financial assets	**36 339 430**	**5 216 116**	**6 533 153**	**24 939 403**	**36 688 672**
Financial liabilities measured at amortised cost					
Deposits from banks	10 748 834	-	10 751 355	-	10 751 355
Due to customers	28 290 244	-	-	28 290 244	28 290 244
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 512 651	1 658 035	-	44 451	1 702 486
Other financial liabilities	447 915	-	-	447 915	447 915
Financial liabilities	**40 999 644**	**1 658 035**	**10 751 355**	**28 782 610**	**41 192 000**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2021					
Cash, cash balances at central bank and other demand deposits	5 674 461	-	5 674 461	-	5 674 461
Financial assets at amortised cost					
Debt securities	2 893 829	1 065 084	332 194	1 729 846	3 127 124
Loans and advances to banks	186 089	-	186 089	-	186 089
Loans and advances to customers	21 897 382	-	-	22 263 293	22 263 293
Financial assets	**30 651 761**	**1 065 084**	**6 192 744**	**23 993 139**	**31 250 967**
Financial liabilities measured at amortised cost					
Deposits from banks	11 497 829	-	11 532 025	-	11 532 025
Due to customers	26 997 858	-	-	26 997 858	26 997 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 479 066	1 736 200	-	44 451	1 780 651
Other financial liabilities	371 609	-	-	371 609	371 609
Financial liabilities	**40 346 362**	**1 736 200**	**11 532 025**	**27 413 918**	**40 682 143**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks
Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost
The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers
The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions
The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt
The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities
These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 39 – INSURANCE AND REINSURANCE MEDIATION SERVICES

As at 30 June 2022 and 31 December 2021, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	30.06.2022	30.06.2021
Life Insurance		
Unit Link and other life commissions	903	927
Credit protection insurance (life)	414	387
Traditional products	8 791	7 224
	10 108	**8 538**
Non-Life Insurance		
Personal lines insurance	3 629	3 836
Corporate insurance	88	88
Credit protection insurance (non-life)	685	584
	4 402	**4 508**
	14 510	**13 046**

Note: the income presented is net of accruals

The Bank does not collect insurance premiums on behalf of the Insurers, nor does it handle funds related to insurance contracts. Therefore, there are no other assets, liabilities, income or charges to be reported relating to the insurance mediation activity carried out by the Bank, other than those already disclosed.

Building a better working world

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

(This report is a free translation of the Portuguese version in case of any doubt or misinterpretation the Portuguese version will prevail)

Report on Limited Review of Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements of Novo Banco, S.A. ("The Group"), which comprise the interim condensed consolidated balance sheet as at June 30, 2022 (which shows a total of 45,493,001 thousand euros and total equity of 3,251,756 thousand euros, including a net profit of 289,897 thousand euros), the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed statement of changes in consolidated equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and accompanying notes thereto, including a summary of significant accounting policies.

Responsibilities of management

Management is responsible for the preparation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes, and designing and maintaining an appropriate internal control system to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objective is to express a conclusion on these interim condensed consolidated financial statements. We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and further technical and ethical guidelines from *Ordem dos Revisores Oficiais* de Contas (the Portuguese Institute of Statutory Auditors). These Standards require that our work be conducted for the purpose of expressing a conclusion whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Novo Banco, S.A., as of June 30, 2022 have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

Lisbon, 1st August 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás – ROC nº 1661
Registered with the Portuguese Securities Market Commission under license nr. 20161271

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

*(This report is a free translation of the Portuguese version
in case of any doubt or misinterpretation the Portuguese version will prevail)*

Report on Limited Review of Interim Condensed Separate Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed separate financial statements of Novo Banco, S.A. ("The Bank"), which comprise the interim condensed separate balance sheet as at June 30, 2022 (which shows a total of 45,065,130 thousand euros and total shareholder equity of 2,874,766 thousand euros, including a net profit of 211,974 thousand euros), the interim condensed separate income statement, the interim condensed separate statement of comprehensive income, the interim condensed separate statement of changes in equity and the interim condensed separate statement of cash flows for the six-month period then ended, and accompanying notes thereto, including a summary of significant accounting policies.

Responsibilities of management

Management is responsible for the preparation of these interim condensed separate financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes, and designing and maintaining an appropriate internal control system to enable the preparation of interim condensed separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objective is to express a conclusion on these interim condensed separate financial statements. We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and further technical and ethical guidelines from *Ordem dos Revisores Oficiais de Contas* (the Portuguese Institute of Statutory Auditors). These Standards require that our work be conducted for the purpose of expressing a conclusion whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed separate financial statements of Novo Banco, S.A., as of June 30, 2022 have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

Lisbon, 1st August 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás – ROC nº 1661
Registered with the Portuguese Securities Market Commission under license nr. 20161271